

NESDB *Economic Outlook*

THAI ECONOMIC PERFORMANCE IN Q4/2003 AND OUTLOOK FOR 2004

- ❑ The last quarter of 2003 registered a strong growth of 7.8 percent, supported predominantly by stronger domestic demand and concluded the year with 6.7 percent annual growth.
- ❑ Stronger-than-expected supportive factors in 2004 help compensate for more risk factors currently prevailing.
- ❑ The economy is projected to grow by 7.0-8.0 percent in 2004, with limited temporary impacts of Avian Influenza epidemic.
- ❑ The economic growth in 2004 will continue to be strong with more strength of domestic demand and continued stability.

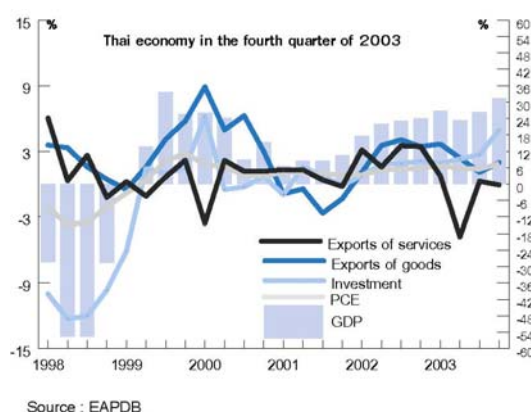
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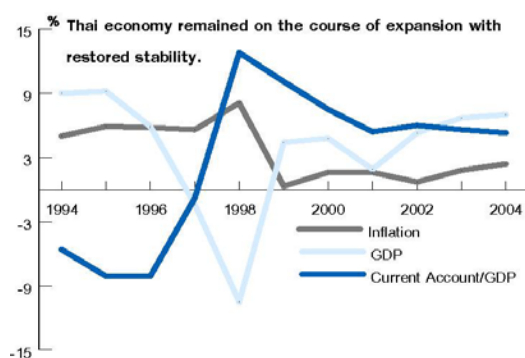
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OVERVIEW

Thai economy expanded by 7.8 percent in Q4/2003, and by 6.7 percent for the year.



In 2004, economic growth is projected to be 7.0-8.0 percent with 2.2 percent inflation rate.



Summary

In the last quarter of 2003, the economy expanded strongly by 7.8 percent from the same quarter of 2002. The annualized growth of 11.0 percent, which is higher than 9.4 percent annualized rate in the third quarter, indicates a strong economic momentum into 2004. The predominant economic force is the domestic demand, especially private investment which has picked up remarkably. Private investment rose by 18.5 percent in the last quarter, and by 17.9 percent for the year. Although slowed down in the third quarter, private consumption gathers strength in the final quarter with 7.4 percent growth and expanded impressively by 6.3 percent for the year. However, the final sale, which is GDP subtracted by change in inventories, increased by 7.2 percent in the last quarter and by 6.6 for the year.

The impacts of the Avian Influenza outbreak in the first quarter of this year is expected to slightly dampen the GDP growth in the first half of 2004. However, the impacts will be temporary and limited to certain sectors, particularly chicken farming, slaughtering, and frozen chicken for exports. Once completely contained, the sector will come back strongly as more processed chicken could be exported and the new chicken will be raised.

On the downside, the outbreak of Avian Influenza, rising oil prices, anti-dumping investigation on shrimp export from Thailand and other five main exporters of shrimp to the U.S. market, the tensions in the 3 Southern most provinces have added to the list of risk factors associated with the 2004 forecast, which were not prevailing during the December forecast.

On the upside, however, the most updated economic indicators suggest that supportive factors have been at work with more strength than earlier expected. This was reflected in the stronger-than-expected demand and robust economic growth. These stronger-than-expected factors include rising farm prices, increase in salary and compensation in public sector, and spending for the election campaign at local administration level and at the national level.

Given the upside and downside risks, NESDB maintains the projection of 7.0-8.0 percent economic growth, as in the December forecast. This shows a slight upward trend of the growth path, picking up the pace from the 6.7 percent growth in 2003. The expansion will be predominantly contributed by domestic demand of which private investment is expected to accelerate. The economic stability will be maintained with the following outlook. The inflation is likely to pick up to 2.2 percent as domestic demand gain strength and wages are rising. Average unemployment for the year is estimated at approximately 2.0 percent. The current account will remain in a strong positive position at 6.9 billion USD or 267.3 billion baht, equivalent to 4.1 percent of GDP. The international reserve is expected to stay at roughly 40 billion baht.

1. THAI ECONOMY IN Q4 AND THE YEAR 2003

World economy continued to expand.
(Y-O-Y growth rate, %)

	2002			2003				Year
	Year	Q3	Q4	Q1	Q2	Q3	Q4	
World	3.0							3.2
United States	2.2	3.0	2.8	2.1	2.4	3.6	4.3	3.1
EU-15 ^{1/}	1.0	1.2	1.2	0.9	0.4	0.6	0.9	0.7
Euro Zone	0.9	0.9	1.1	0.7	0.1	0.3	0.6	0.4
Germany	0.2	0.4	0.5	0.1	-0.3	-0.3	0.0	-0.1
Japan	-0.4	1.0	1.7	2.8	2.3	2.0	3.6	2.7
Hong Kong	2.3	3.4	5.1	4.5	-0.5	4.0	-	-
Singapore	2.2	3.5	2.8	1.7	-3.9	1.7	4.9	1.1
South Korea	6.3	5.8	6.8	3.7	1.9	2.3	-	-
Taiwan	3.6	5.2	4.5	3.5	-0.1	4.2	5.2	3.2
Indonesia	3.7	4.2	3.8	3.5	3.8	3.9	4.4	4.1
Philippines	4.4	3.8	5.7	4.5	4.0	5.1	4.5	4.5
Malaysia	4.1	5.8	5.4	4.6	4.5	5.2	6.4	5.2
Thailand	5.4	5.8	6.0	6.7	5.8	6.6	7.8	6.7
China	8.0	8.1	8.1	9.9	6.7	9.6	9.9	9.1

Source: World Economic Outlook (WEO) Oct 2003, IMF, Government agencies, and average from several agencies.

^{1/} EU15

1.1 World Economy in Q4 and 2003: accelerated and stronger in the latter half.

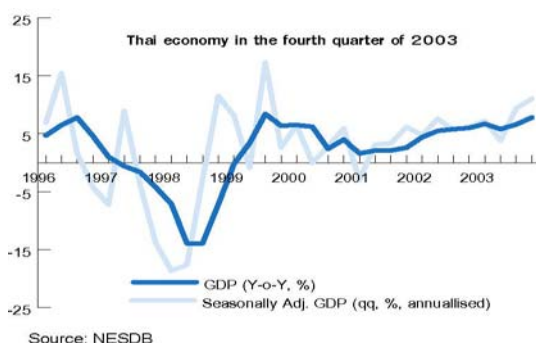
The world economy continued to recover in the last quarter of 2003 and with a higher growth. For the year, the global economic growth is estimated at 3.2 percent, slightly higher than 3.0 percent growth in 2002. Especially, the Japanese and Chinese economies expanded by 3.6 and 9.9 percent in the last quarter. In the broader context, the recoveries in the U.S. and Japan provided important catalysts to support the continuity of the global economic recovery. The Asian economies, in particular, benefited from increasing exports to these markets coupled with increasing share of export to China, where a strong growth continued in the last quarter. Moreover, eased monetary and fiscal policies have continued in most parts of the world to ensure the sustainability of the economic recovery. **The EU economy**, though stagnant in the first half, started to pick up more evidently in the second half with the support of stronger export and private consumption. For the year, the EU economy expanded by 0.7 percent, lower than 1.6 percent growth in 2002.

The U.S. economy, however, slowed down in the last quarter as the private consumption slowed down. For the year, the U.S. economy grew by 3.1 percent, slightly better than 2.7 percent growth of the Japanese economy. Chinese economy recorded the highest growth 9.1 percent in 2003.

The classic levers of stabilization policy are fully engaged in the major economies of the world. That's especially true of monetary policy, where central banks have taken policy rates down close to zero -- zero in the case of Japan, 1 percent in the United States, and 2 percent in Europe. But it's also true of fiscal policy, with federal budget deficits of 7 percent in Japan, 4.5 percent in the US, and above the mandatory 3 percent threshold in the major countries of the Eurozone. Characteristics of the world economic recovery in 2003, which support good prospect for 2004 are the accelerating private investment, the declining unemployment rate, and upbeat public sentiment.

1.2 Thai Economy in Q4 and 2003

Thai economy in Q4 of 2003 *expanded by 7.8 percent*



The Thai economy continued to perform well in the last quarter of 2003, on the back of strong private investment and consumption, and robust exports. Real GDP expanded by 7.8 percent from the same quarter of 2002, and at annualized rate of 11.0 percent from the third quarter. The strong annualized growth rate in the last quarter demonstrates a considerable resilience of the economy that provides strong momentum into 2004. In the last quarter of 2003, private consumption and investment gather more strength while the disbursement of public budget increased. Meanwhile export sector continued to do well both in terms of prices and volume. The export products, which performed specifically well include, for example, electronics goods, integrated circuit, machinery and parts, auto and parts, electrical appliances, and jewelry and precious stones.

Albeit strong growth of export, a more accelerating growth of import resulted in a negative contribution of net exports in the last quarter.

As the economy picked up the pace, the strong demand coupled with rising prices of raw and finished foods have put more upward pressure on general prices. However, on the downside, decreasing rent and stronger baht have helped contain the pressures. In the last quarter, the inflation rate was at 1.6 percent, lower than 1.9 percent in the third quarter. The core inflation was as low as 0.1 percent.

As the economy continues to pick up the pace, more jobs are created. In the last quarter of 2003, the unemployment rate stood at 1.5 percent of the labor force, or 0.54 million unemployed persons. The placements increased by 11.6 percent from the same period of last year, where number of new applicants increased by 15.8 percent. However, the number of vacancies has continued to decline. The 7,434,237 insured workers under the social security system at the end of December 2003 rose by 7.5 percent from the same period of 2002. The increases were more evident in food industry, auto and parts industry, trade sector, transportation and communication, and construction sector of which have expanded well through economic activities.

The Thai economy picked up by 6.7 percent in 2003, notably higher than 5.4 percent in 2002. The supportive factors for the economic growth in 2003 included the world economic recovery that support the exports, low interest rates which further stimulated private consumption and investment, increase in farm prices and farm income, better employment situation, higher corporate profitability, and government measures. Given that the public confidence has been upbeat, these factors worked well.

Domestic demand:

Private investment increased at an accelerating rate and played more significant roles in moving the economy forward more strongly. In the last quarter of 2003, private investment expanded by 17.9 percent, comprising of 20.7 percent increase in investment in machinery and equipments and 17.8 percent increase in investment in construction. The private consumption gained strength with 7.4 percent growth rate in this quarter after it slowed

down in the third quarter. As for the year, it increased by 6.3 percent, remarkably higher than 4.9 percent in 2002. Hence, overall, the high economic growth in 2003 was predominantly contributed by domestic demand.

International trade:

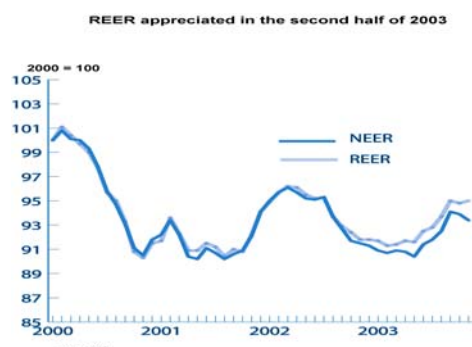
The export continued to perform well but the imports growth has surpassed that of export. In the last quarter the contribution of net export to the economic growth turned negative. However, the high growth of imports, particularly in the capital goods, and raw and intermediate products reflects the up trend of private investment and economic activities in general.

In 2003, the export value totaled 78.42 billion USD, increasing by 18.6 percent from 2002. This increase was contributed by the increase in both volume and prices. In baht term, the export value totaled 3,246.2 billion baht, increased by 14.4 percent from 2002, smaller growth than in the USD term as the baht appreciated. On the import side, its value in USD term equaled 74.2 billion USD, a 17.1 percent increase from 2002. In baht term, it totaled 3,071.9 billion baht, a rise of 13.0 percent from the year earlier.

Economic stability

Economic stability remained favorable throughout 2003, which was reflected in the following indicators:

- Headline inflation rate was 1.8 percent. This was attributable to the 3.6 percent increase in food price, while the non-food price only rose by 0.7 percent. Meanwhile, the core inflation was low at 0.2 percent.
- The unemployment rate averaged at 2.0 percent, slightly lower than 2.2 percent in 2002. Job placement increased by 37.3 percent. Accumulated number of job vacancies and job determinations dropped by 2.2 and 2.6 percent respectively.
- Public debts were equivalent to 48.9 percent to GDP at the end of November 2003.
- Current account continued to register a surplus of 7.975 billion US dollar, accounted for 5.6 percent of GDP.



- Foreign reserves remained ample at 42.1 billion US dollar, equivalent to 3.7 folds of short-term external debts.
- Exchange rate fluctuated within the narrow band and averaged at 41.5 baht/ USD in 2003. Despite the 3.4 percent baht appreciation compared to the average level of 2002, the real effective exchange rate appreciated by only 1.4 percent.

Production

The financial sector, construction and real estates sectors turn stronger as the economy picked up more constantly. These sectors normally are lagging sectors since their turning points will follow that of the economy. With the constant improvement in the economic performance in the last 4-5 years, these sectors get stronger. In 2003, the financial sector expanded by 12.5 percent, higher than 9.0 percent growth in 2002. The construction sector expanded by 3.4 percent, slower than 5.7 percent in 2002. However, this was caused by the contraction of public construction.

Manufacturing sector enjoyed the benefit of growing domestic and external demand. In 2003, it grew by 10.3 percent and continued to contribute the most to the economic growth. In response to the higher demand, the industrial production and capacity utilization increased. In 2003, the utilization rate averaged at 66.2 percent, increased by 11.7 percent from 59.3 percent in 2002. The capacity usage in 21 out of a total 43 major industries has already risen to more than 80 percent. Those, which have already utilized full capacity, are, for example, the upstream petrochemical, zinc metal, galvanized iron sheet, integrated circuit, and hot- and cold-rolled sheet.

In 2003, **the agricultural sector** recorded a high growth of 6.8 percent. The increase in production and better return from the high prices contributed to the surge in growth.

Financial situation:

The liquidity remained high in 2003 albeit a continuing credit expansion throughout the year.

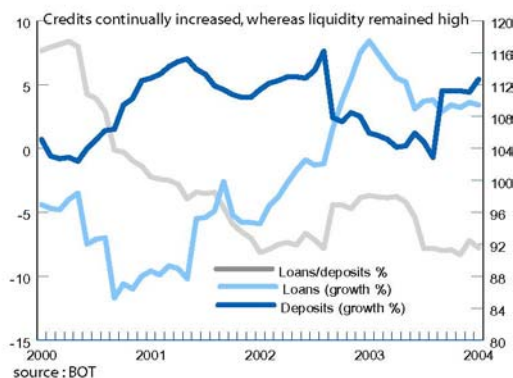
As of the end of 2003, credit outstanding increased by 3.4 percent, most of which concentrated in consumer credit. On the corporate side, they have resorted more to the capital market to finance their business by offering shares to public and issuing corporate bonds. Given an improved profitability, retained earning has been another source of financing. In 2003, initial public offering shares in the primary market increased by 120.2 percent followed by 60.1 percent increase in corporate bonds issued in the primary market. Coupled with more rapid increase in deposit, the liquidity in the money market remained high throughout the year.

NPLs resolution has gradually progressed with the remaining of 12.7 percent of total credit outstanding at the end of December 2003.

Stock market performed better in the second half of 2003 after the SARs effects had eased.

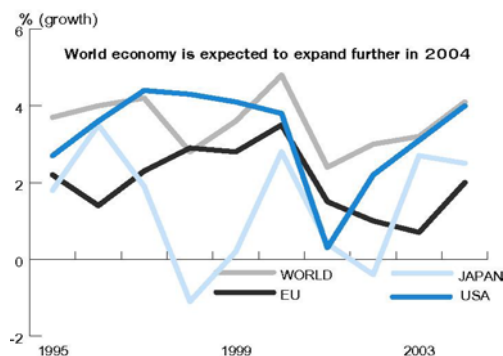
The stock index climbed to 772.15 at the end of 2003, remarkably higher than 578.98 at the end of the third quarter. The average daily trading volume was 34,236 million baht in the last quarter, topped the 24,257 million baht daily trading volume in the third quarter.

Business sector is getting healthier. The health of business is expected to have improved, suggested by reported larger profitability, dividend payment, and debt to equity ratio, which has declined to 2 times since 2002.



2. ECONOMIC FACTORS AND CONDITIONS IN 2004

2.1 World economic outlook for 2004



The world economy is projected to register a 4.1 percent growth in 2004, higher than 3.2 percent growth in 2003, led by a stronger growth in most economies, particularly in the U.S. and Asia. Impressively, **the U.S. economy** is projected to grow by 4.6 percent compared to 3.1 percent in 2003. The Asian economies will continue to benefit from export growth stimulated by the strong world growth, and improving trading relation in the region and trading with China. Intraregional trade and trading with China continue to be favorable for the Asian economies. **The EU economy** is expected to come back on track this year after the gradual improvement last year. Export is likely to perform better than last year, and lead to more consistent increase in private consumption. This development is expected to spur the economy further in 2004. **The Japanese economy**, however, seems to have already peaked in 2003, and likely to slow down this year as the capital spending slow down. Yet the economy is projected to grow by 2.5 percent, only slightly slow down from 2003. **The Chinese economy** will somewhat trend down as the effect of more stringent measures on private credit kick in. However, a strong growth of 7.5-8.0 percent is projected.

In the global context, the positive development, which help strengthen the recovery from last year including, for example, a notable reduction in geopolitical concerns, strengthening confidence in economic prospects, and an improvement in financial conditions boded well for spending and production in most regions. Even in China, on February 28th 2004, the China Banking Regulatory Commission (CBRC) announced new regulations on capital adequacy in a bid to enhance risk management of the banking sector. In general, most countries have continued with accommodative monetary stance to sustain the economic recovery. In many countries, the fiscal stimulus will continue to be at work in 2004.

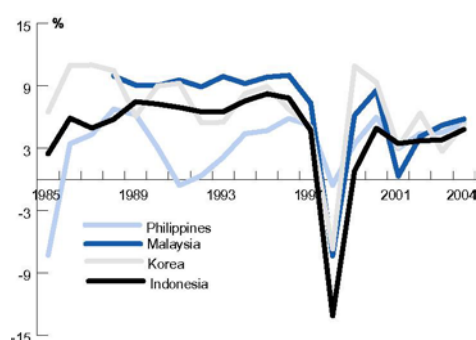
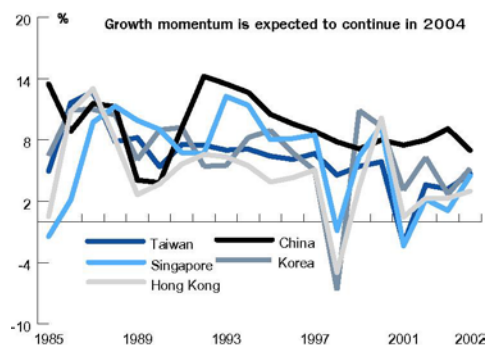
Despite more pressures on prices from rising demand, increasing wages, and rising oil prices, inflation rates will be low particularly in the industrialized countries thank to very two important facts. Firstly, excess capacity, though trend down, will remain high. Secondly, more emphases have been placed on strengthening productivity in most parts of the world, particularly the countries which were badly hit by the crisis, or went through the period of economic recession.

(1) The US economy, the world's key growth engine, is expected to grow by 4.6 percent in 2004 comparing to 3.1 percent in 2003. Private investment is likely to accelerate further while current account balance improves as a result of depreciation of US currency. Stronger recovery will boost up confidence in US economic prospect and create more favorable atmosphere in the market which will, in turn, fuel private consumption and stimulate economy activities.

Moreover, continual increase in US labor productivity greatly reduces price pressure despite the accelerated economic growth. Thus, inflation is expected to remain tame at 1.5 percent as unemployment is likely to drop to 5.7 percent in 2004 from 6.0 percent last year. Moreover, higher labor productivity to some extent reflects the degree of flexibility in labor market, efficiency gain from corporate restructuring, and massive amount of IT investments prior to economic slowdown in 2001

(2) The EU economy is expected to expand by 2.0 percent in 2004, higher than 0.7 percent in 2003. Domestic demand continues to rise on the back of exports. Industrial and consumer confidences soar as the economy picks up and unemployment rate hold up.

(3) The Asian economy is expected to expand further in 2004. Exports performs well as the world economy continues on the course of expansion. In addition, the ease of fiscal and monetary policies will keep growth momentum into 2004. **Japanese economy** is expected to grow by 2.5 percent, slightly lower than 2.7 percent in 2003. Exports remain to be key driving force to the Japanese economy while private consumption and investment continue to recover in line with better confidence level, steady unemployment rate



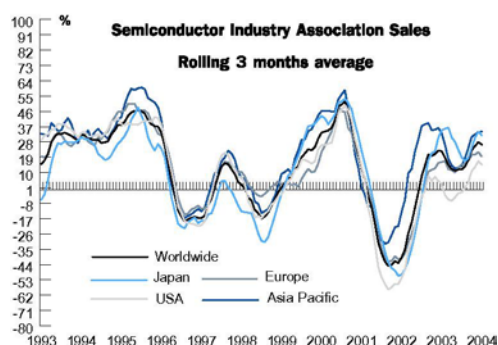
around 5.3 percent, and less pronounced degree of deflation, as shown by more favorable price movement from minus 0.9 percent in 2002 to minus 0.3 percent in 2003. Moreover, the Japanese government has sped up the implementation of economic measures under the so called “Basic Policies for Economic and Fiscal Policy Management and Structural Reform 2003”. The Japanese parliament also approved the draft of budgetary framework and medium-term economic restructuring program on January 19, 2004.

The Chinese economy is likely to grow by 7.5-8.0 percent in 2004, slightly lower than very high growth of 9.1 percent in 2003. It was the government intention to slow the economy down from overheating condition by putting the lid on credit expansion and lowering tax rebate to exporters. In 2004 exports remain to be main driving force to Chinese economy albeit the change in tax rebate policy. Investment and private consumption continue to rise without noticeable response to pressure on Yuan in the first half of 2004. In any cases of exchange rate realignment, Chinese currency is expected to move within 5-10 percent band.

The ASEAN economy as the whole performed well in the second half of 2003 after the SARS epidemic had passed. In 2004 economies in the region will benefit from buoyant exports particularly in electronic and farm products, following the recovery of the world economy, and from robust domestic demand underpinned by low interest rate policy

2.2 Key supporting factors for 2004

Key supporting factors for the economic growth in 2004 are mostly those already been accounted for in the December forecast. However, the strength of these factors turn much stronger than expected, as reflected in the higher-than-expected growth of the economy in the last quarter. The developments in a more positive strengths include (1) longer-lasting of the effect of low interest rates, (2) the raise of salary and compensation in public sector, (3) stronger-than-expected farm prices, and (4) subsided uncertainty over the world economic recovery.

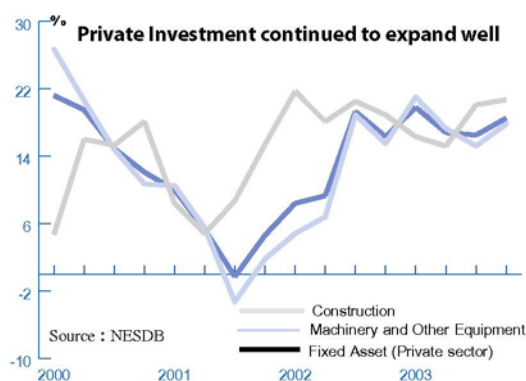
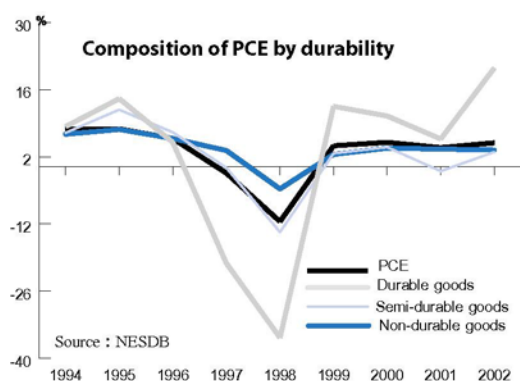


The external supporting factor continues to be the world economic recovery, which has been confirmed by the most recent data. This is in particular the recovery of Thailand's main export markets including the U.S., EU, ASEAN, Japan, and China. The constant improvement in employment and private investment suggest that these economies will continue to be supported by private consumption and investment. Hence, the wide ranges of Thai exports will benefit from the situation. These include, for example, electrical appliances, electronic goods, furniture, food products, and jewelry and precious stones. The accelerated sales of semiconductor throughout 2003 recorded by Semiconductor Industry Association also indicate a continuing expansion trade in electronic goods this year. As reflected in the target set by the Ministry of Commerce, the increase in exports are expected for food products, electronics, rubber, transportation parts and equipments, electrical appliances, and jewelry, to name a few.

Hence, supporting factors for growth in this assessment are those already included in the previous forecast and more impetus from other factors which have not been accounted for or have not been accounted for to the full scale in the last forecast. Those have been accounted in the last forecasts are as follows:

- (1) Low interest rates will continue to stimulate private consumption and investment.
- (2) Increase in farm income and better employment situation which will continue to stimulate private consumption.
- (3) Government measures to support strong growth which include trade and investment promotion schemes, measures to upgrade the quality of tourism products for the niche markets, systematic supports lent to SMEs, asset capitalization scheme, and government spending from the supplementary budget in FY2004.

However, in this March forecast these supporting factors are given more weights for more strength they have stimulated the economy so far. Moreover they are likely to work though the economic activities throughout the year. More supporting strength to the 2004 economic growth shall be induced by:



- (1) Private consumption is expected to sustain at higher rate of growth than earlier expected. The income conditions turn more favorable than expected earlier thanks to continuing increase in farm prices at higher rates, and the salary increase and compensation rise in the public sector. Earlier, it was expected that the raise will come later than sooner and with smaller adjustment.
- (2) Investment environment has been improved than earlier expected. Besides the stronger-than-expected expansion of private investment in 2003, the BOI and FDI data also show an increasing confidence in the Thai economy among investors.

The BOI data point to good prospects for private investment. In 2003, planned investment of promoted firms increased by 75.8 percent comparing to 39.0 percent decline in 2002. The FDI data recorded in the balance of payment also increased significantly by 49.2 percent in 2003, suggesting an increasing confidence among foreign investors in the Thai economy as Thailand moves forward with improving fundamentals.

- (3) Disbursement from the government's supplementary budget is expected to be higher than in the previous forecast. The upward revision is due to the adjustment of salary and compensation that takes effect sooner than expected. Moreover, some disbursements from the amount planned for enhancing competitiveness, strengthening local administration, and regional development under the provincial development strategy will be seen from the later half of 2004, provided that the provincial development strategies have already been set more clearly. It is most likely that a number of projects for the development purpose of the Southern most provinces will get started.

2.3 Risk factors

- (1) Uncertainties over the world economic recovery, particularly in the main economies, which could create contagious effect on the rest of the world. Despite the stronger growth is projected for the world economy in 2004, some uncertainties remain.
- There is no clear policy guideline to handle the twin deficits problems of the U.S. besides the weak dollar policy. Moreover, weak dollar policy has put upward pressure on the Euro, Japanese Yen, and Chinese Yuan. The appreciation of these currencies could dampen the economic growth in these countries, which are Thailand's important exporting market. The weakening U.S. dollar and stronger yen would mean baht appreciation. The U.S. demands for a renminbi revaluation though rising, China is likely to resist all the pressures in near term. Under suitably stable economic conditions, China may loosen its exchange rate regime and allow only a modest appreciation of perhaps 5-10 percent, but this is not expected until at least 2005.
 - Rising oil prices as a result of the cut of production quota of the OPEC's members. Moreover, the demand to meet the strategic oil reserves requirements in the U.S. and China could lead investors to form expectation of higher oil prices in the forward market. In addition, on the demand side, growing economy in China and India, where economic structures are transforming to become more industrialized and commercialized, tend to boost up the demand for energy.
 - However, the assessment made on the most recent GDP data of various countries especially Japan, the EU, and the US., lends support to a lower risk associated with the world economic outlook this year.
- (2) Domestically, risks associated with the economic outlook are as followed:
- The outbreak of Avian flu has posed some risks to the economy via the adverse impacts on consumption and exports. Although, the outbreak has been contained but there is still period of close monitor to ensure that the outbreak will not return. However, it is expected that the coming hot summer temperature will help prevent the come back of the flu and thereby the poultry industry could recover in 4-6 months. Recently, the E.U. and Japan have already agreed to import broiled and prepared chicken from Thailand.
 - The dispute over shrimp export of Thailand to the U.S. market could also dampen the prospect of shrimp export, should higher tariffs are imposed as the result.
 - Rising construction materials to some extent will result in higher prices of housing and thereby somewhat discourage housing demand. However, it is likely that the price adjustment will be rather gradually than rapidly. In that case, the effect on the sector should be limited.

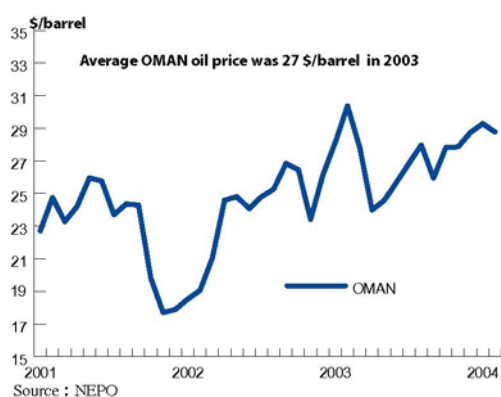
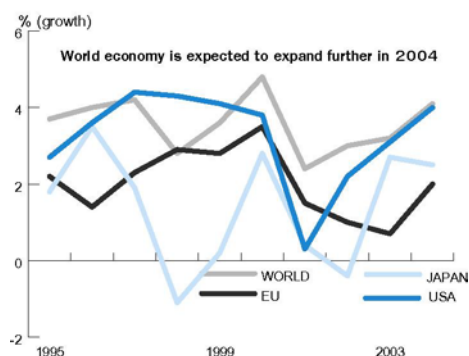
- Rising crude oil prices will also have some negative impacts on the economy. It is true that the price ceiling imposed on the retailed prices help relief some pressures on prices. Meanwhile, stronger baht also means that in baht term, oil price will increase at a smaller rate. However, with a lingering rises in crude oil prices, the retailed price will be kept at the ceiling or close to the ceiling for a long period of time and thus dampen private consumption and add more pressure to the costs of production.
- In overall, prices are expected to increase faster than last year as the demand- pull and cost-push factors are at work more evidently. On the cost side, the developments which would put upward pressures on prices are, for example, the compensation raises in the public sector, possible salary increase in private sector following the move of public sector given a constant decline in unemployment rate, rising construction materials, and increasing prices of meat as a consequence of Avian Influenza epidemic. The rising costs in couple with continuing strong domestic demand likely to result in a higher inflation rate than that in 2003. However, the strong Thai baht and the price ceiling imposed on retailed prices of petroleum will help smooth price movement to a manageable path.

3. ECONOMIC OUTLOOK FOR 2004

There have been some changing conditions and factors over the period of 2 months between the December and March forecasts. In December forecast, more weights were placed on risks associated with external situation, particularly the recovery of world economy but not so on the domestic factors. However, there have been developments over the past 2-3 months, which raised concern over domestic risk factors. They are the outbreak of Avian Influenza, the anti-dumping investigation over the Thai exports of shrimp, more violence in the 3 Southern most provinces, and including volatility of the stock market.

On the upside, however, the 6.7 percent growth of real GDP in 2003 suggests stronger economic momentum from 2003 moving into 2004. Private consumption continued to be responsive to favorable income conditions and low interest rates. The raises of salary and compensation in the public sector will add another pro-growth factor. Private investment has picked remarkably, provided an improving investment environment. The upside also includes the spending during various election campaigns through the year, both at the local administrative level and at the national levels.

These supporting factors are expected to gain more strength in 2003 and reinforced by additional supporting factors. These concerted forces will strengthen the domestic demand and compensate for the effect of more risks factors. NESDB therefore maintains the economic projection of 7.0-8.0 percent in 2004. Inflation is projected at 2.2 percent, increasing from 1.8 percent in 2003. Average unemployment rate is expected to be in the neighborhood of 2 percent. Although trade surplus is likely to decline as investment picks up strongly, service account will improve and help sustain the surplus of current account at a relatively high level. In 2004, current account surplus will be approximately 6.9 billion USD, or 267.3 billion baht, which is equivalent to 4.1 percent of GDP.



Key Assumptions for 2004 Projection

- (1) **The world economy** is expected to expand by 4.1 percent, higher than that of 3.2 percent in 2003.
- (2) **The oil price-Oman quoted** is expected to average at 28.5 US dollar per barrel, increasing from the level of 26.5 US dollar per barrel in the previous projection and from 27.0 US dollar per barrel of 2003.
- (3) **The export price**, in US dollar terms, increases by 7.0 percent. The increase will be seen in all export items, namely agricultural product, electronics and manufacturing product. However, this rate will decelerate than that of 2003 due to high base effect in the same period of 2003. As well, the average import prices in 2004 tend to increase by 8.0 percent.
- (4) **Poultry exports** were affected in the first two quarters, valued at 19,000 million baht. This amount was from the effect on frozen poultry exports of 13,400 million baht and on prepared poultry chicken of 5,600 million baht.
- (5) **Shrimp exports** were affected in the first three months by 5,000 million baht as a consequence of anti-dumping trial case on shrimp exports from 6 countries to the US market includes Thailand, China, Vietnam, India, Brazil and Elquador.

3.1 Economic Outlook by Components

Private Consumption Expenditure

Private consumption expenditure is projected to increase by 6.0 percent, up from 5.7 percent of the earlier projection in December. This was a result of salaries raise for government officials, spending for various election campaign, as well as higher dividend and bonus payment in private sector. Meanwhile, interest rates remain low. Nonetheless, the expansion will decelerate from 6.3 percent in 2003, showing a movement of private consumption towards sustainable path.

Private Investment

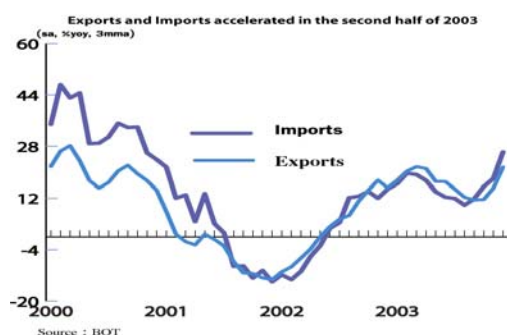
Private investment in 2004 is expected to expand by 19.0 percent, increase from 17.0 percent of the previous projection. This was based upon the higher-than-expected data of approved investment projects by the Board of Investment (BOI), net foreign direct investment and approved construction area. In addition, financial conditions of business also become supportive of further gains in investment, such as increasing corporate profits as well as higher capitalization both in capital market and stock market in the last quarter of 2003.

Government Consumption

Upward revision on government and state enterprises expenditures. Thus, government consumption expenditure at the constant prices is projected to grow by 4.0 percent, compared to 2.8 percent of previous expected rate. Public investment will increase by 8.0 percent.

Exports

Export volume is expected to increase by 8.0 percent, downward revision due to the spread of avian flu as well as shrimp exports problem to the US. Besides, exports to China also show some slowdowns and the effect of real exchange rate appreciates. Export value in 2004 is projected at 90.2 billion US dollars, rising by 15.0 percent compared to the previous year, or equivalent to 3,471.9 billion baht, lower growth rate than in the US dollar terms, as a result of the baht appreciation.



Service receipt at constant prices in 2004 is likely to grow by 4.0 percent, compared with a contraction of 3.4 percent in 2003. This is due to the global economic recovery as well as tourism promoting measures creating more on tourism receipts, with no significant effects from avian flu outbreak. Overall, **export of goods and services at constant prices is expected to expand by 7.3 percent.**

Imports

Import value is projected to be 87.6 billion US dollars, or increasing by 18.0 percent, attributable to 10.0 percent volume growth and 8.0 percent price growth, higher rate than that of 2003. This revision is apparently reflected in revising upward projection on investment of both private and state enterprises since stronger private investment and

higher economic expansion encourage more imports of all goods categories, in particular on capital goods, raw materials and consumer goods. In terms of baht, import value will be about 3,371.5 billion baht, increasing by 9.8 percent from last year.

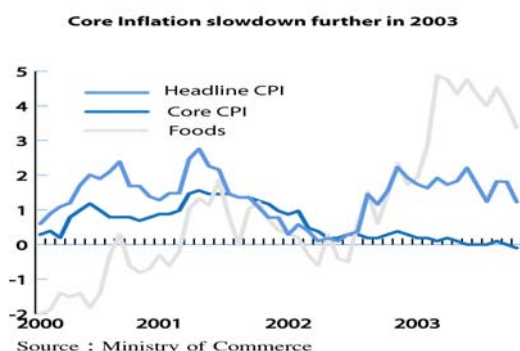
Import of services is expected to rise by 5.0 percent in tandem with better economic performance and rising outbound tourists. Thus, import of goods and services at constant price in 2004 is expected to expand by 9.2 percent, higher than 7.4 percent in 2003.

Trade Account

Trade account is projected to register a surplus of 2.6 billion US dollar, or about 100.3 billion baht, noticeably lower than a surplus of 4.2 billion baht or 174.4 billion baht. This is as a consequence of accelerated import value growth, even closed to the export price rate, which could lead to lower advantage on terms of trade compared to those of 2003. However, tourism sector is expected to improve, resulted in the higher surplus in net service income than that of previous year. In sum, current account will record a surplus of about 6.9 billion US dollars or about 267.3 billion baht, equivalent to 4.1 percent of GDP, significantly decline from 8 billion US dollars or 329.9 billion baht, equal to 5.6 percent of GDP in 2003.

Inflation

The headline inflation is projected to be 2.2 percent, higher than 1.8 percent in 2003. This owes to improved economic performance, higher cost of production and rising wages and salaries. Increasing price mostly are those of foods and beverages items. The price of non-food products, however, are likely to rise at the lower rate, in light of the continued decline in housing rents and home furnishing products –highest-weighted item in non-food categories. Moreover, the appreciation of baht help contain import price in terms of baht as well.



4. ECONOMIC GROWTH TARGET FOR 2004

The target growth of 8.0 percent in 2004 is conditioned on the expansion of private investment by 20.0 percent and the export growth of 17.0 percent, or equivalent to US\$ 7.645 billion of export value per month. These factors will stimulate more private consumption than the base case. In addition, other measures must also be accelerated such as: the progress in trade facilitation negotiation with China and India; the asset capitalization scheme; the increase in private sector productivity through the industrial restructuring and competitiveness enhancement strategies which will boost export, investment and expenditure; and the promotion of poultry and shrimp exports in the second half of the year. However, in the target case, import will also be higher and the trade surplus will be lower than the base case. The pressure on commodities prices will also be higher and resulting in the inflation rate of 2.4 percent

5. PROBABILITY OF VARIOUS GROWTH PROJECTION SCENARIOS

The assessment of economic conditions both internal and external factors indicates that the most likely case of economic growth in 2004 will be between 7.0-7.5 percent

Uncertainties due to various conditions cause varying degrees of downside risk and upside risk. Overall, there are higher probabilities for downside risk than upside. Factors contributing to downside risk are world economic recovery, oil prices, effects of avian influenza epidemics on export and tourism, impact of shrimp export due to anti-dumping investigation and possible tariff retaliation measures. These factors will affect export, consumers and investors confidence both domestic and abroad. Other risk factors are psychological impacts of local conflict in the 3 southern provinces and the volatile stock market which can also deter private consumption.

For the upside risks, low interest rate and election campaign spending may stimulate private consumption; export to China and progress in better trade facilitation between Thailand-China and Thailand-India, and accelerated poultry export in the second half of the year may result in a higher growth than the base case. However, the probability that these factors push growth beyond expectation is still rather remote.

Probability of Various Growth Projection Scenarios

Economic Growth Rate (%)	Probability (%)
6.5-7.0	18
7.0-7.5	70
7.5-8.0	7

ECONOMIC PROJECTION FOR 2003-2004

	Preliminary		2003		Projection 2004	
	2001	2002	Projection Dec 15, 03	Prelim	Trend	Target
GDP (at current prices, Billion Baht)	5,133.8	5,451.9	5,904.4	5,931.6	6,476.1	6,554.4
GDP growth rate (at constant prices, %)	2.1	5.4	6.3	6.7	7.0	8.0
Investment (at constant prices, %)	1.2	6.5	9.6	11.7	16.0	16.8
Private (at constant prices, %)	4.9	13.2	16.5	17.9	19.0	20.0
Public (at constant prices, %)	-5.2	-5.8	-6.0	-2.3	8.0	8.0
Consumption (at constant prices, %)	3.8	4.6	4.7	5.6	5.7	6.0
Private (at constant prices, %)	3.9	4.9	5.7	6.3	6.0	6.2
Public (at constant prices, %)	2.8	2.5	-1.2	1.2	4.0	4.0
Export (Billion US dollars)	63.2	66.1	77.6	78.4	90.2	91.7
Growth rate (%)	-6.9	4.6	16.0	18.6	15.0	17.0
Growth rate (Volume, %)	-5.6	12.2	10.0	8.8	8.0	10.0
Import (Billion US dollars)	60.7	63.4	72.6	74.2	87.6	88.3
Growth rate (%)	-2.8	4.4	14.5	17.1	18.0	19.0
Growth rate (Volume, %)	-6.3	13.1	8.0	8.8	10.0	11.0
Trade Account (Billion US dollars.)	2.5	2.8	5.0	4.2	2.6	3.4
Current Account (Billion US dollars.)	6.2	7.0	7.9	8.0	6.9	7.8
Current Account to GDP (%)	5.4	5.5	5.6	5.6	4.1	4.6
Inflation (%)						
Consumer Price Index (CPI)	1.6	0.7	1.9	1.8	2.2	2.5
GDP Deflator	2.2	0.7	2.0	2.1	2.2	2.5

Source: Office of the National Economic and Social Development Board, March 8, 2004

ANALYSIS OF AVIAN INFLUENZA EPIDEMICS' IMPACTS ON THE THAI ECONOMY IN 2004

Office of the National Economic and Social Development Board (NESDB) analyses the impacts of Avian Influenza epidemics that broke out in Thailand, Korea, Vietnam, and China on the Thai economy by taking into account possible effects on both demand and supply sides. The analysis shows that the epidemics will dampen Thailand's economic growth by 0.39 percentage points which have already been included in the current economic projection.

Office of the National Economic and Social Development Board (NESDB) analyses the impacts of avian influenza epidemics on Thai economy, taking into account every potential effects on both demand and supply sides. On demand side avian influenza outbreaks may (1) reduce private consumption due to less consumption in poultry products, lower incomes following the fall of employment in poultry farms and related industries, lower returns from raising poultry flocks, and the deterioration of consumer confidence (2) decrease Thai export revenue as a result of declining sales of poultry products as well as lower demand for Thai products by other affected countries, and (3) dampen tourism receipt because tourists may concern the situation of the outbreaks in Thailand.

This analysis incorporates substitution effect and financial compensation arisen to mitigate the impacts of the outbreak; for instance, (1) government compensation for the culling of affected poultries, which was taken as transfer payment from the government to compensate the loss of affected farmers, (2) government spending for prevention and control of the outbreak, and (3) consumers' substitution of other kinds of meat for consumption of poultry products especially chicken and eggs.

So far the situation of epidemic has gradually recovered, and EU and Japan allowed Thai broiled poultry exports to their countries under certain technical guidelines. This will set a standard for negotiation with other countries to open up their markets for Thai poultry products sooner than expected. Moreover, higher temperature in Thailand during April to June makes it easier to control and achieve the full containment of the outbreak. This means the worst is over. In addition, large poultry producers have provided some budgets to compensate for destruction of poultry by small-scale farmers nearby to stop the disease from spreading. Based on these current conditions, NESDB foresees that, in the most likely case, the impacts of the outbreaks will be pronounced in the first and second quarter of this year. The worst impacts will be concentrate in the first quarter before returning to the situation close to normalcy in the second quarter. The analysis also assumes that large producers will be able to serve external demand with no production constraints when the demand return to normal, and government measures to help small-scale farmers can effectively alleviate the degree of the problem and help ease the effect of income loss.

In this case the total impacts of the outbreak on GDP in 2004 was estimated to be around 0.39 percent composing of 0.29 percent from exports, 0.08 percent on tourism, and 0.02 percent on private consumption expenditure. Effect on private consumption expenditure is rather minimal because consumers can substitute other forms of meat products for poultry, and compensation from government covers some portions of farm owners and employees' income losses. In addition to the government compensation, there are additional spending about 500 million baht under the regular annual government budget shared by involved ministries. Similarly, investment is expected to be unaffected by the outbreak because investment decisions typically rely on economic fundamentals, which remained intact.

1. Assessment of avian influenza on the demand side of Thai economy

(1) Impacts on overall economy

Impacts on overall economy

Expenditure		Increase / Decrease	Value (million baht)	% to GDP
	Overall impact	Decrease	25,240	-0.39
	Net traveling income	Decrease	4,800	0.08
	- receipts (foreign tourists) ^{1/}	Decrease	6,000	
	- expenditure (Thai residents traveling) abroad)	Decrease	1,200	
	Exports	Decrease	19,000	-0.29
	Private consumption	Decrease	1,440	-0.02
	Private consumption	<ul style="list-style-type: none"> The decrease in chicken consumption will be substituted by other kinds of meat products. Some portions of income loss will be compensated by government transfer. However, there are some indirect impacts accrued from farmers and chicken exporters' income loss approximately 1,800 million baht for being unable to raising 30 million chicken (@ 60 baht each) will affect private consumption by 1,440 million baht or equivalently to 0.02% to GDP. 		
	Government expenditure	Government budgetary target remained unchanged.		
	Investment	unaffected		

^{1/} excluding revenues of Thai Airway's ticket sales in which the impact is minimal.

(2) Impacts on goods exports

(2.1) Thai poultry exports in 2003: In 2003 value of Thai poultry exports was amounted to 980.4 million USD, increasing by 16.59 percent comparing to the previous year, and accounted for 1.2% of total exports.

- Value of chilled or frozen poultry cuts exports was amounted to 597.8 million USD, growing by 11.9%. Japan, EU, and Korea are principal export markets, possessing 52.8, 28.1 and 7.7% of total frozen poultry cuts exports.
- Value of prepared and processed poultry exports was amounted to 382.5 million US \$, increasing by 24.8%. EU and Japan are principal export markets, possessing 53.1 and 39.9% of total prepared poultry exports.

Poultry Exports

	Total Poultry		Chilled or frozen poultry cuts		Prepared poultry	
	Mil.US\$	% y-o-y	Mil.US\$	% y-o-y	Mil.US\$	% y-o-y
Total	980.4	16.59	597.8	11.86	382.5	24.76
Asian	38.9	49.62	31.4	72.53	7.6	-2.56
EU	371.1	19.17	168.2	22.06	202.9	16.88
Japan	468.6	8.65	315.9	-1.77	152.7	39.20
South Korea	49.6	29.30	46.2	28.70	3.7	37.00

(2.2) Thai poultry exports (as of January 2004)

The most recent data as of January 2004 showed that value of Thai poultry exports was amounted to 57.8 million USD, decreasing by 22.5% as compared to the same period of the previous year. Value of frozen poultry cuts and prepared poultry exports was amounted to 32.1 and 25.2 million USD, contracting by 22.0 and 23.5 percent respectively.

Poultry Export in January 2004

Mil US\$	Total Poultry		Chilled or frozen poultry cuts		Prepared poultry	
	Jan. 2004	% y-o-y	Jan. 2004	% y-o-y	Jan. 2004	% y-o-y
Total	57.7	-22.5	32.0	-22.0	25.7	-23.5
Asian	2.4	4.6	1.8	12.5	0.6	-14.3
EU	21.0	-45.7	6.6	-58.5	14.4	-37.1
Japan	27.8	0.7	17.9	-4.8	9.9	13.8
South Korea	4.2	27.3	4.1	36.7	0.1	-235.7

(2.3) Assumptions for assessing the impacts on poultry exports

Assumptions	Impact
Part1 Impacts from other affected countries	
<ul style="list-style-type: none"> Other affected countries in Asia e.g. Japan, China, Korea, Vietnam, and Indonesia on average will expand 0.2% less than the case in absence of avian influenza. These five economies accounts for 20 percent of the world GDP. 	<ul style="list-style-type: none"> Affect the world economy slightly by 0.04%; however, 4.1% world economy growth in 2004 is maintained because Japan and US are likely to expand faster than expected. No impacts on Thai exports via this channel
Part2 Impacts from prohibiting Thai poultry exports	
<ul style="list-style-type: none"> 6 month prohibition from January to June with the most severe impacts emerged in February and the first half of March. Impacts begin to diminish in the second quarter because the outbreak is likely to be contained and importers' confidence is restored following compliances with importer countries' technical proposals. Japan and EU accept Thai broiled poultries, starting from March 2004. Production is sufficient to serve external demand in the second quarter as poultry orders return and no production constraints in the second half of the year because large producers have invested more in their own factories and rely less on contract farming with small-scale farmers. It is expected that Thailand will gain more market share after fully containing the outbreak and restoring importers' confidence by enhancing safety standards according to the importer countries' technical proposals. 	<ul style="list-style-type: none"> Impacts on Thai poultry exports around 19,000 million baht. <ol style="list-style-type: none"> Impacts on frozen poultry exports around 13,400 million baht. Impacts on prepared poultry exports around 5,600 million baht.

Projection of poultry exports in 2004 and impacts

	Total Poultry			Chilled or frozen poultry cuts			Prepared poultry		
Mil. US\$	Trend	Avian Flu	Difference	Trend	Avian Flu	Difference	Trend	Avian Flu	Difference
Total	1,076.5	582.5	-494.0	617.87	250.8	-348.5	458.625	313.1	-145.5
Asian	44.0	27.0	-17.0	34.54	18.6	-15.9	9.5	8.4	-1.1
EU	438.6	250.9	-187.8	185.02	89.9	-95.2	253.625	161.0	-92.6
Japan	538.4	272.1	-266.2	347.49	131.9	-215.6	190.875	140.2	-50.6
South Korea	55.4	32.4	-23.0	50.82	29.0	-21.8	4.625	3.4	-1.2

(3) Impacts on tourism

Assumptions and impacts

- | | |
|---|--|
| <ul style="list-style-type: none"> Number of foreign tourists traveling to Thailand (Source: Immigration Department) | <ul style="list-style-type: none"> Decrease by 12.9% in February comparing to 10.5% increase in January. Number of foreign tourists are lower than the Tourism Authority of Thailand's target set at 400,000 persons. Hardest-hit impacts are expected to be in February and become less pronounced in March before the economy returns to normal in the end of second quarter. The decline in the number of foreign tourists was primarily concentrated among those from affected countries i.e. China, Korea, and Japan. Average length of stay for these tourist groups is approximately 5 days and average daily expenses are about 3,000 baht. Total impacts are estimated to be about 6,000 million baht or 1.6% of tourism receipt target in 2004, equivalently to 0.1 percent of GDP. |
| <ul style="list-style-type: none"> Number of Thai residents traveling abroad (Source: Immigration Department) | <ul style="list-style-type: none"> Increase slightly by 1.9% in February comparing to 20.1 percent hike in January. The number of Thai residents traveling abroad are likely to drop by 30,000 persons with the hardest hit in February and then recover in March, before back to normal in the end of second quarter. The decline in the number of Thai travelers is primarily concentrated among those traveling to affected countries i.e. China and Korea. Average length of stay for these Thai traveler groups is approximately 5 days and average daily expenses are about 8,000 baht. Total impacts were estimated to be about 1,200 million baht. Minimal impacts comparing to total household spending. |
| <ul style="list-style-type: none"> Impacts on net tourism revenues | <ul style="list-style-type: none"> Service account surplus is lower than base-line case by 4,800 million baht. |

2. Assessment of avian influenza on the supply side of Thai economy

(2.1) Related industries Poultry farming has vast linkages with other economic activities, being both the production factors to downstream industries and utilizing raw materials from upstream industries. Important linkages are described as follows:

- (1) Upstream industries** e.g. animal food production, farming (corns and grain) pharmaceutical production, sea fishery, financial institutions, and farm premise construction.
- (2) Downstream industries** e.g. animal culling places, egg incubators, transportation, restaurant, and trading.

(2.2) Assumptions to assess impacts on poultry production sector

- (1) Volume of culling poultries is about 60 million whilst 30 million up to February has been destroyed. The rest are the estimated number of poultries lost during the infected period.
- (2) According to the data on poultry production during 2002-2003, poultry worth 60 baht each. For all 60 million culling poultries, government compensated for damage on the average of 20 baht each.
- (3) Therefore, total loss to poultry production will be 2,400 million baht.

(2.3) The analysis on 1995 Input-Output Table suggested that damages in related industries are distributed as follows:

(Unit : Millions Baht)	Impact
1. Agriculture (excluding Poultry and Poultry Products)	-3,251.6
2. Mining and Quarrying	-361.4
3. Food Manufacturing (excluding Slaughtering, Canning Preserving of Meat, Animal Feed)	-374.5
4. Textile Industry	-44.5
5. Saw mills and Wood Products	-17.0
6. Paper Industries and Printing	-78.5
7. Rubber, Chemical and Petroleum Industries	-719.0
8. Non-metallic Products	-16.9
9. Metal, Metal Products and Machinery	-384.9
10. Other Manufacturing	-25.5
11. Public Utilities	-361.1
12. Construction	-13.6
13. Trade	-1,341.4
14. Transportation and Communication	-329.1
15. Services	-1,135.1
16. Unclassified	0.0
17. Poultry	-792.6
18. Poultry Products	-20.5
19. Slaughtering	-1,727.1
20. Canning and preserving of meat	-7,745.8
21. Animal feed industries	-259.7
Total impact	-19,000.0

3. Although impacts on overall economy are not substantial, there are some issues which should be addressed:

- (1) Minimizing impacts to small-scale poultry raisers.
- (2) Restoring importers' confidence in Thailand's safety standard and quality of export food products. Quality of food inspection must put an emphasis on avoiding the use of prohibited chemicals. In addition, food safety campaign initiated by Ministry of Public Health and Ministry of Agriculture and Cooperatives must be conducted on continual basis.
- (3) Monitoring the consequences of measures to help small-scale farmers and entrepreneurs affected by the avian influenza outbreak as well as supporting them to receive poultry offsprings at fair price and get fair deals with large producers.
- (4) Looking for new market in the second half of this year especially the Asian market.
- (5) Taking preemptive measures to prevent and prepare for possible outbreak in the future including promoting for closed-system poultry farms, which require high start-up cost.