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SM/84/16
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

February 7, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Thailand - Staff Report for the 1983 Article IV Consultation

The following corrections have been made in SM/84/16 (1/12/84):

Page 5, Table 1, columns 1 and 2, line 4: for "-14.5" and "-15.8"
read "-12.6" and "-15.0"

Page 12, Table 5, column 1, penultimate line: for "13.8" read "14.8"

Page 26, Appendix Table I, column 4, line 7: for "-8.4" read "-6.1"
line 8: for "4.7" read "7.6"

Page 27, Appendix Table I (cont'd), column 5, 3rd line from bottom:
for "15.9" read "16.4"
penultimate line: for "-14.1" read "-13.7"

Page 28, Appendix Table I (concluded): revised

Corrected pages are attached.

Att: (5)

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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		
External trade (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	-12.6	-15.0	4.3	4.6	12.5	4.2
Exchange rate (change in percent)						
Nominal effective rate ^{9/}	-2.4	12.6	...	...	8.6	...
Real effective rate ^{9/}	-1.1	8.0	...	...	6.2	...
External debt (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
Gross official reserves (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 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
		<u>(Annual percentage changes) 1/</u>				
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	<u>-3,022</u>	<u>-1,571</u>	<u>-2,413</u>	<u>-2,887</u>	<u>-2,861</u>
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	<u>-2,569</u>	<u>-1,006</u>	<u>-1,639</u>	<u>-1,879</u>	<u>-1,891</u>
Nonmonetary capital (net)	<u>2,487</u>	<u>1,667</u>	<u>1,431</u>	<u>1,356</u>	<u>1,682</u>
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	<u>20</u>	<u>-130</u>	<u>131</u>	<u>252</u>	<u>209</u>
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)	14.8	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.

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	-6.1	-15.0	3.4	7.4
Import price	9.0	9.2	24.2	7.6	--	-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	16.4	-7.4	7.2
Import volume	11.5	-3.6	4.0	0.3	-13.7	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 <u>1/</u> Est.	1984 <u>1/</u> 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)	...	29.4	25.4	30.2	32.4	33.3	32.7
Of which: Medium and long term	(13.0)	(22.1)	(18.9)	(22.7)	(24.7)	(26.6)	(26.7)
Private (total)	4.5 <u>7/</u>	12.7	12.2	12.8	13.2	13.5	13.4
Public (total)	8.5 <u>7/</u>	16.6	13.2	17.4	19.2	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	7.9	9.6	10.0	11.3
	(Annual percentage change)						
Exchange rate (effective) <u>8/</u>							
Nominal	-1.9	2.5	-2.8	-2.4	12.6	8.6 <u>6/</u>	...
Real (trade weighted)	-1.2	3.3	3.4	-1.1	8.0	6.2 <u>6/</u>	...
Of which:							
Export weighted	-0.8	2.8	2.8	-1.7	7.3	9.1 <u>6/</u>	...
Import weighted	-2.2	4.0	3.3	-0.4	9.0	3.2 <u>6/</u>	...

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.