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January 12, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Thailand - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Thailand. A draft decision appears on page 25.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Schulz, ext. (5)7342.

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INTERNATIONAL MONETARY FUND

THAILAND

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the
1983 Article IV Consultation with Thailand

(In consultation with the Fiscal Affairs, Legal, and
Treasurer's Departments)

Approved by P. R. Narvekar and Donald K. Palmer

January 10, 1984

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I. Introduction

The 1983 Article IV consultation discussions with Thailand were held in Bangkok during October 21-November 7, 1983. A review of the stand-by arrangement took place at the same time.

The Thai delegation was headed by Mr. Chavalit Thanachanan, Assistant Governor of the Bank of Thailand, and included officials of the Bank of Thailand, the Ministry of Finance, and other Government agencies. The staff team also met with the Minister of Finance, the Governor of the Bank of Thailand, the Secretary-General of the National Economic and Social Development Board, and the Economic Advisor of the Prime Minister. The staff team consisted of Messrs. Douglas A. Scott (Head), Johann Schulz, and Ms. Francoise Le Gall (all ASD), Mr. Hema R. De Zoysa (FAD), Ms. Wanda S. Tseng (ETRD), and Mrs. Auriol M. Sahyoun (RES).

Thailand continues to avail itself of the transitional arrangements of Article XIV. However, Thailand maintains an exchange system that is free of restrictions on payments and transfers for current international transactions.

Thailand purchased the full amount of SDR 271.5 million (100 percent of quota) under the stand-by arrangement that was approved on November 17, 1982 and expired on December 31, 1983. All performance criteria, including those which had been modified in June 1983 (limits on net credit to Government and on total domestic credit, EBS/83/114; June 6, 1983) were observed.

As of December 31, 1983, Fund holdings of Thai baht, subject to repurchase, stood at 224 percent of Thailand's quota. Excluding holdings under the compensatory and buffer stock financing facilities, Fund holdings subject to repurchase amounted to 161 percent of quota. Further information on Thailand's relations with the Fund is presented in Appendix II.

II. Economic Background

1. Economic trends and adjustment policies, 1976-82

The Thai economy began to weaken in the second half of the 1970s despite strong growth in output. The major areas of weakness were increased investment by both the private and public sectors without a concomitant increase in savings; a sharply widening current account deficit, averaging 5.2 percent of GDP between 1976 and 1979 (Appendix Table I and Chart 1); intensifying inflationary pressures fueled by higher oil prices and excess demand; an accommodating monetary policy stance; and, in the last years of the decade, escalating wage increases.

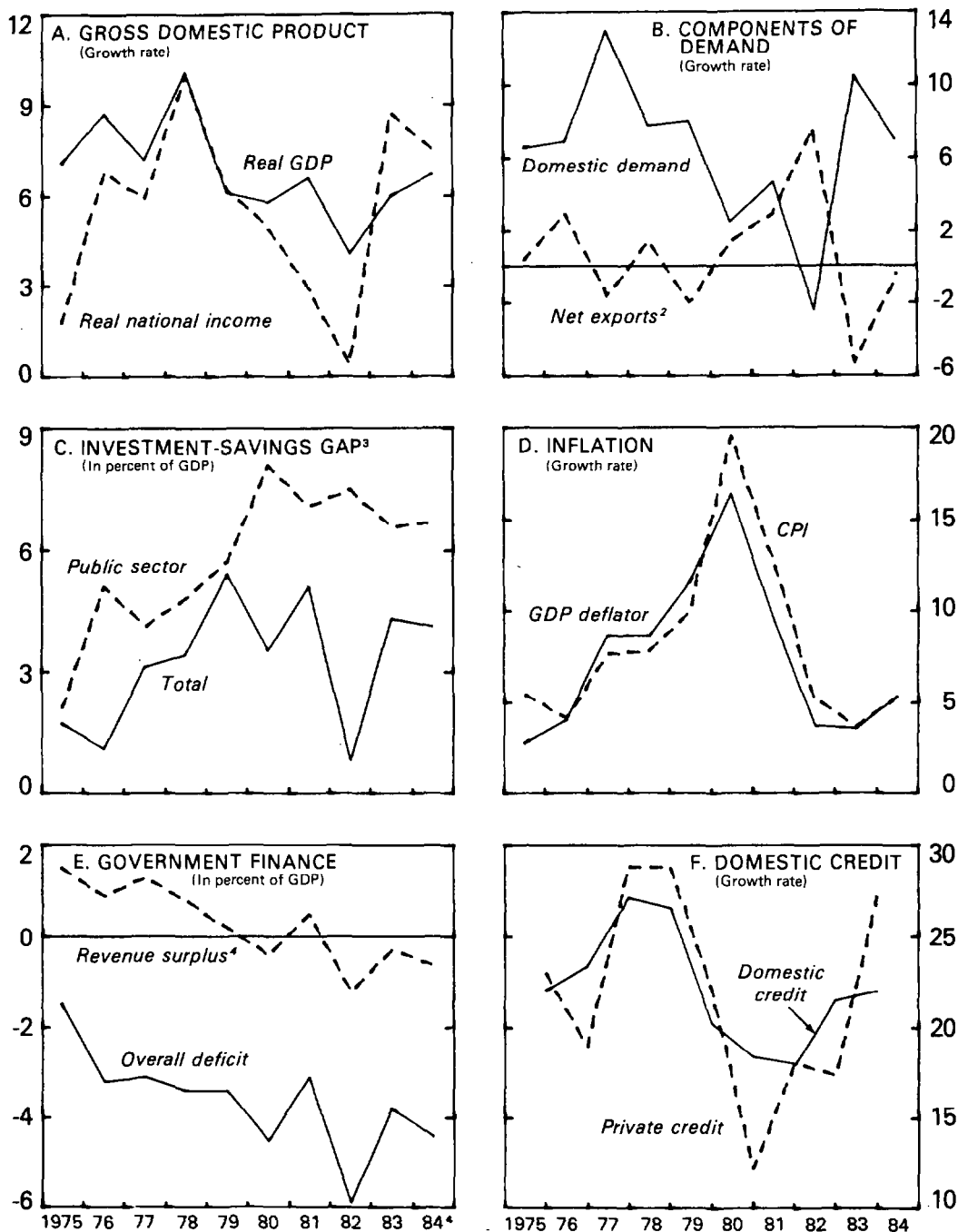
The investment-savings gap in the public sector was associated with a pronounced rise in public capital formation, not only in the major energy-related areas of natural gas development and electric power generation and distribution, but also in transportation infrastructure. However, neither tax revenues nor the internal cash flow of enterprises increased adequately; the ratio of tax revenues to GDP remained in the range of 12-13 percent of GDP and public enterprise self-financing averaged less than one third of capital expenditure.

Thailand had maintained a relatively small external debt and modest debt service burden through the mid-1970s, reflecting a relatively strong balance of payments. However, because of the growing deficit on external current account during 1976-79, the medium- and long-term external debt rose from \$1.4 billion to \$4.0 billion during the four years through 1979, and the net foreign liabilities of the commercial banks increased to a peak of about \$1.4 billion in September 1979. The structure of external debt also shifted, with a greater proportion being subject to floating interest rates. The rise in international interest rates during 1979 and 1980 became an additional source of pressure on the balance of payments.

Against this background, the authorities forged an adjustment strategy which was reflected in the Fifth National Economic and Social Development Plan (1981/82-1985/86). Key objectives of the Plan included restoration of domestic and external financial stability, and an improved quality of life, especially of the rural population. Implementation of the macroeconomic and structural adjustment policies has been supported since mid-1981 by stand-by arrangements with the Fund and, since early 1982, by structural adjustment loan programs with the World Bank.

The Plan did not anticipate the global economic recession from 1981 and the shifts in international capital markets that emerged after mid-1982. Developments in the external environment caused a large deterioration in the external terms of trade, contributed to rapid slowing of domestic inflation, and introduced unforeseen uncertainties in external capital markets. Largely as a consequence of these developments, the growth of economic activity and money incomes has been considerably below Plan expectations, with an immediate adverse impact on the growth of tax revenues. Public sector expenditure growth remained strong mainly due to the continued strong growth in expenditure on wages and salaries and a sharp rise in interest payments on government debt. As a consequence, public savings fell considerably short of Plan targets and the investment-savings gap in the public sector widened, averaging 7.6 percent of GDP during 1980-82. In contrast, private investment expenditure fell sharply in 1982 in the face of sluggishness in the economy and continuing high nominal and real interest rates; the excess of savings over investment in the private sector rose to almost 7 percent of GDP.

CHART 1
THAILAND
SELECTED ECONOMIC INDICATORS, 1975-84¹



Source: Data provided by the Thai authorities.

¹Projection in 1984.

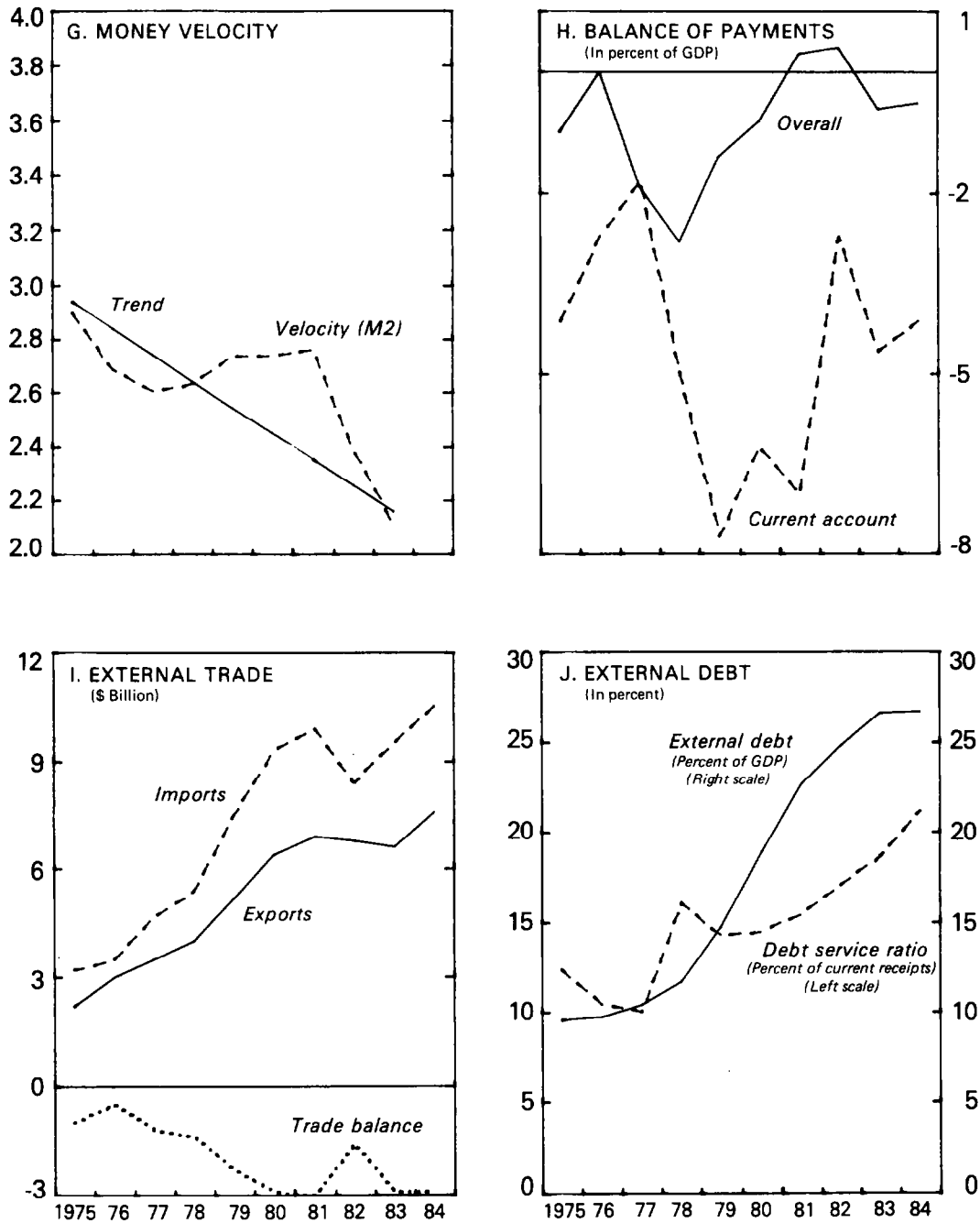
²Weighted percentage contribution to GDP growth.

³Savings exclude statistical discrepancy.

⁴Total revenue less current expenditure. Fiscal year ended September 30.



CHART 1 (continued)
THAILAND
SELECTED ECONOMIC INDICATORS, 1975-84¹





Strong growth in export volumes and sharply reduced growth in import volumes helped reduce the external current deficit to an average of 5.4 percent of GDP during 1980-82. The deficit would have declined further, except that sharply adverse movements in the external terms of trade, on average equivalent to 2 percent of GDP during this period, partly offset the gains from changes in trade volumes. Increased energy supplies from domestic sources, and the pronounced rise in domestic energy taxes and prices during 1979-81, ^{1/} contributed to a marked slowing of energy consumption, and oil imports after 1980. Total expenditure on petroleum imports reached \$2.9 billion in 1980, equivalent to 31 percent of total imports, but subsequently declined to \$2.6 billion in 1982.

Thailand's medium- and long-term external debt rose to \$9.3 billion at the end of 1982, equivalent to 25 percent of GDP. Short-term debt, including the gross foreign liabilities of commercial banks, increased from \$2.2 billion at the end of 1979 to \$2.9 billion at the end of 1982, but as a share of total debt declined by 12 percentage points to 24 percent during that period.

2. Developments in 1983 and review of the stand-by program

The key short-term objective of the stand-by arrangement approved on November 17, 1982 was to contain the growth in the external deficit while enabling investment and economic activity to return to more normal levels. The program aimed at limiting the external current account deficit in 1983 to \$2 billion (4.7 percent of GDP) and inflation to 6 percent (Table 1). These targets were to be achieved mainly by reducing the fiscal deficit to B 35 billion (3.5 percent of GDP) during 1982/83 and limiting domestic credit expansion to 18 percent during the year ended September 1983. These objectives were considered consistent with the medium-term strategy which was to reduce the current account deficit to about 2.5 percent of GDP by 1986. This adjustment path envisaged the achievement of an overall surplus in 1985-86 of a magnitude sufficient to enable Thailand to effect repurchases from the Fund without undue reliance on commercial borrowing and to permit an increase in official reserves. The debt service ratio (on medium- and long-term debt) was projected to remain at 17-18 percent during 1984-86.

Quantitative performance criteria and program targets were modified in June 1983 to reflect the altered economic outlook, viz., a larger-than-programmed fiscal deficit, due to weakness in economic activity and tax collections, and a somewhat more pronounced growth in domestic credit associated with the process of absorption of the informal financial markets into the banking system. Ceilings on total domestic credit and net credit to the Government were revised for the periods

^{1/} Tax revenue (excise tax and import duty) from domestic sales of petroleum products amounted to 18 percent of the c.i.f. value of all petroleum imports in 1978. This ratio averaged 20 percent during 1980-82.

Table 1. Thailand: Selected Economic Indicators and Macroeconomic Program Targets/Projections, 1981-84

	1981 Actual	1982 Actual	1983 1/ Targets/Projections			1984 Proj.
			Original	Rev. I	Rev. II	
<u>Growth and inflation (change in percent)</u>						
GDP (constant 1972 prices)	6.6	4.1	6.0	6.0	6.0	6.7
Total domestic demand (constant 1972 prices)	4.6	-2.4	8.5	8.9	10.4	7.0
Net exports 2/ (constant 1972 prices)	2.9	7.6	-2.4	-2.6	-5.3	0.4
GDP deflator	9.4	3.7	6.0	3.9	3.5	5.3
CPI (end-of-period)	12.3	2.6	6.0	3.6	4.8	5.2
<u>Domestic investment and savings</u>						
(Percent of GDP)						
Domestic savings 3/	21.7	20.3	(21.6)	21.1	20.7	21.5
Of which: Public sector	(1.4)	(1.0)	(1.2)	(1.9)4/	(1.6)	(1.7)
Domestic investment	26.7	21.2	25.6	24.0	25.0	25.4
Of which: Public sector	(8.4)	(8.6)	(9.5)	(8.4)	(8.2)	(8.4)
Total resource gap	5.0	0.8	4.0	2.9	4.3	3.9
Of which: Public sector	(7.0)	(7.5)	(8.3)	(6.5)	(6.6)	(6.7)
<u>Government finance (billions of baht) 5/</u>						
Budget deficit	-25.0	-51.2	-35.0	-42.7	-36.3	-46.5
Of which: Total revenue (excl.grants)	112.3	113.8	143.6	137.6	138.5	150.0
Total expenditure	-141.2	-167.6	-183.1	-184.4	-178.9	-200.7
(Percent of GDP)						
Budget deficit	3.1	5.9	3.5	4.5	3.8	4.4
Of which: Total revenue (excl.grants)	14.0	13.2	14.4	14.4	14.7	14.1
Total expenditure	17.6	19.4	18.4	19.3	18.9	18.9
<u>Money and credit (change in percent) 6/</u>						
Money (M2)	15.6	24.0	16.7	24.8	25.2	...
Domestic credit	18.0	21.4	18.2	22.9	22.6	...
Of which: Government (net)	(17.8)	(30.5)	(20.6)	(24.9)	(14.2)	...
Private sector	(18.0)	(17.4)	(17.1)	(21.9)	(26.6)	...
Velocity GDP/M2	2.54	2.21	2.27	2.00	1.96	...
Nominal interest rate 7/ (Percent per annum)	13.0	11.5	...	10.5	12.5 8/	...
<u>Balance of payments (bn. US\$)</u>						
Exports, f.o.b.	6.9	6.8	8.1	7.0	6.6	7.6
Imports, c.i.f.	-9.9	-8.4	-10.7	-9.4	-9.5	-10.5
Of which: Oil	(-3.0)	(-2.6)	(-2.7)	(-2.6)	(-2.4)	(-2.3)
Current Account deficit	-2.6	-1.0	-2.0	-1.6	-1.9	-1.9
(Percent of GDP)	(6.9)	(2.7)	(4.7)	(3.9)	(4.6)	(4.1)
Overall balance	--	0.1	-0.4	-0.1	-0.3	-0.2

Table 1. Thailand: Selected Economic Indicators and Macroeconomic Program Targets/Projections, 1981-84 (concluded)

	1981 Actual	1982 Actual	1983 1/ Targets/Projections			1984 Proj.
			Original	Rev. I	Rev. II	
<u>External trade</u> (change in percent)						
Export volume	14.8	16.4	3.4	-3.5	-7.4	7.2
Import volume	0.3	-13.7	9.9	11.0	21.3	8.0
Of which: Oil	(-9.8)	(-12.1)	(-0.3)	(10.7)	(4.5)	(-0.4)
Terms-of-trade	-14.5	-15.8	4.3	4.6	12.5	4.2
<u>Exchange rate</u> (change in percent)						
Nominal effective rate 9/	-2.4	12.6	...	...	8.6	...
Real effective rate 9/	-1.1	8.0	...	...	6.2	...
<u>External debt</u> (end-of-year stock)						
Medium- and long-term, nonmonetary (bn. \$)	7.6	8.6	10.9	...	10.1	11.5
Short-term, nonmonetary (bn. \$)	1.6	1.7	...	...	1.3	1.1
Total (percent of GDP)	30.2	32.6	22.9	11/	33.3	32.8
Debt service (bn. \$) 10/	1.7	1.9	1.9	11/	2.0	2.5
(Percent of current earnings) 10/	18.4	20.2	17.6	11/	20.5	23.2
Monetary liabilities (bn. \$) 12/	1.9	1.8	...	...	2.3	2.3
<u>Gross official reserves</u> (end-of-period)						
(In billions of U.S. dollars)	2.7	2.7	...	...	2.5	13/
Of which: Gold (at London market prices)	(1.0)	(1.1)	...	...	(0.9)	13/
In month's of next year's imports	3.8	3.4	...	...	2.9	...

Sources: Bank of Thailand; and staff estimates.

1/ Original estimates are based on data estimated during the 1982 Article IV consultation in August 1982, Revision I on data estimated during the April 1983 review mission (EBS/83/114, June 6, 1983) and Revision II on data estimated during the 1983 Article IV consultation in October/November 1983.

2/ Weighted contribution of growth in net exports of goods and services to real GDP growth.

3/ Excludes statistical discrepancy.

4/ Due to revision in methodology, data are not strictly comparable.

5/ Fiscal year ending September 30.

6/ In the 1983 column: 12-month period ending September in 1983.

7/ One-year time deposits.

8/ Raised to 11.5 percent in September and 12.5-13.0 percent in December 1983.

9/ Percentage change of trade-weighted indices. Annual data are comparison of fourth quarter averages. Minus sign indicates depreciation. Change in 1983 refers to first nine months.

10/ Including interest on short-term debt and repurchases and charges to IMF.

11/ Medium- and long-term debt.

12/ Including use of Fund credit and commercial banks' gross foreign liabilities.

13/ December 1983.

April-June and June-September as indicated in Table 2. In view of the weaker-than-envisaged private sector demand and the partly temporary and reversible nature of the revenue shortfall, the modification of performance criteria was viewed to be compatible with the achievement of the balance of payments and inflation objectives of the original program. Also, the effective exchange rate of the baht had not deviated appreciably from the level prevailing at the time of the negotiation of the original program. Hence, the revised program targets envisaged an external current account deficit of \$1.6 billion (3.9 percent of GDP), inflation at 4 percent with a somewhat larger budget deficit of B 43 billion (4.5 percent of GDP), and a rate of domestic credit expansion of 23 percent.

All performance criteria have been observed. In retrospect, a better fiscal outturn through September, largely due to transient factors including additional revenue from the restructuring of liquor concessions and from the Oil Fund, and a larger carryover of expenditure, caused net credit to the Government to be smaller than expected. This was sufficient to accommodate within the total credit ceiling a much stronger-than-anticipated growth in private credit demand after mid-year. Indications at the time of the discussions pointed to a larger deficit on external current account and overall deficit than the revised targets, and in the absence of adequate policy adjustments, a less favorable medium-term outlook.

Developments during 1983 were marked by a considerably stronger-than-expected recovery in economic activity underpinned by sharply rebounding growth in real income and domestic demand. A marked improvement in the external terms of trade and further abatement of domestic inflation boosted real income growth from less than 1 percent in 1982 to almost 9 percent in 1983; domestic demand rose by more than 10 percent. The strongest element of the expansion was in private business investment, which, including the increase in stocks, is estimated to have risen by somewhat more than 40 percent over the depressed level of 1982. To a lesser extent, growth in public sector spending also accelerated. The strong growth in domestic demand, combined with a decline in import prices, induced a sharp expansion in import volume. Reflecting a decline in the volume of major exports, the contribution of net exports to output growth turned negative, and real GDP increased at a significantly lower rate (6 percent) than aggregate domestic demand. The widening imbalance between domestic demand and output was most pronounced in the private sector where the excess of savings over investment fell to only 2.3 percent of GDP. The decline of the savings surplus in the private sector was not matched by a commensurate reduction in the excess of public investment over savings, with the consequence that pressure on the balance of payments intensified.

Table 2. Thailand: Program Limits and Performance,
October 1982-September 1983

	1982		1983				
	Oct.	Dec.	March	June	July	Aug.	Sept.
(In billions of baht)							
Total domestic credit							
Ceiling							
Original	454.0	454.0	478.0	487.0	503.0	503.0	503.0
Modified				498.8	519.8	519.8	519.8
Actual	429.0	454.9	481.7	495.3	498.3	505.0	518.8
Net credit to Government							
Ceiling							
Original	151.1	151.1	158.2	155.7	166.5	166.5	166.5
Modified					168.0	168.0	168.0
Actual	138.3	149.2	159.2	152.1	151.3	150.5	153.6
(In millions of U.S. dollars)							
New external borrowing contracted and/or guaranteed by the Government (cumulative)							
1-12 years maturity							
Ceiling	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Actual	1	82	104	135	197	257	333
Of which:							
1-5 years maturity							
Ceiling	200	200	200	200	200	200	200
Actual	--	40	40	40	40	40	40

Source: Data provided by the Thai authorities.

The rate of inflation remained in the range of 2 percent to 4 percent per annum during 1983, mainly due to a decline in import prices and the appreciation of the effective exchange rate. Wage policies, as reflected in annual adjustments of daily minimum wages, have continued to aim at moderating real wage increases compared to the sharp increases experienced during the period 1978-81. Minimum wage increases implemented in October 1983 ranged from 3 percent in the Bangkok area to 8 percent in other less industrially developed provinces.

Fiscal policy for 1982/83 aimed at a reduction in the overall deficit to accommodate an expected moderate recovery in private sector demand. This was to be achieved in part by enhancing revenue through new tax measures and improved tax administration and partly by restraining expenditure growth. At B 36 billion (3.8 percent of GDP), the realized fiscal deficit came close to the original target of B 35 billion (3.5 percent of GDP) and was substantially below the 1981/82 budget deficit of B 51 billion (5.9 percent of GDP) (Table 3). Due to greater financing from foreign and nonbank domestic sources, financing of the deficit from the banking system, at B 21 billion (2.2 percent of GDP), was somewhat less than initially forecast. Commercial banks and the Government Savings Bank provided the largest part of financing from the excess liquidity that developed in the banking system through mid-year.

Total revenue and grants increased by 22 percent in the fiscal year 1982/83 to B 138.5 billion, but were still below budgeted levels. Significant shortfalls were recorded in collections of taxes on international trade, mainly import duties, and corporate income and business taxes, reflecting the delayed effect of weaker-than-expected growth in the previous year and lower inflation. Restructuring of the liquor distillery concessions yielded revenues of B 5 billion, almost twice the initial forecast. In addition, there was a transfer of B 1.9 billion from Oil Fund surpluses and B 2.0 billion from other extrabudgetary sources. The Oil Fund ^{1/} moved into surplus in the latter part of 1983, because the reduction in the domestic prices of oil products earlier in the year was considerably less than the decline in the price of imported oil. However, a second reduction in domestic oil prices in December 1983 is expected to reduce the surplus of the Oil Fund from B 500 million per month to about B 240 million.

Total expenditure fell somewhat short of original budget expectations. The Thai authorities indicated that a principal reason for this unexpected development was the slowing of disbursements in the period after elections in April. In the subsequent months projects and programs were reviewed in several ministries. Also, the official

^{1/} The Oil Fund functions as an instrument of cross-subsidization of prices for oil products in the domestic retail market. A surplus or loss arises from the difference between retail prices and the sum of exrefinery prices, marketing margins, and taxes.

Table 3. Thailand: Central Government Budgetary
Operations, 1980/81-1983/84

(In billions of baht)

	1980/81	1981/82	1982/83		1983/84
			Estimate	Provisional actual	Estimate <u>1/</u>
Total revenue and grants	<u>116.2</u>	<u>116.4</u>	<u>148.1</u>	<u>142.6</u>	<u>154.2</u>
Total revenue	<u>112.3</u>	<u>113.8</u>	<u>143.6</u>	<u>138.5</u>	<u>150.0</u>
Tax	(98.1)	(101.5)	(126.3)	(115.2)	(133.1)
Nontax	(14.2)	(12.3)	(17.3)	(23.3)	(16.9)
Grants	3.9	2.6	4.5	4.1	4.2
Total expenditure	<u>141.2</u>	<u>167.6</u>	<u>183.1</u>	<u>178.9</u>	<u>200.7</u>
Current	<u>108.9</u>	<u>124.3</u>	<u>141.7</u>	<u>140.4</u>	<u>156.4</u>
Capital	32.3	43.3	40.4	38.5	44.3
Other <u>2/</u>	--	--	1.0	--	--
Overall deficit (-)	<u>-25.0</u>	<u>-51.2</u>	<u>-35.0</u>	<u>-36.3</u>	<u>-46.5</u>
Financing (net)					
External	5.6	10.3	5.8	9.4	7.4
Domestic	19.4	40.9	29.2	26.9	39.1
Banking system <u>3/</u>	(18.2)	(34.2)	(24.0)	(21.1)	(33.9)
Nonbank public	(1.2)	(6.7)	(5.2)	(5.8)	(5.2)

Memorandum items:

(As percent of GDP)

Total revenue and grants	<u>14.5</u>	<u>13.5</u>	<u>14.9</u>	<u>15.1</u>	<u>14.5</u>
Total revenue	<u>14.0</u>	<u>13.2</u>	<u>14.4</u>	<u>14.7</u>	<u>14.1</u>
Tax	(12.2)	(11.8)	(12.7)	(12.2)	(12.5)
Nontax	(1.8)	(1.4)	(1.7)	(2.5)	(1.6)
Total expenditure	17.6	19.4	18.4	18.9	18.9
Current	13.6	14.4	14.2	14.8	14.7
Capital	4.0	5.0	4.2	4.1	4.2
Overall deficit (-)	<u>-3.1</u>	<u>-5.9</u>	<u>-3.5</u>	<u>-3.8</u>	<u>-4.4</u>
Financing (net)					
Domestic	2.4	4.7	2.9	2.8	3.7
Banking system	(2.3)	(4.0)	(2.4)	(2.2)	(3.2)

Source: Data provided by the Thai authorities.

1/ Excludes revenue measures of November 1983 and reductions in expenditure of which full details for classification are not available.

2/ Net transfers to extrabudgetary accounts.

3/ Includes Government Savings Bank (GSB). In the revised monetary statistics from 1984, this will appear as a nonbank financial institution and borrowing from GSB will be treated as from the nonbank public.

attitude toward carryover of expenditure authority was relatively relaxed, with the result that such carryover at September 30, 1983 rose by B 6 billion more than expected.

Monetary developments during 1983 were characterized by a rapid expansion of broad money and, after mid-year, by a much more rapid expansion in credit to the private sector. In particular, quasi-money rose sharply due to historically high real interest rates (Table 4). There was also a more rapid expansion in private credit than had been anticipated under the program. Initially, these developments were thought to be mainly attributable to the quickened absorption of informal financial markets into the banking system as there were no clear signs of a strong rebound in domestic demand or pressure on the balance of payments. Hence, credit ceilings were modified in June. However, since mid-year the rapid credit expansion by commercial banks has also been associated with a more rapid recovery in domestic demand and deterioration in the external current account.

Interest rates had shown only a small decline during the first half of 1983, but following intervention by the Bank of Thailand in the repurchase market, began to firm during the third quarter; the repurchase market rate rose by about 2 percentage points to 13 percent in September. The commercial banks' prime lending rate remained unchanged at 16 percent during the first half of 1983, dipped slightly to 15.5 percent in the third quarter, but rose to 16.5 percent in the last quarter.

Balance of payments developments during 1983 reflect the strong resurgence of domestic demand from mid-year, an improvement in the external terms of trade largely associated with weaker import prices, and a decline in the volume of exports. Notwithstanding a larger-than-projected improvement in the terms of trade, official estimates reviewed during the discussions indicated a widening of the current account deficit to \$1.9 billion from \$1.0 billion in 1982 (Table 5). This compares with the revised target of \$1.6 billion. The strong growth in imports reflected both increased economic activity and inventory demand. Exports declined in 1983 mainly because unfavorable weather had cut into the exportable surplus and also because the domestic demand for some manufactured goods was unusually strong. Exports were also less profitable due to the appreciation of the baht. Rice exports were expected to decline by 13 percent, reflecting primarily the exceptionally high level of shipments in 1982 and some delay on the part of buyers' orders. Weather and external quantitative restrictions contributed to reduced shipments and, hence, lower volumes of other primary exports, including maize, tapioca, and sugar. Growth in manufactured exports was also less than expected, reflecting shortage of raw materials, greater domestic consumption of exportables, and slower-than-expected growth in some export markets. Net receipts from services and transfers rose strongly because of increased remittances from Thai nationals working abroad and also because of an average decline in international interest rates.

Table 4. Thailand: Monetary Survey, 1981-83

(In billions of baht)

End of period	1981	1982		1983	
	Dec.	June	Sept.	Dec.	June Sept.
Foreign assets (net)	37.5	31.9	32.2	34.9	37.4 27.8
Of which: Monetary authority	(49.9)	(41.2)	(41.3)	(40.6)	(46.5) ...
Domestic credit	374.6	408.3	423.0	454.9	495.3 518.8
Claims on Government (net)	114.3	121.3	134.5	149.2	152.3 153.6
Claims on private sector	260.3	287.0	288.5	305.7	343.2 365.2
Broad money	314.9	344.1	357.2	390.5	434.5 447.5
Of which: Time and savings deposits	(244.0)	(274.8)	(287.4)	(314.0)	(358.6) (372.8)
Other items (net)	97.2	96.1	98.0	99.3	98.4 99.0
(Annual percentage changes) 1/					
Memorandum items:					
Domestic credit	18.0	16.4	19.1	21.4	21.3 22.6
Claims on Government (net)	17.8	22.8	30.5	30.5	25.4 14.2
Claims on private sector	18.0	13.9	14.4	17.4	19.6 26.6
Broad money	15.6	18.4	21.8	24.0	26.3 25.2
Of which: Time and savings deposits	(20.4)	(23.0)	(25.6)	(28.7)	(30.5) (29.7)
Prime lending rate	17.0	17.5	17.0	16.0	16.0 15.5
Repurchase market rate	12.3	17.3	11.3	10.0	11.3 12.5
LIBOR	13.3	15.5	11.8	9.5	9.7 9.8
Time deposit rate 2/	13.0	13.0	12.5	12.5	10.5 11.5
Rate of inflation 3/	12.3	5.1	4.1	2.6	3.7 4.8
Gross foreign liabilities of commercial banks (B bn.)	36.9	31.8	28.8	31.7	33.0 ...

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

1/ Except for interest rates and foreign liabilities of commercial banks.

2/ Interest rate on time deposits (12 months to less than 2 years) of commercial banks.

3/ Based on consumer price index for the whole Kingdom (end-of-period).

Table 5. Thailand: Balance of Payments, 1981-84

(In millions of U.S. dollars)

	1981	1982	1983		1984
			Revised Target	Estimate	Projec- tion
Merchandise trade balance	-3,022	-1,571	-2,413	-2,887	-2,861
Exports, f.o.b.	6,902	6,835	7,022	6,609	7,609
Imports, c.i.f.	-9,924	-8,406	-9,435	-9,496	-10,470
Of which: oil	(-2,984)	(-2,642)	(-2,591)	(-2,435)	(-2,322)
Services and transfers (net)	453	565	774	1,008	970
Of which: Interest payments	(-1,026)	(-1,083)	(-1,150)	(-1,029)	(-1,188)
Current account balance	-2,569	-1,006	-1,639	-1,879	-1,891
Nonmonetary capital (net)	2,487	1,667	1,431	1,356	1,682
Private sector	923	751	522	577	783
State enterprises	1,201	586	491	444	487
Central government	363	330	418	335	412
Errors and omissions	39	-531	77	271	--
Allocation of SDRs	23	--	--	--	--
Overall balance	-20	130	-131	-252	-209
Monetary movements	20	-130	131	252	209
Commercial banks	-332	-320	--	...	...
Monetary authorities	352	190	131	...	...
Of which: Use of Fund resources (net)	(524)	(-3)	(...)	(205)	(-60)
Memorandum items:					
Growth in volume of exports (percent)	13.8	16.4	5.0	-7.4	7.2
Growth in volume of non- oil imports (percent)	6.4	-14.3	13.1	28.6	10.2

Source: Data supplied by the Thai authorities.

In reviewing developments in the current account during 1983, the Thai authorities indicated that imports could be higher than estimated because of uncertainties associated with rebuilding of inventories and the exchange rate. Also, heavy rains and prolonged flooding in central Thailand could adversely affect export prospects during the fourth quarter. Consequently, they indicated that the current account deficit might widen to as much as \$2.3 billion during the year.

It was expected that capital inflows by the private sector and public enterprises in 1983 would be lower by about \$300 million than in 1982. This development reflected partly the policy to reduce external borrowing by public enterprises and, partly, a narrowing in the interest rate differential and the relatively high degree of liquidity in the domestic banking system through mid-year. It was expected that the overall deficit would be in the range of \$0.3 billion to \$0.6 billion, the latter reflecting the more pessimistic view of prospective current account developments. The burden of financing the overall deficit was expected to fall both on the monetary authority, including \$0.2 billion net use of Fund resources, and the commercial banks.

Total external debt was estimated to increase to \$13.7 billion, of which 80 percent was medium- and long-term (Table 6). Total short-term debt, including gross foreign liabilities of commercial banks, amounted to \$2.9 billion at the end of 1982 and was expected to decline slightly to \$2.7 billion. Total debt service payments were expected to show little increase over the level of 1982, largely because of the lower average interest rate for the year as a whole. Consequently, the burden of total debt servicing, including obligations to the IMF, increased by less than 0.5 percent to 20.5 percent of gross current receipts.

Since July 1981, the value of the baht has been unchanged with respect to the U.S. dollar (B 23.0 = US\$1). Reflecting mainly the strengthening of the U.S. dollar during this period, the trade-weighted effective exchange rate index for the baht appreciated by 13 percent; the price adjusted real effective exchange rate index showed a strengthening of 9 percent (Chart 2). However, in each case, the export-weighted index showed a somewhat greater degree of appreciation. Over a longer period (since 1976-78), the trade-weighted and export-weighted real effective exchange rate indices of the baht have strengthened by 17 percent and 22 percent, respectively, reflecting principally a pronounced strengthening of the U.S. dollar.

Table 6. Thailand: External Debt Projections, 1982-87 ^{1/}

(In millions of U.S. dollars)

	1982	1983	1984	1985	1986	1987
Total outstanding debt (end-of-period)	<u>12,150</u>	<u>13,704</u>	<u>15,168</u>	<u>16,783</u>	<u>18,396</u>	<u>19,887</u>
Medium- and long- term debt, of which:						
Public sector	<u>9,267</u>	<u>10,962</u>	<u>12,378</u>	<u>13,681</u>	<u>15,074</u>	<u>16,574</u>
Of which: IMF ^{2/}	<u>6,904</u>	<u>7,943</u>	<u>8,821</u>	<u>9,694</u>	<u>10,659</u>	<u>11,719</u>
Private sector	<u>846</u>	<u>1,053</u>	<u>979</u>	<u>722</u>	<u>447</u>	<u>247</u>
Short-term debt	<u>2,317</u>	<u>2,909</u>	<u>3,447</u>	<u>3,877</u>	<u>4,305</u>	<u>4,745</u>
Gross disbursements	<u>2,883</u>	<u>2,742</u>	<u>2,790</u>	<u>3,102</u>	<u>3,322</u>	<u>3,313</u>
Of which:						
Public sector ^{3/}	<u>2,085</u>	<u>2,962</u>	<u>2,969</u>	<u>3,329</u>	<u>3,416</u>	<u>3,358</u>
Private sector ^{3/}	<u>1,420</u>	<u>1,535</u>	<u>1,452</u>	<u>1,690</u>	<u>1,840</u>	<u>1,950</u>
Amortization ^{3/}	<u>707</u>	<u>1,145</u>	<u>1,246</u>	<u>1,262</u>	<u>1,278</u>	<u>1,306</u>
Public sector	<u>842</u>	<u>955</u>	<u>1,283</u>	<u>1,649</u>	<u>1,725</u>	<u>1,756</u>
Of which: IMF	<u>353</u>	<u>402</u>	<u>575</u>	<u>817</u>	<u>875</u>	<u>890</u>
Private sector	<u>38</u>	<u>42</u>	<u>75</u>	<u>257</u>	<u>275</u>	<u>200</u>
Interest ^{4/}	<u>489</u>	<u>553</u>	<u>708</u>	<u>832</u>	<u>850</u>	<u>866</u>
Medium- and long- term debt	<u>1,073</u>	<u>1,037</u>	<u>1,256</u>	<u>1,432</u>	<u>1,598</u>	<u>1,745</u>
Public sector	<u>781</u>	<u>845</u>	<u>1,034</u>	<u>1,188</u>	<u>1,320</u>	<u>1,449</u>
Of which: IMF	<u>561</u>	<u>568</u>	<u>662</u>	<u>758</u>	<u>841</u>	<u>925</u>
Private sector	<u>57</u>	<u>58</u>	<u>72</u>	<u>68</u>	<u>51</u>	<u>35</u>
Short-term debt	<u>220</u>	<u>277</u>	<u>372</u>	<u>430</u>	<u>479</u>	<u>524</u>
Short-term debt	<u>292</u>	<u>192</u>	<u>222</u>	<u>244</u>	<u>278</u>	<u>296</u>
Memorandum items:						
Current account						
Receipts ^{5/}	<u>9,501</u>	<u>9,701</u>	<u>10,924</u>	<u>12,399</u>	<u>14,073</u>	<u>15,973</u>
Balance	<u>-1,006</u>	<u>-1,879</u>	<u>-1,891</u>	<u>-2,015</u>	<u>-2,023</u>	<u>-1,902</u>
Overall balance	<u>130</u>	<u>-252</u>	<u>-209</u>	<u>-120</u>	<u>-23</u>	<u>98</u>
Ratios to GDP (in percent)						
Medium- and long-term debt	<u>24.9</u>	<u>26.6</u>	<u>26.7</u>	<u>26.5</u>	<u>26.1</u>	<u>26.1</u>
Public	<u>(18.4)</u>	<u>(19.3)</u>	<u>(19.1)</u>	<u>(18.7)</u>	<u>(18.4)</u>	<u>(18.5)</u>
Private	<u>(6.5)</u>	<u>(7.3)</u>	<u>(7.6)</u>	<u>(7.8)</u>	<u>(7.7)</u>	<u>(7.6)</u>
Short-term debt	<u>7.7</u>	<u>6.7</u>	<u>6.0</u>	<u>6.0</u>	<u>5.7</u>	<u>5.2</u>
Ratios to current account receipts (in percent)						
Total debt service	<u>20.2</u>	<u>20.5</u>	<u>23.2</u>	<u>24.8</u>	<u>23.6</u>	<u>21.9</u>
Medium- and long-term debt service	<u>17.1</u>	<u>18.6</u>	<u>21.2</u>	<u>22.9</u>	<u>21.6</u>	<u>20.1</u>
Of which: Public sector	<u>(9.6)</u>	<u>(10.0)</u>	<u>(11.3)</u>	<u>(12.7)</u>	<u>(12.2)</u>	<u>(11.4)</u>

Sources: Data provided by the Bank of Thailand; and staff estimates.

^{1/} Includes borrowing requirement to finance overall deficit and repurchases to the Fund in 1984-86 assuming no change in gross official reserves.

^{2/} Including Trust Fund and use of Fund credit under stand-by arrangements, compensatory financing and buffer stock financing facilities.

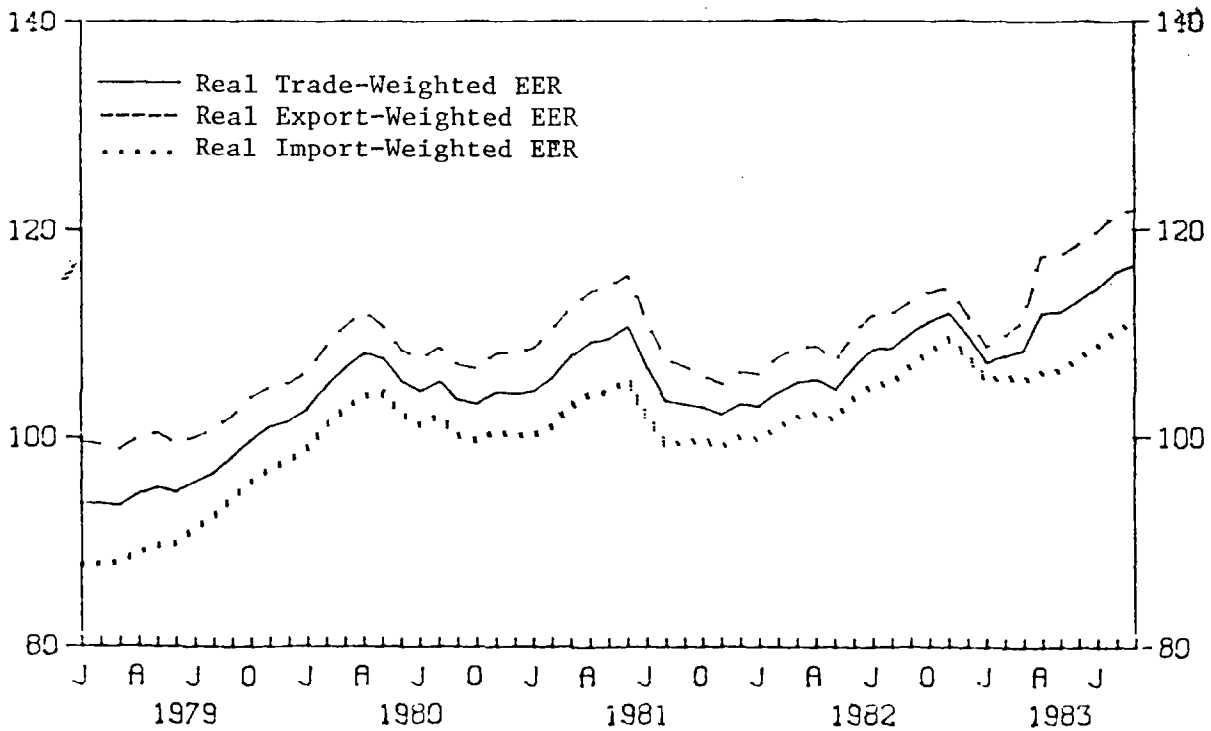
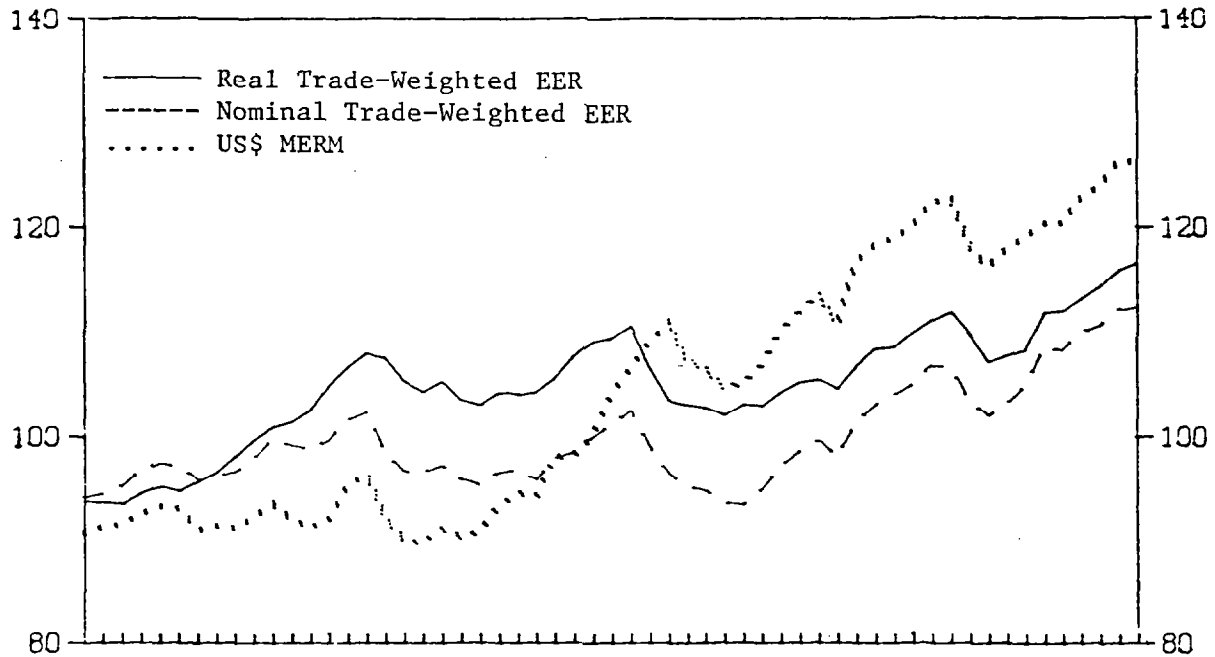
^{3/} Medium- and long-term (original maturity one-year and over).

^{4/} The average interest rate on medium- and long-term public sector debt (other than to the IMF) is assumed to be 8.4 percent in 1983 and 8.7 percent in 1984-87; that on private debt is assumed to be 10 percent in 1983 and 11 percent in 1984-87. The interest rate on short-term debt, including new borrowings, is assumed to be 10 percent in 1983-87.

^{5/} Excluding official transfers.

Chart 2

THAILAND: INDICES OF EFFECTIVE EXCHANGE RATES (EER) 1/
(1976-78 = 100)



1/ A DECLINE IN THE INDEX REFLECTS A DEPRECIATION OF THE EXCHANGE RATE



III. Report on Discussions--Economic Prospects and Policies for 1984 and Medium-Term Outlook 1/

The discussions took place against the background of a strong recovery in domestic demand and a larger-than-expected deterioration in the balance of payments. Therefore, attention was concentrated on assessing key policy responses that could contribute to restraining demand and to containing the deterioration in the balance of payments and external debt position, both in the short- and medium-term.

The external trade and current account balances in 1984, assuming no major changes in economic policies, were expected to be at about the levels estimated for 1983, i.e., \$2.9 billion and \$1.9 billion, respectively. Export volumes for primary commodities were expected to rise above the levels in 1983, and the growth of imports was expected to slow appreciably. Little change was expected in net receipts from services and transfers, as higher external interest payments were expected to be offset by higher earnings from tourism and a small increase in worker's remittances. Net nonmonetary capital inflows were forecast to be somewhat higher; however, this masks a rise of more than \$300 million in amortization payments which must be offset by increased new gross borrowings. The overall balance was expected to be in deficit by about \$200 million.

1. External policies

The discussion of external policies reflected the less favorable revised outlook for evolution of the balance of payments over the medium term and the associated growth in external debt and the burden of its servicing; the debt service ratio, including interest on short-term debt and obligations to the Fund, was projected to increase to about 25 percent in 1985 and 1986. This increase from 21 percent in 1983 partly reflected repayment of Trust Fund loans and repurchases to the Fund aggregating \$270 million annually in 1985 and 1986. The principal areas of concern were the disappointing export performance and somewhat less favorable medium-term prospects; the stance of demand management policies in light of the strong upturn in domestic demand; and the prospects for adequate external financing on favorable terms, considering in particular the burden of obligations due to the Fund in 1985 and 1986.

The Thai representatives stressed that a key objective of structural adjustment policies was to create greater incentives for export production and reduce exceptional protection for domestically-oriented

^{1/} The data presented in this paper reflect the outlook and statistics used during the discussions in Bangkok. Subsequently, the authorities have made important adjustments in fiscal and monetary policies which, although noted in this report, have not been reflected in quantitative revisions to the economic outlook.

investment and production. In pursuit of these goals, most of the burden of fiscal levies on exports had been eliminated or sharply curtailed. The aggregate levies on rice exports had fallen from 30 percent of the f.o.b. price in 1981 to 5 percent in 1983. In mid-1982 the levies on rubber exports had been reduced and, more recently, major reductions in the tin mining royalty and export tax on wood products had been made. In early 1983, criteria for approving investment projects and granting promotion privileges were codified. Restructuring of production incentives continued by reductions in import tariffs and business taxes on electrical and electronic goods and lowering of the local content requirement for passenger cars.

The staff representatives noted that a longer retrospective view of Thailand's export performance indicated that the period of most rapid growth was during 1970-78 when the annual rate averaged 25 percent. The early years of this period had been characterized by favorable price developments, and then from 1974-78, by very large increases in the volume of exports. This period had also been one of prolonged weakness in the U.S. dollar, to which the baht had been effectively pegged. The subsequent years had seen a considerable slowing in export growth, influenced substantially by the downturn in external demand after 1980. It was also a period during which the U.S. dollar had strengthened appreciably; the staff calculations of a real effective exchange rate index for the baht over the average for the period 1976-78 through September 1983 indicated an appreciation of 17 percent and 22 percent on a trade-weighted and export-weighted basis, respectively. Taking into consideration the trend of rising real wages during 1978-82 in Thailand, these developments would indicate an erosion in the relative profitability of Thai exporters, except perhaps in those areas where important reductions in export taxes and levies had been made.

The Thai representatives indicated that a strong export sector and an export-led growth strategy remained fundamental objectives of the Fifth Plan. They considered that a strengthening of demand management policies, both fiscal and monetary, was essential, and adjustments in these areas were being planned. However, exchange rate policy was also being kept under close review, taking into account factors bearing on the competitiveness of Thai exports and developments in the balance of payments.

The medium-term outlook for the balance of payments and external debt was a source of concern. The projected current account deficit of \$2 billion through the period 1986-87 would be somewhat larger than the medium-term objective of about 2.5 percent of GDP (\$1.4 billion) by 1986. This partly reflected the more pronounced slowing in domestic inflation associated with external conditions. However, export demand was now forecast to be less buoyant and, consequently, the burden of debt servicing was projected to be about 24-25 percent during 1984-86; servicing of medium- and long-term debt would be in the range of 21-23 percent.

The medium-term outlook, indicating a cumulative overall payments deficit of \$350 million in 1984-86, would mean that the banking system would have to mobilize this degree of net financing; in addition, maturing obligations of the Bank of Thailand to the Fund would have to be refinanced. The Thai representatives indicated that it was their aim to maintain gross official reserves at about the present level of \$2.6 billion with the foreign exchange component at about \$1.6 billion. Thus, financing for the overall payments deficit and repurchases to the Fund would require additional borrowing of \$1 billion in 1984-86. Unutilized revolving credits are available to meet a substantial part of that expected requirement. However, the Thai representatives observed that such a use would mark the first prolonged recourse to commercial credit markets by the Bank of Thailand, and there was some concern that this could have an adverse impact on the terms available to Thai borrowers. Although net short-term financing of \$300 million by commercial banks for the period would not pose an undue problem, the Thai representatives noted that such liabilities, on a gross basis, had been reduced to \$1.0 billion through December 1982. In general, it was the authorities' aim to keep such short-term obligations to a minimum consistent with normal commercial practice and neither rely on such funds for general balance of payments financing nor use them as a means to augment the liquidity of the commercial banks.

2. Fiscal policy

In framing the budget for 1983/84, the authorities had aimed at limiting the overall deficit to about B 32 billion or 3 percent of GDP. However, based on the budget presented to Parliament for 1983/84, cash expenditures were likely to grow by 12 percent to B 201 billion partly reflecting a larger than previously estimated disbursement from expenditures obligated in 1982/83 but carried over into 1983/84. On the basis of a more realistic outlook on collections from mineral royalties and petroleum product excises and from the corporation income tax and business tax, total tax and nontax revenue before taking into account new tax measures, were not likely to exceed B 150 billion. Consequently, after taking account of external grants, the overall deficit could reach B 46.5 billion, or 4.4 percent of GDP in FY 1983/84. With financing from external sources and from nonbank sources totalling about B 13 billion, borrowing from the banking system would be B 34 billion (3.2 percent of GDP), much higher than the B 21 billion (2.2 percent of GDP) of bank financing in 1982/83. The staff representatives indicated that this magnitude of fiscal deficit and expected degree of financing from the banking system were inconsistent with the need to moderate domestic demand pressures and strengthen the balance of payments.

The authorities recognized the adverse economic and financial implications of such an expansionary budget at a time of buoyant private demand. It had been their aim to introduce a new package of revenue measures totalling B 6 billion as early as April 1983. However, this had not materialized because of the change in the Cabinet and the subsequent attention to the preparation and presentation of the 1983/84 budget. They were generally in agreement with the staff's assessment of the likely yield of revenues in 1983/84, although they hoped that programs to improve tax administration could produce somewhat more growth in revenue than indicated by the staff.

The authorities introduced a new revenue package at the end of November 1983, which, together with expenditure cuts, is expected to reduce the overall budget deficit by about B 10 billion (1 percent of GDP) to B 36-37 billion (3.5 percent of GDP). The new revenue package is estimated to raise additional revenue of B 6 billion, mainly from increases in business and petroleum product taxes and fees, and from adjustment in other taxes and fees, including a new exit travel tax for Thai residents, import duties, property tax, rental on government property, and liquor excises. ^{1/} In addition, the authorities are hopeful that B 2 billion in revenues can be obtained from intensifying efforts to improve tax administration; this amount has not been included in the above estimate of B 6 billion. Also, the Ministry of Finance has authorized cutbacks of about B 4 billion in unobligated expenditures carried over from the previous year.

In accordance with their medium-term fiscal strategy, the authorities indicated that vigorous efforts will continue toward strengthening tax administration and collection procedures. After reorganizing the Revenue Department along functional lines, and with the successful establishment of eight district tax offices in Bangkok, systematic programs have been launched in each district tax office to canvass potential taxpayers and to expand further the tax base in regard to personal income tax, corporation income tax, and the business tax. The Government is also giving active consideration to setting up 6 or 7 more district tax offices in Bangkok and to extending the decentralization of tax administration to the provinces. Supported by Fund technical assistance, efforts also continue to: (1) expand the tax base through improvement in the taxpayer identification system; (2) computerize further a master tax file for the processing of returns and feedback of essential data to district tax offices; (3) strengthen tax audit management; and (4) rationalize excise tax laws and improve excise collection procedures. The program has also incorporated close monitoring of implementation through systematic reports that are reviewed frequently by senior officers of the Revenue Department and Ministry of Finance.

^{1/} Total tax and nontax revenues, including from these measures, is expected to reach 14.7 percent of GDP which is about the same ratio as in 1982/83 and somewhat above the average level of preceding years.

3. Public enterprise policy

The authorities recognized with concern the widening resource gap of public enterprises projected for 1983 and 1984, caused by a sharp rise in gross fixed investment expenditure, particularly, in the energy and transport and communication sectors. After rising by 19 percent in 1983, total fixed investment of public enterprises was expected to increase further by 30 percent in 1984. Despite an upward adjustment in passenger rail fares in mid-1983 and lower energy input costs following the decline in the world market price of oil, the gap between public enterprise investment and savings is forecast to widen in 1984.

In view of the widening resource gap and deterioration in the financial performance of public enterprises, the authorities adopted a decision in early December 1983 to reduce investment expenditure of public enterprises by B 7 billion (0.7 percent of GDP) in 1984, principally in the Electric Generating Authority of Thailand (B 6 billion) and the Expressway and Rapid Transit Authority. In addition, proposals to streamline operations of public enterprises are being considered by the authorities. They include (1) monitoring budget appropriations and expenditures; (2) controlling external debt; (3) reducing current expenditure; (4) overhauling or privatization of loss-making enterprises; and (5) adjusting service charges, in particular bus and rail fares.

4. Monetary policy

In the second half of 1982, the Bank of Thailand relaxed its monetary policy stance to accommodate credit demand arising from an expected moderate recovery in the private sector and from an increased absorption of informal financial markets into the banking system. The Bank successively lowered its first and second tier bank rates and, in May 1983, reduced the capital to risk asset ratio from 8.5 percent to 8 percent. ^{1/} The Bank of Thailand refrained from direct intervention in setting commercial bank interest rates so as to encourage a competitive response to changing conditions in credit markets and bank liquidity. From the second quarter of 1983, the Bank of Thailand attempted to absorb excess bank liquidity through net sales of government securities in the repurchase market. However, this intervention appeared to have had little effect on bank liquidity, because of the continuing rapid growth of deposit resources and because certain banks resorted to renewed foreign borrowing to maintain adequate liquidity.

^{1/} At the same time (effective from November 1983) the Bank limited the contingent liabilities of commercial banks to five times their capital, and the contingent liabilities incurred on behalf of any one customer to not more than 50 percent of capital.

By the third quarter of 1983, it became evident that the rapid expansion of credit to the private sector was supporting excessive growth in domestic demand and was contributing to a sharper-than-expected deterioration in the balance of payments. The Thai authorities explained that the conduct of monetary policy had been made more complex during August and September when signs of speculation against the baht emerged and when liquidity problems became acute in several finance companies. The Bank of Thailand shifted to a more restrictive policy stance by increasing net sales in the repurchase market and tightening access to rediscount facilities. However, although interest rates in domestic money markets rose by 2-2.5 percentage points, this rise did not prevent larger-than-expected nonmonetary short-term capital outflows, because it was offset by an increase in the forward discount on the baht and some firming of foreign interest rates. 1/

Monetary control has been weakened by the perceived need of the Bank of Thailand to inject additional liquidity into the financial system to cope with acute liquidity shortages of certain nonbank financial institutions. Confidence problems resurfaced after poor management and imprudent lending practices led to the collapse of a finance company and its two affiliates, while several others are experiencing liquidity shortages. The Bank of Thailand's financial resources became necessary when attempts to utilize available liquidity through "liquidity funds" set up by banks and other financial institutions failed. Pertinent legislation was recently amended which includes, inter alia, strengthening of the supervisory authority of the Bank of Thailand; stricter management qualification requirements; legal penalties for lending to unapproved borrowers; and fuller disclosure of the financial status of finance, securities, and credit foncier companies.

The staff representatives observed that key indicators of macro-economic trends were confirming a much stronger-than-expected recovery in domestic demand and that the rise in the rate of credit expansion to the private sector from 20 percent in the 12 months through June to 27 percent in the year ended September was a source of concern. The strong growth in private sector demand added to pressures on the balance of payments and in the exchange market and was an important factor in the staff's assessment that the external deficit on current account could exceed the estimate of \$1.9 billion by a substantial amount. The Thai representatives broadly concurred with the staff assessment and stated that a package of measures aimed at tightening bank liquidity was under consideration. These included raising the government securities ratio, the primary reserve requirement, and imposing a control on the foreign liabilities of commercial banks.

1/ In early January 1984, exporters using Bank of Thailand's export rediscount facility were requested to sell forward to commercial banks their foreign exchange receipts.

The precise measures and timing of their implementation would be determined taking into account unsettled conditions in domestic financial markets.

The Bank of Thailand tightened monetary conditions further in early December 1983 by increasing its first and second tier bank rates by 1.5 percentage points to 13.0 percent and 14.5 percent, respectively. At the same time, commercial banks raised their loan rates by 1.0 percentage point to 16.5 percent, and their deposit rates by 0.5-1.0 percentage points to 10-13.0 percent. For large banks, this was the second upward adjustment in their interest rate structure within three months. In late December 1983, the Bank of Thailand requested commercial banks individually to keep credit for non-oil imports based on opening of letters of credit within the previous year's level. In addition, the government securities holding ratio was raised from 10 percent to 14 percent of deposits in early January 1984. Because several banks hold government securities in excess of 14 percent of deposits, this measure is expected to absorb initially only about B 1 billion of bank liquidity.

IV. Staff Appraisal

Domestic demand has rebounded vigorously in 1983, spurred by private investment, including rebuilding of inventories. The underlying causal factors include restoration of business confidence associated with continued price stability and economic recovery in some major trading partner countries, declining nominal interest rates through mid-year, and a fall in oil and non-oil import prices. Initially, favorable rains in advance of the major harvests toward year-end may have also contributed to the resurgence in demand. The large rise in private investment was not accompanied by a matching rise in savings; the savings surplus of the private sector declined and the excess of investment over savings in the public sector that existed in 1982 remained essentially unchanged from the posture of 1982, while pressures on the balance of payments in 1983 intensified more than anticipated.

Inflationary pressures continued to abate through mid-year; subsequently there was a small increase in consumer prices so that the year-on-year rate of inflation amounted to 4.4 percent through October. Price performance benefited from lower import prices. Also, prices of those exports featured extensively in domestic consumption showed little increase. Further strengthening of the baht has also helped dampen domestic price increases. Wage settlements have mirrored the trend of declining inflation. Minimum wage increases implemented in October 1983 are in the range of 3 percent in Bangkok to 8 percent in other less industrially developed provinces.

At the time of the discussions in Bangkok, the stance of domestic financial policies had not been adjusted to dampen excessive demand pressures. In framing the budget for 1983/84 the authorities had aimed at limiting the overall deficit to about B 32 billion or 3 percent of GDP. However, with a larger-than-envisaged carryover of expenditure authority from the previous year, a somewhat lower estimate of revenue collections from existing taxes, and delays in implementing new revenue measures the overall fiscal deficit could reach B 46 billion or 4.4 percent of GDP. In the face of strong credit demand from the private sector, the magnitude of the burden on the Bank of Thailand to finance budgetary operations would result in a situation the staff considered to be incompatible with the need to redress the widening external payments imbalance. The subsequent package of tax measures and decisions to curtail disbursements from expenditure authority of previous years, which would reduce the overall deficit to around B 36 billion (3.5 percent of GDP), will make a substantial contribution toward restoring a more appropriate budgetary stance in 1983/84. The extent to which additional revenues this year can be obtained from strengthening tax administration will depend largely on the intensity of efforts to improve all aspects of the operations of the Revenue Department, an effort that is continuing to be supported by technical assistance from the Fund.

The capital expenditures of public enterprises, particularly in the areas of energy, transportation, and communications, have become an increasingly large and important element in total public investment. In recent years, internally generated funds have financed only about one third of enterprise capital spending. The enterprise investment program for 1983/84 called for a 30 percent rise in new investment but without important accompanying measures to increase enterprise savings or internal financing. Enterprise investment planning and budgeting is not systematically assessed within a comprehensive public sector framework, and statistics are less reliable and less readily available than for other aspects of public finances. The staff urged the authorities to persevere with the several programs underway to improve public enterprise statistics, investment programming, and budgeting, and to reduce sharply the growing imbalance between public enterprise investment and the internal financing of that investment. At the time of the discussions, the staff expressed the view that adequate adjustments can come only from sharply reducing the planned growth in investment expenditures. The recently announced decision to reduce by B 7 billion the planned expenditure level should make an important contribution to achieving a better resource balance within the public enterprise sector, although the need for selective fare and tariff increases remains.

Monetary and credit developments through mid-year reflected the continued strong growth in total liquidity and commercial bank credit that became evident from late 1982. The Bank of Thailand encouraged greater flexibility on the part of commercial banks in determining

interest rates. However, this did not cause nominal interest rates to fall in line with inflation, because major elements of the banking system sought to expand lending, especially in areas outside Bangkok. After mid-year, credit to the private sector accelerated sharply. Although the Bank of Thailand's intervention in the repurchase market helped increase interest rates, there was renewed recourse by commercial banks to external funds, so that the overall tightening of the liquidity position of commercial banks was insufficient to moderate the credit expansion.

The authorities indicated that further adjustments in monetary policies were being planned, but that the timing had to take account of unsettled conditions in financial markets associated with the closing of several nonbank financial institutions. The staff urged that in addition to measures aimed at reducing liquidity in the banking system, e.g., more stringent enforcement of the government securities' holding ratio and an increase in the primary reserve requirement, measures should be implemented to exercise firm control over the foreign liabilities of commercial banks. The increase in interest rates announced by the Bank of Thailand in early December was intended to indicate the movement toward tightening of monetary policy. The additional measures taken by the Bank of Thailand in late December 1983 and early January 1984, requesting commercial banks to limit credit for non-oil import financing to the previous year's level and requiring commercial banks to hold 14 percent of deposits, instead of 10 percent, in government securities should help in slowing credit expansion and reducing pressures on the balance of payments.

The external deficit on the current account is expected to exceed substantially the level of \$1.6 billion considered attainable and appropriate in June. The less favorable outlook is primarily related to a lower estimate of exports, but imports are also expected to increase by more than had been previously estimated. A large part of the shortfall in exports can be traced to weather-related supply problems and less buoyant than expected foreign market growth. Also, the strength of domestic demand and the appreciation of the baht have caused some shift of incentives and output of manufactured goods from export to domestic markets.

The larger-than-expected current account deficit in 1983, viewed in the context of the stance of policies at the time of the discussions, and the medium-term outlook for the balance of payments, external debt, and debt servicing are sources of concern. The burden of debt servicing during 1985-86 and the magnitude of external obligations of the monetary authority that would fall due during the same period could become a new and unsettling factor affecting Thailand's access to international capital markets. The staff urged the authorities to adjust demand management and external policies so as to achieve an overall balance of payments surplus during 1984-86 of sufficient magnitude to avoid

further net use of external resources by commercial banks and to enable the monetary authority to meet obligations to the Fund without sustained recourse to additional foreign borrowing.

The exchange rate of the baht has remained fixed to the U.S. dollar without change since mid-July 1981. During this period, the price-adjusted and nominal effective exchange rate indices indicate an appreciation in the range of 9-13 percent. There has been a more pronounced appreciation since the period 1976-78. The staff believes that exchange rate developments have impeded external adjustment and that greater use of exchange rate policy for the purpose of achieving such adjustment would be appropriate. This would reinforce other policy adjustments needed to restrain domestic demand and strengthen the balance of payments consistent with the objectives of shifting the impetus of sustainable economic growth more to the export sector, within a framework that remains free of restrictions on payments and transfers for current international transactions.

The next Article IV consultation should be held on the standard 12-month cycle.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board in concluding the 1983 consultation with Thailand.

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Thailand, in the light of the 1983 Article IV consultation with Thailand conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Thailand continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions.

Table I. Thailand: Main Economic Variables and Ratios, 1976-84

	1976-79	1980-82	1980	1981	1982	1983 <u>1/</u> Est.	1984 <u>1/</u> Proj.
<u>(Annual percentage change)</u>							
Output and demand in constant prices							
GDP	8.0	5.6	5.8	6.6	4.1	6.0	6.7
Domestic demand	8.9	1.5	2.5	4.6	-2.4	10.4	7.0
Private	7.5	0.9	0.2	6.5	-3.7	11.7	7.0
Public	15.9	3.9	11.8	-2.5	2.9	5.7	6.8
Net exports <u>2/</u>	0.3	4.0	1.4	2.9	7.6	-5.3	-0.4
Terms-of-trade	-2.4	-11.0	-4.8	-12.6	-15.0	12.5	4.2
Export price	6.4	-2.7	18.2	-8.4	-15.0	3.4	7.4
Import price	9.0	9.2	24.2	4.7	--	-7.6	2.4
Real national income	7.2	2.8	5.0	2.9	0.4	8.7	7.5
<u>(In percent of GDP)</u>							
Sectoral balances							
Investment-total	26.6	25.0	27.2	26.7	21.1	25.0	25.4
Private sector	19.0	16.3	18.1	18.3	12.6	16.8	17.0
Public sector	7.6	8.7	9.1	8.4	8.5	8.2	8.4
Government	4.8	4.8	4.6	4.5	5.1	4.5	4.1
Public enterprises	2.8	3.9	4.5	3.9	3.4	3.7	4.3
Savings <u>3/</u>	23.1	21.6	22.6	21.7	20.3	20.7	21.5
Private sector	20.6	20.4	21.6	20.3	19.3	19.1	19.8
Public sector	2.5	1.1	1.0	1.4	1.0	1.6	1.7
Government	1.6	0.3	0.6	0.7	-0.3	0.4	0.6
Public enterprises	0.9	0.8	0.4	0.7	1.3	1.2	1.1
Resource gap (identified)	3.5	3.4	4.2	5.0	0.8	4.3	3.9
Private sector	-1.6	-4.2	-3.9	-2.0	-6.7	-2.3	-2.8
Public sector	5.1	7.6	8.1	7.0	7.5	6.6	6.7
Government	3.2	4.5	4.0	3.8	5.4	4.1	3.5
Public enterprises	1.9	3.1	4.1	3.2	2.1	2.5	3.2
Memorandum items:							
Private consumption	65.1	64.5	64.0	64.6	65.0	64.9	64.4
Government consumption	11.2	11.8	12.0	11.4	12.0	12.3	12.0

Table I. Thailand: Main Economic Variables and Ratios, 1976-84 (cont'd)

	1976-79	1980-82	1980	1981	1982	1983 <u>1/</u> Est.	1984 <u>1/</u> Proj.
<u>(Annual percentage change)</u>							
Prices							
GDP deflator	8.2	9.7	16.4	9.5	3.7	3.5	5.3
CPI average	7.4	12.4	19.6	12.7	5.2	3.6	5.3
End-of-period	14.5	2.6	16.4	12.3	2.6	4.8	5.2
WPI average	7.6	9.9	20.0	9.5	0.9	1.2	5.0
<u>(In percent of GDP)</u>							
Public sector finances							
Central government							
Total revenue	13.2	13.5	13.4	14.0	13.2	14.7	14.1
Total expenditure	16.7	18.5	18.3	17.6	19.4	18.9	18.9
Overall							
deficit (-)/surplus	-3.3	-4.6	-4.5	-3.1	-5.9	-3.8	-4.4
Of which:							
Current account	(0.7)	(-0.4)	(-0.4)	(0.5)	(-1.2)	(-0.2)	(-0.6)
Bank-financed deficit	-2.6	-3.2	-3.3	-2.3	-4.0	-2.2	-3.2
Public enterprises							
Capital expenditure	2.7	3.9	4.2	3.9	3.6	3.5	4.0
Self financing	0.8	0.8	0.7	0.7	0.8	1.0	1.2
Foreign financing	1.1	2.5	2.7	2.6	2.2	1.8	2.3
<u>(Annual percentage change) 4/</u>							
Money and credit							
Broad money	18.3	20.6	22.4	15.6	24.0	23.9	...
Of which: Quasi-money	(19.7)	(24.9)	(25.7)	(20.4)	(28.7)	(27.2)	...
Total domestic credit	24.3	19.3	18.4	18.0	21.4	22.2	...
Government	23.5	27.7	35.3	17.8	30.5	12.3	...
Private sector	24.7	15.9	12.2	18.0	17.4	27.2	...
Velocity (GDP/M2)	2.45	2.42	2.51	2.54	2.21	1.96	...
LIBOR	10.5 <u>5/</u>	14.7	14.2	16.8	13.2	9.6	...
Call money rate - average	10.9	15.6	14.7	17.3	15.0	11.5 <u>6/</u>	...
Deposit rate (1 year), end-of-period	8.3	12.5	12.0	13.0	12.5	12.5	...
Prime lending rate - average	11.6	16.9	16.5	17.3	16.9	15.9	...
External trade							
Export volume	17.0	11.5	4.2	14.8	15.9	-7.4	7.2
Import volume	11.5	-3.6	4.0	0.3	-14.1	21.3	8.0
Trade balance (Percent of GDP)	-6.3	-6.8	-8.5	-8.2	-4.2	-7.0	-6.2

Table I. Thailand: Main Economic Variables and Ratios, 1976-84 (concluded)

	1976-79	1980-82	1980	1981	1982	1983 ^{1/} Est.	1984 ^{1/} Proj.
(In percent of GDP)							
Balance of payments							
Current account deficit (-)	-5.2	-5.4	-6.2	-7.0	-2.7	-4.6	-4.1
Overall deficit (-)	-1.6	0.5	0.8	0.3	0.4	-0.4	-0.5
(In percent)							
External debt							
External debt/GDP (total)	...	30.9	28.5	31.8	32.6	33.3	32.7
Of which: Medium and long term	(13.0)	(23.2)	(21.2)	(23.8)	(24.9)	(26.6)	(26.7)
Private (total)	4.5 ^{7/}	13.5	13.7	13.5	13.2	13.5	13.4
Public (total)	8.5 ^{7/}	17.4	14.8	18.3	19.4	19.8	19.4
Debt service ratio (total)	13.7	18.4	16.7	18.4	20.2	20.5	23.2
Of which: Medium- and long-term debt	13.0	15.6	14.5	15.4	17.1	18.6	21.2
Private	9.5	8.0	9.1	7.5	7.5	8.6	9.9
Public	3.5	7.6	5.4	7.8	9.6	10.0	11.3
(Annual percentage change)							
Exchange rate (effective) ^{8/}							
Nominal	-1.9	2.5	-2.8	-2.4	12.6	8.6 ^{6/}	...
Real (trade weighted)	-1.2	3.3	3.4	-1.1	8.0	6.2 ^{6/}	...
Of which:							
Export weighted	-0.8	2.8	2.8	-1.7	7.3	9.1 ^{6/}	...
Import weighted	-2.2	4.0	3.3	-0.4	9.0	3.2 ^{6/}	...

Sources: Data provided by the Thai authorities; International Financial Statistics, IMF; and staff estimates.

^{1/} Based on data estimated at the time of the October/November 1983 discussions.

^{2/} Weighted contribution of growth in net exports of goods and services to real GDP growth.

^{3/} Excluding statistical discrepancy.

^{4/} Except for velocity and interest rates.

^{5/} 1978-79.

^{6/} Nine-month period ended September.

^{7/} Medium- and long-term debt. Public debt includes obligations to the IMF.

^{8/} Annual data based on comparison of fourth quarter averages. Minus sign indicates depreciation.

Thailand: Relations with the Fund
(As of December 31, 1983)

Date of membership: May 3, 1949.

Status: Article XIV.

Quota: SDR 386.6 million.

	<u>SDR mn.</u>	<u>Percent of quota</u>
Fund holdings of baht: Total	<u>1,224.4</u>	<u>316.7</u>
Compensatory financing facility:	186.0	48.1
Buffer stock facility:	58.4	15.1
Stand-by arrangement:	622.1	160.9
Of which: Enlarged access resources	(368.6)	(95.4)

SDR holdings: SDR 20.0 million (or 23.6 percent of net cumulative allocation of SDR 84.7 million).

Trust Fund: First period disbursements:
SDR 55.5 million.
Second period disbursements:
SDR 75.4 million.

Distribution of profits: US\$21.3 million.

Gold distribution:
(four distributions) 114,680.978 fine ounces.

Exchange rate system: Effective July 15, 1981, the exchange rate of the baht was changed from B 21.00 = US\$1 to B 23 = US\$1, representing a depreciation of 8.7 percent in terms of the U.S. dollar. From the same date, the external value of the baht is being determined not only on the basis of a basket of currencies but also taking account of other considerations. The current exchange rate is B 23 = US\$1.

Exchange practices subject to Article VIII: Thailand maintains an exchange system that is free of restrictions on payments and transfers for current international transactions; it does not maintain any unapproved exchange restrictions.

Technical assistance:

The Fiscal Affairs Department is providing expert assistance to the Ministry of Finance to help the authorities to improve administration of the Revenue and Excise Departments. The Bureau of Statistics, under the Central Bank Bulletin project, has been providing assistance in the areas of monetary, balance of payments, government finance and general economic statistics. The Bureau of Computing Services has provided assistance to the Bank of Thailand to advise on the preparation of a computerized data base. Recently, a consultant under the Central Banking Department's technical assistance program helped assess the need for further computerization within the Bank of Thailand.

Last Article IV consultation:

Staff discussions were held August 6-21, 1982. The Staff Report (SM/82/192) was discussed by the Executive Board on November 17, 1982.

Stand-by arrangement:

A stand-by arrangement expiring on December 31, 1983 in an amount of SDR 271.5 million (100 per cent of quota) was approved on November 17, 1982. The full amount was drawn.

Thailand: Relations with IBRD and IDA

(In millions of U.S. dollars)

	<u>IBRD</u>	<u>IDA</u>	<u>Total</u>
Total lending <u>1/</u>			
Agriculture	422	25	447
Irrigation	379	12	391
Education	127	55	182
Urban development	149	--	149
Industry	83	--	83
Transportation	585	--	585
Telecommunications	295	--	295
Power and energy	947	--	947
Population	--	33	33
Structural adjustment	325	--	325
Total	3,312	125	3,437 <u>2/</u>
Debt outstanding (including undisbursed) <u>1/</u>	2,905	122	3,027
Commitments for FY 1983	393	--	393

Technical assistance:

In addition to the usual range of technical advice provided in connection with its project and sector work, the IBRD has provided assistance in the drafting of the Fifth Development Plan and in improving budgetary procedures and planning for capital expenditures. In addition, technical assistance for a number of analytical studies and further work on program development are included in the Structural Adjustment Loan.

Recent economic and
sector missions:

Economic Report, June 1982.
Transport Sector Review, May 1983.
Agricultural Taxes, Subsidies and
Prices Study, June 1983.
Labor Market and Employment Study,
November 1983.

Thailand: Relations with IBRD and IDA (concluded)

Structural Adjustment Loans: The Board of Directors approved a first loan for US\$150 million for structural adjustment lending on March 15, 1982. The loan was fully disbursed on July 19, 1982. A second SAL for \$175.5 million was approved on March 31, 1983 and was fully disbursed on September 22, 1983. These loans were made in support of policy adjustments or development of policy programs in five broad areas with a view to: (1) promote agricultural growth and exports; (2) increase the export orientation of industry through a reform of industrial policies and investment promotion incentives; (3) provide a basis for efficient energy development and utilization through the preparation of a comprehensive energy sector program; (4) strengthen the fiscal planning and public sector resource mobilization efforts; and (5) foster the development of public institutions so as to use public resources more efficiently and provide an environment conducive to structural adjustment.

1/ As of September 30, 1983.

2/ Of which \$1,344 million disbursed.