

Economic stimulus from the public sector

In 2005 Q1, the Thai economy expanded at a slower pace as a result of higher oil prices, accelerating inflation, a drought, a natural disaster and the global economic slowdown. However, once the impact of these temporary adverse factors have faded, the economy should regain its momentum in the remaining part of 2005. Public spending will serve as an important driver of that process via an acceleration in budget disbursement of the remaining funds allocated for FY 2005, which will in turn induce an acceleration in spending at the beginning of FY 2006 (October-December 2005) and throughout FY 2006. The details are as follows:

- Regarding **the annual budget for FY 2005**, the undisbursed part amounts to 370.3 billion baht as 829.7 billion baht out of the total of 1,200 billion baht has been disbursed as of the end of June 2005. Measures to accelerate spending include urging government agencies to sign obligated contracts by 30 June 2005 and

Fiscal Year 2005

Unit: billion baht

	Budget	Disbursed as of 30 June 05	Remaining
Total	1,200.0	829.7	370.3
Current	901.8	672.3	229.5
Capital	298.2	157.4	140.8

Source: GFMIS

allowing a reallocation of funds within the same government agency. The reallocated funds can be used for priority projects that can be implemented ahead of their initial schedules or as compensation for construction work, unpaid utility bills, salary and remuneration increase that has not been fully covered by the budget, and other legally binding expenses. In the absence of such expenses and after the Cabinet's approval has been secured, the government agency may reallocate the budget to new priority projects, provided that they can be implemented immediately. In the case where the government agency is unable to use the allocated budget according to the guidelines mentioned above, the agency must return the allocated budget, which will then be redistributed to other government agencies for use in priority projects.

- The central fund for FY 2005** of the amount 50 billion baht, which is a supplementary budget as

Allocation	Billion baht
1. Contingency and emergency funds	17.0
2. Provincial governor CEOs	15.0
3. Small Medium Large (SML) Villages Development Programme	9.4
4. Poverty alleviation programme	4.0
5. Transfers to local governments for drought alleviation measures	4.6
Total	50.0

Source: The Supplementary Budget Act B.E. 2548

announced in the Royal Gazette on 24 June 2005, has not been disbursed as of the end of June 2005. Nonetheless, an acceleration in disbursement is expected in the last quarter of FY 2005 (July-September).

- The carry-over budget from FY 2002-2004** totals 153.1 billion baht.

This includes the funds of 71.5 billion baht for economic and social restructuring and to strengthen the country's competitive

capability. On 3 May 2005, the Cabinet approved measures to accelerate the disbursement of such funds, and as of 30 June 2005, the accumulated disbursement of the carry-over budget totals 85.9 billion. Thus, 67.2 billion baht remains to be used.

• **Investment plans of 50 state enterprises** have been allocated the funds of 358 billion baht, with 67.3 billion baht being earmarked for mega projects, and a total of 271 billion baht is expected to be disbursed by the end of this fiscal year. As of the end of June 2005, an estimated amount of 174 billion baht has been disbursed, leaving another 97 billion baht to be used during the rest of this fiscal year or carried over to the next, in which case the spending will help boost economic activities next year. State enterprise investment under the mega project umbrella is expected to increase in the following fiscal years.

As for the financing of mega projects between 2005-2009, 39 per cent will come from the budget, 13 per cent from income of state enterprises, 42 per cent from domestic and foreign borrowings, and another 6 per cent from other sources. This financing plan is consistent with the government's intention to conduct a balanced budget fiscal policy and the fiscal sustainability framework.

Unit: billion baht

Financing sources	2005	2006	2007	2008	2009	2005-2009	Proportion (%)
Budget	9.26	94.60	180.25	193.82	180.01	657.94	39
State enterprises' income	18.74	37.19	47.86	62.92	55.57	222.28	13
Borrowing	39.28	114.00	174.62	195.35	191.81	715.06	42
- <i>Domestic</i>	23.76	75.37	112.48	119.33	79.09	410.03	24
- <i>Foreign</i>	15.52	38.63	62.14	76.02	112.72	305.03	18
Others	0.00	9.56	24.80	34.07	37.04	105.47	6
Total	67.28	255.35	427.53	486.16	464.43	1,700.75	100

Note: excluding on-going projects which started before 2005 and are still in progress between 2005-2009
Source: Ministry of Finance (as of 14 June 2005)

At present, it is clear that the government has room to stimulate the economy in the final months of this fiscal year via the use of the remaining budget of 584 billion baht. The amount can be separated into 2 portions: capital expenditure of approximately 317 billion baht and current expenditure of approximately 267 billion baht.

Impact on the economy

1. Economic growth

If the government can effectively accelerate disbursement during the rest of FY 2005 to reach its annual disbursement target, the increase in public investment will be an important growth driver for the economy as the multiplier effect takes place to boost both private and other public activities. In particular, it will encourage investment to expand production capacity in related sectors, including the production of cement, steel, construction materials, electricity and water. Such investment will generate greater employment and benefit the overall economic growth.

2. The current account

Mega projects are likely to raise import demand, especially raw material, machinery and equipment imports, which will lead to greater pressure on the current account. If the current account deficit persists for a prolonged period, economic stability may be jeopardized. However, a carefully prioritized sequence of investment can help keep the current account deficit within a manageable level and thus truly benefit the country's long-term sustainable growth.