

NESDB *Economic Outlook*

THAI ECONOMIC PERFORMANCE IN Q3 AND OUTLOOK FOR 2003-2004

- Thai economy in Q3 rebounded from the SARS outbreak, underpinned mainly by domestic demand.
- In the last quarter of 2003, the growth is expected to accelerate from Q3, owing to accelerating exports of goods and services.
- Thai economy in 2003 is projected to grow by 6.3 percent, and followed by a stronger growth of 7.0-8.0 percent in 2004.

Office of the National Economic and Social Development Board (NESDB)

962 Krung Kasem Rd. Pomprab, Bangkok 10100

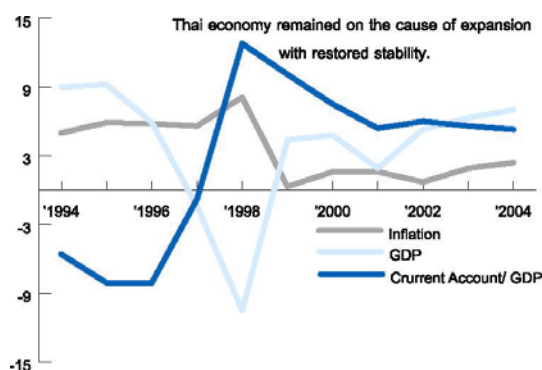
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OVERVIEW

Thai economy in 2003Q3 expanded by 6.5 percent, resulted in a 6.3 percent growth in the first three quarters.



In 2003, economic growth is projected to be 6.3 percent with 1.9 percent inflation rate.



Summary

In the third quarter of 2003, Thai economy recovered in the aftermath of the Severe Acute Respiratory Syndrome (SARS) outbreak, expanding by 6.5 percent from the same period of 2002 and growing from the second quarter by 7.1 percent at the annualized rate. This apparently reflected continued strong economic expansion, primarily driven by domestic demand, in particular accelerated private investment, despite some slowdowns in private consumption.

Notwithstanding robust domestic demand, export growth slowed somewhat as a result of high base effect in the same period of 2002, and even with the q-o-q comparison, while imports continued to grow rapidly. Service sector which was adversely affected by the SARS showed some improvement but not yet enough to offset the result from export slowdowns. Besides, service payments of Thai people also increased.

Major economic indicators in October 2003 also pointed to significant improvement of consumption, investment, exports, higher numbers of tourists due to the APEC 2003's conference held in October, as well as rising demand in real estate. Considering these factors, the economy in the last quarter of 2003 is expected to expand further following impressive growth in the first three quarters. The economic growth in 2003 is, therefore, projected to be 6.3 percent, with 1.9 percent inflation rate, 2.0 percent unemployment rate and a current account surplus of 7.9 billion US dollars or equivalent to 5.6 percent of GDP. Meanwhile, economic stability still remains favorable, accompanied by high official reserves at around 3.4 folds of short-term foreign debts.

In 2004, the Thai economy is projected to expand in the range of 7.0-8.0 percent, higher than that in 2003. Domestic demand remains the main driving force of the economy, supported by satisfactory growth of exports. Inflation rate is expected to be 2.4 percent.

1. THAI ECONOMY IN THE THIRD QUARTER OF 2003

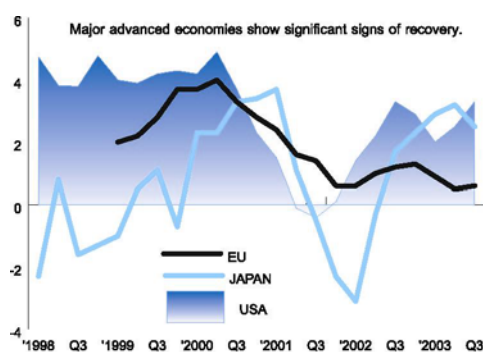
World economy continued to expand.
(Y-O-Y growth rate, %)

	2002			2003			
	Year	Q3	Q4	Q1	Q2	Q3	Year
World	3.0						3.2
United States	2.4	3.3	2.9	2.0	2.5	3.5	2.9
EU-15/1	1.0	1.2	1.3	0.9	0.5	0.6	0.8
Euro Zone	0.8	0.9	1.1	0.8	0.2	0.3	0.5
Germany	0.2	0.4	0.5	0.1	-0.3	-0.2	0.0
Japan	0.1	1.7	2.3	2.9	3.2	2.5	2.7
Hong Kong	2.3	3.4	5.1	4.5	-0.5	4.0	3.0
Singapore	2.2	3.8	3.0	1.7	-4.1	1.0	0.5-1.0
South Korea	6.3	5.8	6.8	3.7	1.9	2.3	3.0
Taiwan	3.6	5.2	4.5	3.5	-0.1	4.2	3.1
Indonesia	3.7	4.2	3.8	3.5	3.8	3.9	4.0
Philippines	4.4	3.8	5.7	4.5	3.2	4.4	4.2-5.2
Malaysia	4.1	5.8	5.4	4.6	4.4	5.1	4.5
Thailand	5.4	5.8	6.0	6.7	5.8	6.5	6.3
China	8.0	8.1	8.1	9.9	6.7	9.1	7.0

Source: World Economic Outlook (WEO) April 2003, IMF,

Government agencies, and average from several agencies.

1/ EU15



1.1 The World Economy in Q3 of 2003: expanded at the accelerated pace.

In the third quarter of 2003, the world economy continued to recover and also gained the growth momentum in most regions due mainly to the eased monetary and fiscal policies. Though the Japanese economy slightly slowed down in this quarter, it was merely the adjustment of economic expansion towards the medium-term potential output which give the relatively high average growth of 2.5 percent average growth during the past four quarters.

The US economy was supported further by the additional effective tax reduction since July along with the surroundings of steadily low interest rate, which helped creating the demand for real estates and durable goods such as automobiles. Private consumption continued to be the important supportive factor to the US economic expansion as the private investment's contribution became more pronounced. Net exports in part contributed positively to the economic growth this quarter as well. In the third quarter of 2003 the U.S. economy paced up to 3.3 percent compared to the same period of last year, higher than 2.5 percent in the second quarter, or equivalently to 8.2 percent at the annualized rate, the fastest quarterly growth since 1984. The strength of the US economy helped boost up the exports of Japan and European Union (EU). The Japanese exports in particular also beneficial from the Chinese demand. The Japanese private investment remained strong and registered positive growth this quarter. Meanwhile the EU private investment continued to decrease, but at the slower pace.

The Japanese economy expanded by 2.5 percent compared to the same quarter last year, slightly lower than 3.2 percent in the second quarter while the EU grew by 0.6 percent compared to the same period last year, only marginally higher than 0.5 percent in the second quarter due to better export condition.

The Chinese economy rebounded from the outbreak of the SARS in the second quarter and was able to register the impressive growth of 9.1 percent in the third quarter on the back of private consumption and investment as well as exports. Similarly, other Asian economies such as Hong Kong, Taiwan, Singapore, and Malaysia regained the strength from the SARS effects and managed to grow further in the third quarter. In fact, the economic recovery in different regions has become more pronounced as can be observed by favorable exporting trends in many countries across the region.

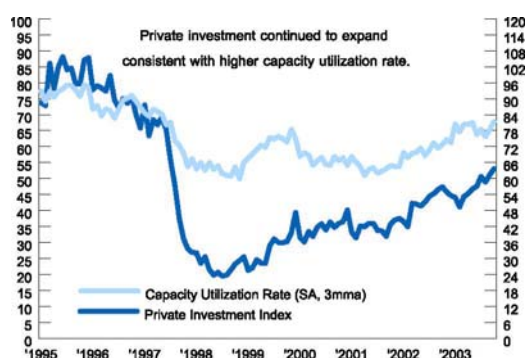
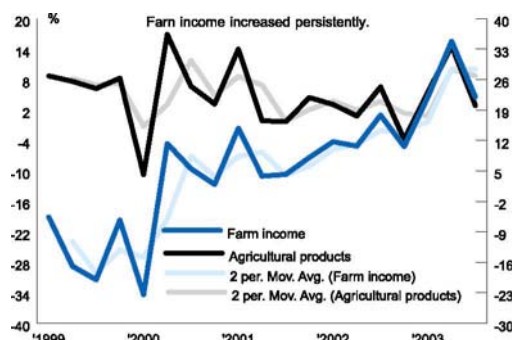
Robust economic recovery in various economic groups was shown by the combination of broad-based expansions especially in private investment. Like in Japan and the U.S., not only private investment expanded well, but also unemployment rate declined, employment conditions improved continuously, deflationary pressure was released in accordance with continued strong demand. In addition, the consumer and business confidence have continuously improved since the second half of the year.

1.2 Thai Economy in Q3 of 2003: rebounded from the SARS outbreak with accelerated growth rate.



In the third quarter of 2003, the economy expanded by 6.3 percent, accelerating slightly from the previous quarter. Seasonally adjusted GDP growth was 7.1 percent at the annualized rate, higher than the rate in the second quarter, showing continued economic expansion.

Strong domestic demand, both consumption and investment were the main driving forces for the economy. Nevertheless, net exports of goods and services provided smaller support to the economic expansion than in the previous quarter, as a result of slower rate of export growth while import growth accelerated. Improved exports of services also have not yet been enough to offset the slowdown in exports of goods.



Production

All production sectors expanded except restaurant and hotel, declining at 1.3 percent from the same period last year, in light of the lingering SARS impact. Financial, construction and agricultural sectors grew noticeably. Manufacturing, however, exhibited slight slowdown in this quarter, growing by 9.0 percent, compared with 11.1 percent in the second quarter. This was a result of high base effect in the third quarter of 2003.

Expenditure:

Private consumption experienced some slowdown.

Seasonally adjusted private consumption expenditures in the third quarter grew by 0.8 percent at annualized rate, much lower than that of 6.5 percent in the second quarter. Meanwhile, the growth rate of 5.0 percent compared to the same period was lower than the rate of 5.7 percent in the second quarter as well. This showed a slowdown after recorded very high growth since the latter half of the year.

Following the high growth in the first half of 2003, the economy in the first three quarters, thus, grew by 5.8 percent, owing to low interest rates, increasing consumer confidence, continued expansion in farm income, rising by 22 percent, as well as the improved employment condition.

Government consumption expenditure at constant price expanded by 2.3 percent from the same period last year, attributable to 5.5 percent increase in salaries and wages while expenses for procurement declined by 2.2 percent.

Investment

Total investment expanded by 10.8 percent, accelerated from 9.1 percent growth rate in the second quarter. Private investment and public investment grew by 16.5 and 1.7 percent, respectively. Seasonally adjusted growth of total investment expanded by 25.8 percent at annualized rate, compared to only 10.3 percent in the second quarter. This indicated strong investment expansion, particularly private investment following higher capacity utilization both in export- and domestic-oriented industries. Moreover, increasing corporate profits of listed firms and improved business sentiment also served as contributing factor to investment expansion.

In the first three quarters of 2003, private investment grew by 17.7 percent, while total investment grew by 9.2 percent compared to the same period last year.

External demand

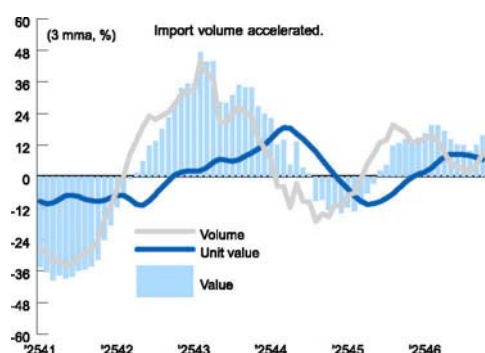
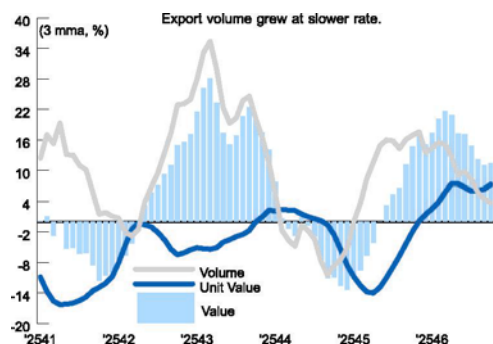
In the third quarter, **export value** increased by 11.0 percent, attributed to 6.4 percent and 4.3 percent rise in price and quantity respectively. Export products that expanded well in the third quarter were integrated circuits, passenger cars and parts, chemical products, computers and parts, and rubbers. Exports to the major markets such as Japan, EU, ASEAN, and China increased, while exports to the U.S. declined by 5.5 percent.

During the first ten months of the year, export value, amounted to 64,075 million US dollar, increased by 16.1 percent, attributed to 6.6 percent and 9.0 percent surge in price and quantity respectively.

Import value expanded by 11.8 percent over the same quarter of previous year, attributed by 7.3 percent and 4.1 percent increase in price and quantity respectively. As the economy and investment picked up, imports rose in every product category especially capital goods and raw materials which increased substantially.

During the first ten months of the year, import value, amounted to 60,543 million US dollar, increased by 15.3 percent, attributed to 6.9 percent and 7.8 percent increase in price and quantity respectively

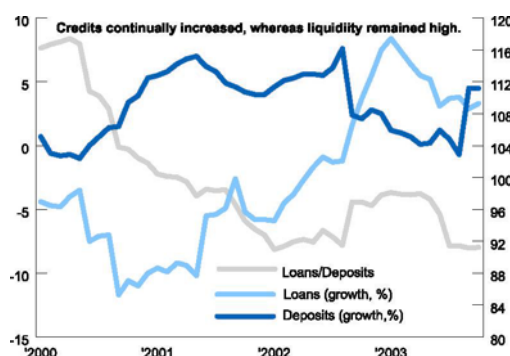
Trade balance and the current account continued to register surpluses. In the third quarter of 2003, trade balance registered a surplus of 838 million US dollar, and service account rebounded from the SARS outbreak and registered a surplus in the third quarter. As a result, the current account registered a surplus of 1,849 million US dollar in the third quarter and in the first ten months the surplus of the current account amounted to 6,158 million US dollar.



Financial and capital market:

Liquidity remained high despite the credits continued expansion of credits.

Commercial banks' credits continued to expand in the third quarter. The credit outstanding in the end of September amounted to 4,834.2 billion baht, increased by 2.9 percent over the same period of the previous year. Credit expansion in this quarter was essentially made up by the rise of personal consumption and mortgage loans. The deposit outstanding in commercial banks in the end of September amounted to 5,303.3 billion baht, increased by 4.5 percent over the same period of previous year, which was the first time did the deposits expand at the faster rate than the credits over the past 12-month period. However, it was merely caused by the low deposits in the system at the end of September last year when there existed large withdrawal for the payment to new government saving bonds.



Liquidity remained high. Ratio of credits to deposits equaled to 91 percent, which had been relatively steady since June. Interest rate was still low as 7-day and 14-day repurchase rates remained at 1.125 percent and 1.25 percent respectively.

The exchange rate moved in the range of 39.95 to 41.53 baht per US dollar during the third quarter. The exchange rate on the average was 41.27 baht per US dollar, appreciated from 43.37 and 42.21 baht per US dollar in the first and second quarter respectively. The appreciation was due mainly to surges in capital inflows to the country as confidence in the Thai economy had gained strength and the Thai economic fundamentals improved.

NPLs in the financial system excluding those of BIBF and credit fonciers in the end of the third quarter amounted to 750.3 billion baht, which accounted for 15.3 percent of total credits. It was slightly lower than 15.68 percent at the end of the second quarter.

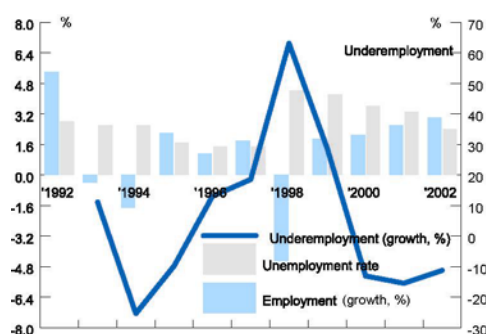
Capital market: More corporate financing via capital market

In the third quarter, the new equity instruments issued by the private sector increased, while the issuance of debt instrument declined. However, total amount of the funding via the issuance of equity and debt instruments was equal to 292,986 million baht, increased from the same quarter of last year by 12.2 percent.

Transaction in stock and debt markets increased substantially and rapidly. Average daily trading value in the stock market increased from 24,257 million baht at the end of the third quarter to 28,047 million baht by the end of October. Stock index increased from 461.82 at the end of the second quarter to 578.98 at the end of the third quarter and was closed at 674.45 on December 12, 2003. This reflected Thailand's better economic fundamentals and the regain of confidence in the Thai economy.

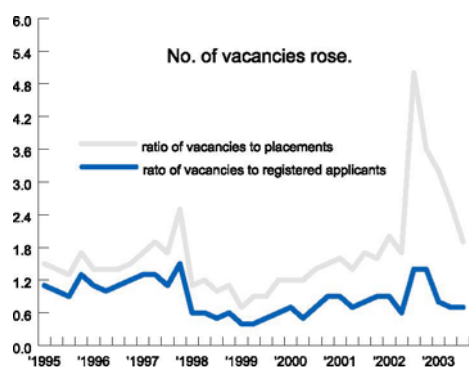
Fiscal stance: fiscal balance registered a surplus while public debts to GDP ratio declined to 49.4 percent.

In fiscal year of 2003, the revenue collection totaled 1,007.4 billion baht. Meanwhile, government expenditure totaled 898.3 billion baht, or equivalent to 89.84 percent disbursement rate out of the overall budget of 999.9 billion baht. At the end of the 2003 fiscal year, the fiscal position recorded a treasury cash surplus of 109.2 billion baht and a budgetary balance recorded a surplus of 195.4 billion baht, compared with a deficit of 85.4 billion baht in the fiscal year of 2002.



Employment conditions: improved continuously.

In the third quarter of 2003, employment situations continued to improve, unemployment rate declined and underemployment dropped. In addition, number of vacancies continued to rise. All of which indicated better income and purchasing power. However, the ratio of vacancies to registered applicants was higher than the ratio of vacancies to job placements, implying that firms became more cautious in recruitment.



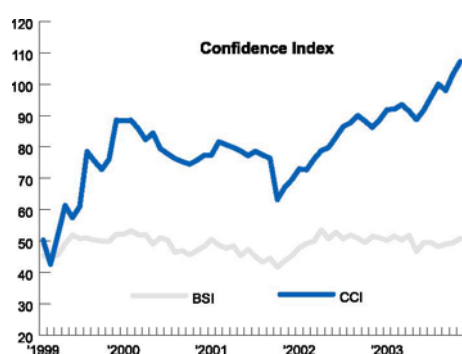
In the third quarter, unemployed workers stood at 549,000 persons, or equivalent to 1.5 percent of the labor force. Meanwhile, the employment increased by 1.6 percent compared to the same period last year.

Economic stability

Economic stability continued to be favorable, in terms of subdued inflation. In the third quarter, the headline inflation was 1.9 percent, attributable mainly to the rise in the prices of food and transportation and communication items. The core inflation rate was 0.2 percent in the first eleven months of 2003.

International reserves remained ample at 40.03 billion US dollar, equivalent to 3.3 times short-term foreign debts.

Improved confidences in the Thai economy would help bolstering consumption and investment. Higher confidences were reflected in terms of consumer confidences, business sentiment as well as credit rating upgraded by various credit rating agencies, such as Moody's and Standard & Poor which raised long-term foreign currency debt instrument rating of four Thai major banks, namely Bangkok Bank, Krung Thai Bank, Thai Farmer Bank and Siam Commercial Bank, and Fitch Ipcra which upgraded long-term sovereign debt rating in terms of both local and foreign currencies. These also included the raising of competitiveness ranking for Thailand by the World Economic Forum (WEF) and the International Institute for Management Development (IMD).



Thailand's competitiveness ranking

	2000	2001	2002	2003
IMD	13	14	13	10
WEF			37	32

Source: IMD and WEF

Note: • IMD re-classified in 2003 into 2 groups

Group 1: population of more than 20 million

Group 2: population of less than 20 million

in which Thailand is classified into Group 1

Credit Rating

	Moody's		S&P's		Fitch		R&I	
	LT	ST	LT	ST	LT	ST	LT	ST
2002	Baa3 ¹	NP	BBB- ²	A-3 ³	BBB- ⁴	F3	BBB ⁵	a-2
2003	Baa1	P-2	BBB ⁴	A-2 ³	BBB	F3	BBB+	a-2

- Note:
1. Moody's: Stable
 2. Standard & Poor's: Positive
 3. Fitch Rating: Stable
 4. Japan Rating and Investment Information (R&I): Stable
 5. [^] Positive Outlook
- * Negative Outlook

2. ECONOMIC OUTLOOK FOR 2003

The Thai economy in the first three quarters of 2003 expanded by 6.3 percent, conditioned on such favorable factors as accommodative government measures, higher consumer and investor confidences, low interest rate and maintained economic stability. Moreover, the increasing sign of global recovery, in particular the recovery of the U.S. and Japanese economies, also boost the Thai exports and tourism.

Main driving forces for the economic growth in the last quarter of 2003 continue to be private consumption and investment. Although private consumption has shown some marginal slowdown, buoyant private investment has been the strong momentum supporting the economy and helped compensate for the slowdown. Concurrent data also pointed to increasing numbers of tourists during the last quarter partly due to the APEC 2003's conference.

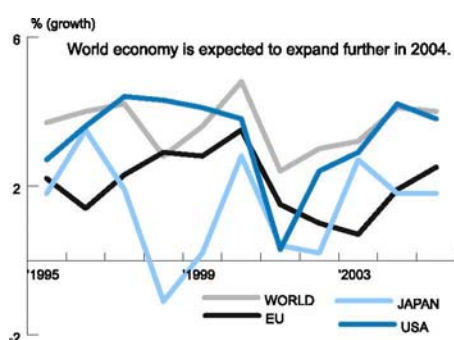
The economic growth in 2003 is, therefore, projected to be 6.3 percent, upward revision from 5.8-6.2 percent released on September 15, 2003, corresponding with higher-than-expected private investment and export performance. Inflation rate will be 1.9 percent, unemployment rate will average 2.0 percent and current account will register a surplus of 7.9 billion US dollars or equivalent to 5.6 percent of GDP. Meanwhile, economic stability remains favorable, accompanied by high official reserves of 40.5 billion US dollar which is equivalent to approximately 3.4 times of short-term foreign debts.

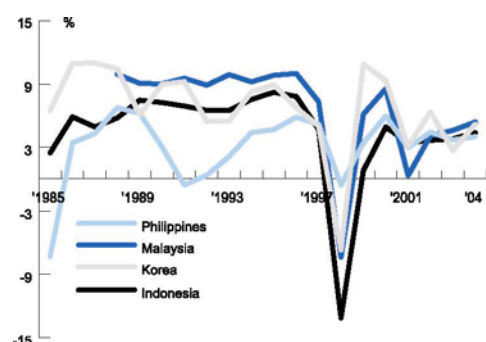
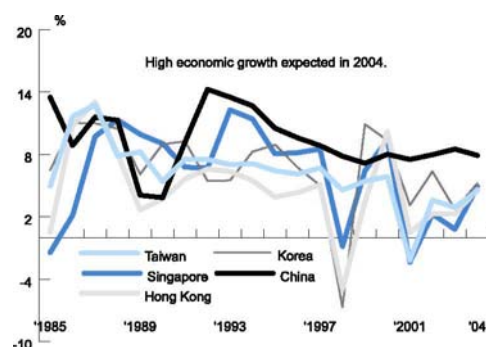
3. ECONOMIC FACTORS AND CONDITIONS IN 2004

3.1 World economic outlook for 2004

(1) The world economic recovery will continue in 2004 with a stronger growth, especially in the first half

The economic situations in the U.S., Japan, and as well in the European Union are expected to improve next year. The continued economic recovery in the U.S. will support the export performance in Japan and European Union, as well as in Asia. This will consequently prompt further private investment demand. The 2004 world economic growth is projected at 4.1 percent, with an inflation rate of around 2 percent. This indicates that a relatively high growth is achieved in a low inflationary pressure environment thanks to the excess capacity in many parts of the world, especially in China and Asia. The productivity improvement also helps contain inflation, especially in the U.S., where labour productivity has constantly increased.





(2) Various indicators point to a continuing growth of the U.S. economy, as an engine of the world economy.

They include, an improved current account status led by weak U.S. dollar, better market sentiment and public confidence supported by an increasing strength of the economic recovery, and increasing private investment, which is necessary for the sustainability of the recovery. Moreover, labor productivity in the U.S. has increased constantly and rather quickly. Not only does the increase in labor productivity reflect the flexibility of the labor market, but also an effort on the business side to squeeze out the labor productivity during the recovery phase. The high-investment in information technology in the past also help explains the continued productivity improvement.

(3) The economic performance in the European Union (EU) is expected to further improve in 2004, supported by an increase in exports and expected expansion of private investment spurred by the world economic recovery and the increase in public confidence. The employment is expected to improve more evidently in 2004 and help support further economic growth. The economy of the European Union is projected to grow by 1.9 percent in 2004, stronger than 0.8 percent in 2003.

(4) The Asian economy is also expected to perform well into 2004. The world economic recovery will continue to be favorable to the Asian exports. Moreover, monetary and fiscal policy in this region will continue to be eased in order to sustain the domestic demand to secure the economic recovery.

3.2 Key supporting factors

(1) The continuing recovery of the world economy will support the Thai export growth in 2004. In the expansion phase of the world economy in which private investment has been spurred, the Thai exports which will be benefited will include electronic goods, auto and parts, office supplies, and also rubber which very much depends the demand for vehicles. The Thai products with comparative advantage such as canned food, furniture, and jewelry will continue to rise.

(2) Low interest rates will further stimulate private consumption and investment. With high liquidity in money market and expected current account surplus and increase in capital inflows, the interest rate is likely to remain low. Provided the economic condition continues to be favorable and public confidence increase, low interest rate is expected to stimulate private consumption and investment. As evident this year, commercial banks' credits extended to households and various business activities have continuously increased, such as export-oriented businesses, real estate business, and hotel and restaurants business. The funds are lent for the purposes of investment and working capital.

(3) Government measures to support continuing economic growth.

3.1 Export promotion measures include

- Free trade agreements between Thailand and China and between Thailand and India will help strengthen export performance in 2004. In the case of bilateral with China, the agreements have already been in effect since the 1st of October this year, and cover only fruit and vegetables as the early harvest items. The FTA with India is expected to take effect from the 1st of March this year, and cover varieties of fruits, jewelry, polymer ethylene, and some electrical appliances. The step decrease or phasing of the tariff reduction will be 50 percent reduction in 2004, 75 percent in 2005, and reaching zero percent rate in 2005.

The FTAs will not only encourage the export performance but also attract more foreign direct investment to Thailand to realize the benefit of the greater free trade area. For example, the statistics on the applications for investment promotion of Chinese firms has increased quite significantly, particularly in the fields of agro-industry, chemicals, plastic and petrochemical, and electronic goods.

- The supports provided for the business sector to adjust and manage changes more efficiently in the world of increasingly intense competition. The promotions are focused in the productivity improvement in order to capture the upscale or high-end markets. For example, the move to focus on the production of educational toys to avoid being squeezed by low-end or cheap products and hi-tech products.

3.2 Government measures to promote industry and investment

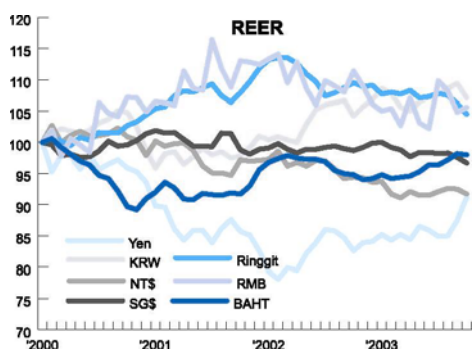
- Investment promotion schemes granted by the Board of Investment have been modified to be more flexible in terms of minimum investment requirement eligible for tax privileges. Neither the tax will the privilege be granted based on the investment zone criteria but it will rather be based on the types of industry. The five target groups are fashion industry, agriculture, information and computer technology, auto, and high-valued added services such as logistics and fashion design institutes. The home countries of the MNCs targeted are North America, European Union, China, Japan, South Korea, ASEAN, and India.
- Free trade agreements and tax privileges and promotion measures to promote Thailand as the Asian center of auto industry is one scheme of the niche market building being implemented in Thailand. For example, structure of the excise tax will be adjusted to support the competitiveness of the industry and rid off any tax redundancy. Privilege given to private investment in the industry will also be considered to support the auto clustering in the country and encourage auto-supporting industries. Moreover, the emphasis will also be placed on the technology transfers from foreign investors.

3.3 The supplementary budget from the Government Central Fund of the amount 100,000-130,000 million baht has been provided for additional government investment and measures in 2004 such as the voluntary early retirement of expected 47,000 government employees, and advanced payment of the pension funds for some existing government retirees.

- 3.4 Asset capitalization scheme** to facilitate legal recognition of assets without title deeds so that these assets can be used to mobilize funds through the formal financial system and thus create capital for underprivileged groups.

3.3 Risk factors

In 2004 there still are some uncertainties especially from the imbalance in trade account between the US and China, which could put the pressure on China to revalue its currency against the US dollar. Moreover, China is now inclined to implement more restricted monetary policy to curb the overheating investment, recognizing that the financial institutions in China remain fragile. The slowdown in the Chinese economy could be the limitation to the Thai exports in future in tandem with real effective exchange rate (REER) of the Thai currency which is likely to increase faster than other countries in the region. This, in part, reflected the stronger economic fundamentals of the Thai economy as well as the higher cost of production.



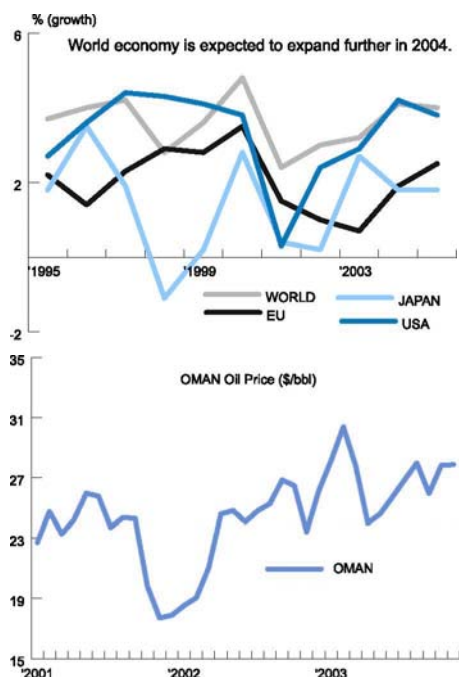
Furthermore, the growths of agricultural products prices are likely to decelerate, which could put the limit on household's farm income. Evidently the price of agricultural products on average had increased at the slower rate during August to October this year in accordance with the world market's trend. The ex-farm price of cassava has declined in the past two quarters, while price of corn declined in the last two months. Future farm price is, thus, expected to increase only 1.5-2.0 percent in 2004, lower than 5.0 percent hike in 2003 and 7.0 percent surge in 2002. However, the rubber price will continue to increase in line with the strong performance of the automotive industry in various countries especially the US, China, and Asia.

4. ECONOMIC PROJECTION FOR 2004

In 2004, the Thai economy is projected to grow by 7.0-8.0 percent on the back of accelerated growth rate of private investment, moderate increase of private consumption and exports of goods and services. Exports will continue to grow but at a slower pace than the imports. Public expenditure and investment will also increase, partly as a result of the Government Central Fund of the amount 100,000-130,000 million

In the mean time, private sector will be strengthened. Net corporate profits of listed companies has continuously increased since the latter half of 2000. In 2003, the profits of listed companies increased by 58.7, 23.9 and 170.4 percent in the first, second and third quarter respectively. Debt to equity ratio declined from the level of 3-4 during 1996-1999 to be approximately at 2.0 in 2002. The Non-Performing Loans (NPLs) problem are expected to be

progressively resolved, attributed to favorable economic condition as well as the additional measures initiated by the Bank of Thailand (BOT) to help facilitate and accelerate the NPLs resolution which are as follows: (1) The enactment of the Foreclosure Law so that the forced sale of the assets by the Legal Execution Department could be sped up. (2) The Bank of Thailand will act as the mediator between debtors and creditors in the process of debt negotiation and restructuring under the framework carried out by the CDRAC. (3) The establishment of Asset Management Companies to purchase assets from commercial banks.



Key Assumptions for 2004 Projection

- (1) **The world economy** expands by 4.1 percent, higher than that of 3.2 percent in 2003. This is underpinned by accommodative monetary and fiscal policies as well as continuing recovery among various economies, particularly in the U.S., Japan, the EU and strong growth in China, which would benefit export, investment and tourism in Thailand.
- (2) **Crude oil price** is expected to averages at 26.5 US dollar per barrel for the OMAN source, slightly declining from 27.0 US dollar per barrel in 2003, owing to low OECD's oil inventories and unstable level of production and exports from Iraq. The strong pickup of the global economy since the latter half of 2003 will also put upward pressure on oil demand in the world market. OPEC's oil production quota is assumed to remain at 24.5 million barrels per day.
- (3) **The export price**, in US dollar terms, increases by 5.0 percent compared to 6.0 percent in 2003. Export price rise in all items, namely agricultural product, electronics and manufacturing product. However, this will be slower rate than that of 2003 due to high base effect in the same period of 2003 and increasing supplies of production in response to significant price increase in the past two years as well as high price competition from China in line with the low cost of labor.

Average import prices in 2004 is expected to increase by 6.0 percent, falling from 6.5 percent in 2003 reflecting a price slowdown since the latter half last year in the face of higher competition.

4.1 Economic Outlook by Components

Private Consumption Expenditure

Private consumption expenditure is projected to increase by 5.7 percent, underpinned by the low interest rates, strong performance of the stock

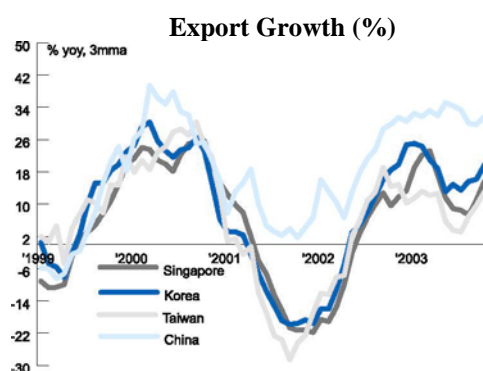
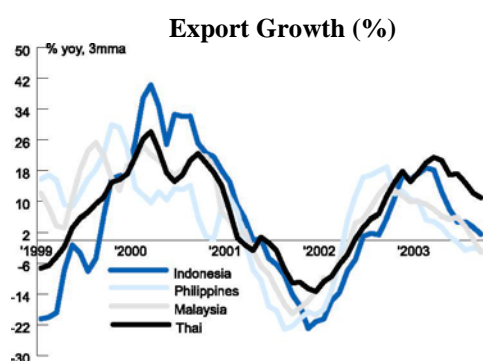
market, better employment condition, recent upward trend of the farm income, especially, that of rubber and corn, as well as improved consumer confidences.

Private Investment

Private investment in 2004 is projected to grow by 17.0 percent, somewhat higher than 16.5 percent in 2003. Factors supporting the higher private investment growth include the low interest rates and the continual increase in capacity utilization encouraging further investment in equipment and machinery, as well as an increase in construction following higher residential demand. Furthermore, increasing corporate profits and improved investor confidences will help stimulate investment. Strong economic fundamental will also induce more capital flows into Thailand, reflecting in elevated level of investment applications submitted through the Board of Investment (BOI).

Government Consumption

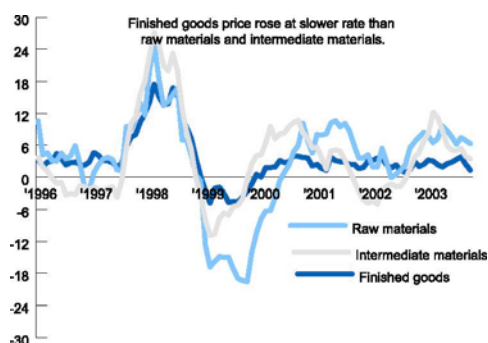
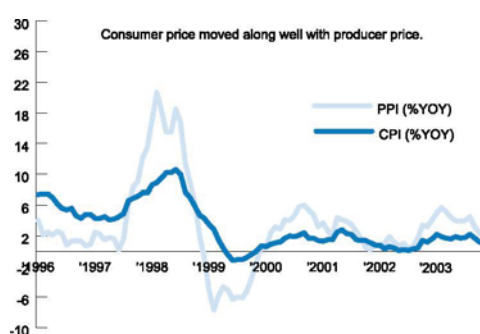
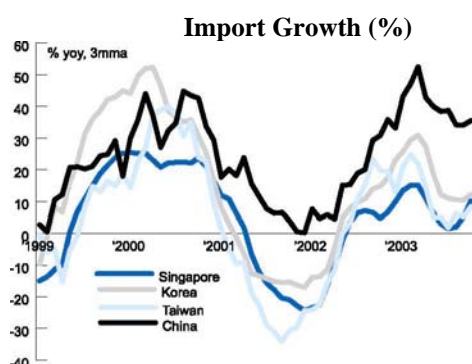
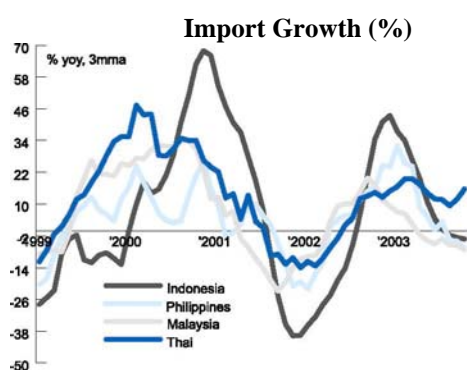
Government consumption expenditure at the constant prices is projected to grow by 2.8 percent, compared with the contraction of 1.2 percent in 2003, while public investment will increase by 2.2 percent.



Exports

Export value in 2004 is projected at 88.5 billion US dollars, rising by 14.0 percent compared to the previous year. This is due to the global recovery and bilateral trade agreement between Thailand and various foreign counterparts such as China and India. Nonetheless, the export growth in 2004 will be slightly below that of 16 percent in 2003 as a result of high base effect of 2003 and decelerated export prices and volume. To a lesser extent, some constraints associated with export growth in 2004 include Chinese economic slowdown and quality of food products.

Export value, price and volume is estimated to grow by 14.0, 5.0 and 9.0 percent respectively, compared with those of 16.0, 6.0 and 10.0 percent in 2003. The export growth rate in the latter half will be lower than the first half growth due to high exports base in the second half of 2002 and 2003.



Service receipt at constant prices in 2004 is likely to grow by 4.0 percent, compared with a contraction of 4.9 percent in 2003. This is due to the global economic recovery as well as tourism promoting measures inducing the improvement in tourism receipts.

Overall, export of goods and services at constant prices is expected to rise by 7.3 percent.

Imports

Import value is projected to be approximately 83.5 billion US dollars, or growing by 15.0 percent, attributable to 9.0 percent volume growth and 6.0 percent price growth, higher rate than in 2003. This is in tandem with robust private investment and continuous economic expansion.

Import of services is expected to rise by 9.0 percent following improved economy and rising outbound tourists. In sum, import of goods and services at constant price is expected to expand by 7.7 percent, higher than 6.4 percent in 2003.

Trade Account

Trade account is projected to register a surplus of 5.0 billion US dollar, equal to the surplus of 2003, despite the accelerated import price and volume than those of last year. However, tourism sector is expected improvement, resulted in the surplus in net service income. All in all, current account will record a surplus of about 8.7 billion US dollar or equivalent to 5.3 percent of GDP

Inflation

The headline inflation is projected to be 2.4 percent, higher than 1.9 percent in 2003. This is underpinned by better economic performance and higher cost of production, both in materials and labor cost. Increasing price mostly are those of foods and beverages items and transportation fees. The price of other products, however, are likely to rise at the lower rate, due to the decline in housing rents and home furnishing products –highest-weighted item in non-food categories. Moreover, the strengthening of the baht against the US dollar could help contained import price in terms of baht as well.

5. ECONOMIC GROWTH TARGET FOR 2004

The 8.0 percent growth target for 2004 rests on the conditions that private investment will expand by 20.0 percent and the value of exports increases by 15.0 percent, which is equivalent to monthly exports of 7,430 US dollar. Moreover, the government measures to support productivity improvement and the adjustment in the private sector will help enhance the production efficiency and utilize input of production more efficiently and thus depend less on import contents. The surplus of trade balance will be close to the baseline scenario. The improvement in exports and investment will eventually influence the employment condition, income, and expenditures. Therefore, under this scenario the constant-price private expenditure will increase by 5.9 percent; however, the inflationary pressure will increase and it is expected that inflation rate will be around 2.6 percent.

6. POLICY RECOMMENDATION

As the Thai economy accelerates, the government must place special attention on sound macroeconomic management in order to maintain economic stability. Price movements in all markets must be monitored and analyzed thoroughly and carefully to prevent the speculative bubbles and the economy from being overheated. The situation which would eventually undermine private consumption and investment.

Priorities must also be placed on poverty reduction, income distribution, and enhancing competitiveness in order to build strong foundation for sustainable growth in the long-run.

Surveillance systems should be installed in various important sectors e.g. the real estate sector in order to prevent speculations and bubbles in the real estate market. Key indicators must consist of demand, supply, and price components in every segment of the market including indicators reflecting speculative activities such as financial institutions' housing loans, the number of vacant houses, housing price over the rent or income, construction and real estate stock index and housing loans per applicant.

Monitoring system of the stock market must be put in place to monitor the performance of the market and to prevent speculative behavior and moral hazard behavior. The system should include the analysis on the relationship between the stock market performance and real sectors which underline the fundamentals of the stock market. Moreover, the analysis of household-spending behavior and household debt is crucial in preventing reckless spending behavior which could render the macroeconomy vulnerable.

Economic Projection for 2003-2004

	Preliminary		Projection 2003		Projection 2004	
	2001	2002	15	15	Trend	Target
			Sep. 03	Dec.03		
GDP (at current prices, Billion Baht)	5,133.8	5,451.9	5,868.0	5,904.4	6,465.3	6,542.0
GDP growth rate (at constant prices, %)	2.1	5.4	5.8-6.2	6.3	7.0	8.0
Investment (at constant prices, %)	1.2	6.5	9.1	9.6	13.1	15.4
Private (at constant prices, %)	4.9	13.2	16.0	16.5	17.0	20.0
Public (at constant prices, %)	-5.2	-5.8	-6.5	-6.0	2.2	2.2
Consumption (at constant prices, %)	3.8	4.6	4.7	4.7	5.3	5.5
Private (at constant prices, %)	3.9	4.9	5.8	5.7	5.7	5.9
Public (at constant prices, %)	2.8	2.5	-2.0	-1.2	2.8	2.8
Export (Billion US dollars)	63.2	66.9	75.0	77.6	88.5	89.2
Growth rate (%)	-6.9	5.7	12.1	16.0	14.0	15.0
Growth rate (Volume, %)	-5.6	11.3	8.5	10.0	9.0	10.0
Import (Billion US dollars)	60.7	63.4	71.3	72.6	83.5	84.2
Growth rate (%)	-2.8	4.6	12.4	14.5	15.0	16.0
Growth rate (Volume, %)	-6.3	11.1	7.0	8.0	9.0	10.0
Trade Account (Billion US dollars.)	2.5	3.5	3.7	5.0	5.0	5.0
Current Account (Billion US dollars.)	6.2	7.7	7.6	7.9	8.7	8.9
Current Account to GDP (%)	5.4	6.1	5.4	5.6	5.3	5.4
Inflation (%)						
Consumer Price Index (CPI)	1.6	0.7	1.9	1.9	2.4	2.6
GDP Deflator	2.2	0.7	2.0	2.0	2.5	2.8

Source: Office of the National Economic and Social Development Board, December 15, 2003