



**Thailand's Economic and Monetary Conditions
in 2003**

Monetary Policy Group

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Part 1: Economic Performance in 2003

1.1 Executive Summary

The Thai economy expanded well in 2003, growing by 6.7 percent which was higher than that of 5.4 percent in 2002. During the first half of the year, uncertainties regarding the US-Iraqi War and the outbreak of Severe Acute Respiratory Syndrome (SARS) affected confidence to some extent, resulting in the postponement of some investment projects as well as the reduction in tourism-related income. However, with the concerns fading away in the third quarter, the Thai economy rebounded robustly, confirming its strong economic fundamentals and resiliency to external shocks.

The main impetus to growth this year came from the continued increases in private consumption and exports. The Private Consumption Index grew by about 5.1 percent, and export value rose at a high rate of 18.6 percent. Meanwhile, private investment clearly picked up, with the Private Investment Index expanding by 13.2 percent, thereby helping to strengthen the economic recovery process. Regarding the fiscal position, government revenue grew strongly by 13.6 percent in the fiscal year 2003, reflecting the strong expansion in economic activities, particularly in household spending and business performances. Government spending fell by 3.5 percent during the fiscal year, however, partly due to the need to maintain fiscal discipline commensurate with the strengthening recovery of the private sector. Nonetheless, the government still played an important role in driving economic growth through its Dual Track Policy that focused, on the one hand, on stimulating domestic activities of the private sectors through measures such as the extension of transfer fee reduction for real estate transactions until the end of 2003 and the provision of financial and technical assistance to small and medium enterprises (SMEs). At the same time, the

government also aimed to increase foreign exchange income through the establishment of regional trade associations and the exploration of new export markets.

Meanwhile, the supply side responded satisfactorily to the increase in demand. The Manufacturing Production Index grew by 12.3 percent, compared with 8.5 percent in the previous year. This was due to the expansion in both domestic-oriented industries such as vehicles, petroleum, and beverages, and export-oriented industries such as integrated circuits (IC), food, and block rubber. In the agricultural sector, favourable climate brought about an increase in major crop production by 7.8 percent, compared with 0.0 percent last year. The increase in major crop production, together with the marked increase in major crop prices, resulted in the historically high increase in farm income by 25.6 percent. In the service sector, from March to July 2003, the number of foreign tourists fell substantially due to concerns over the spread of SARS. As a result, the number of foreign tourists for the entire year declined by 7.8 percent. Nevertheless, the tourism industry started to recover quickly in the third quarter, and the year-on-year growth of the number of foreign tourists returned to normal levels by the last quarter of the year.

The robust increase in the industrial, construction, and services sectors which was in line with the increases in private investment and consumption led in turn to the expansion of non-farm employment by 5.0 percent. Wage pressure, however, was not observed as part of the excess labour supply in the agricultural sector was able to shift to other sectors. With this, employment in the agriculture sector fell 1.2 percent this year.

High liquidity in the financial system, together with the Bank of Thailand (BOT)'s

policy rate cut in June from 1.75 percent per annum to 1.25 percent per annum caused commercial bank interest rates to decline and remain at low levels throughout 2003. The low interest rate environment helped support private spending especially in regard to durable consumption as well as reduced the financing costs of businesses. As a result, commercial bank credits clearly improved this year, with credits to the manufacturing, commerce, and export sectors registering positive year-on-year growth throughout the year for the first time since the economic crisis. Meanwhile, mortgage and consumption loans continued to rise markedly.

The baht averaged at 41.50 baht per US dollar in 2003, strengthening by 3.6 percent from the average exchange rate in 2002. The appreciation was due to both domestic and external factors, with the domestic factors including increased investor confidence in the Thai economy, as reflected by the increase in the SET index of 116.6 percent and Thailand's sovereign rating upgrades by several international credit rating agencies, and the external factors being the depreciation of the US dollar due to concerns over the US current account and fiscal deficits. During the third quarter of the year, however, the BOT found that the rapid appreciation of the baht was not only the result of strong economic fundamentals but also speculative activities in the money market. The BOT thus introduced measures to prevent Thai baht speculation on 11 September and 14 October 2003, which subsequently yielded satisfactory results.

Economic stability remained sound throughout the year. Despite some acceleration from 0.7 percent last year due to higher food and energy prices, headline inflation remained subdued at 1.8 percent. Meanwhile, core inflation averaged at 0.2 percent, moderating slightly from 0.4 percent

last year as rents continued to decline. Meanwhile, the unemployment rate stood at only 2.2 percent, and public debt declined to below 50 percent of GDP. On the external front, the current account balance continued to be in surplus as a result of the sustained surpluses in both the trade and services accounts. This allowed the BOT to early repay all obligations under the IMF loan package by almost two years. Despite such early debt repayment, international reserves remained at the sound level of 42.1 billion US dollars at the end of the year, a level which exceeded the outstanding short-term external debt obligations by over three times.

Outlook for 2004

The Thai economy is expected to carry on momentum in 2004 in line with the acceleration in private investment following increased demand for capacity expansion. Furthermore, export prospects are favourable as Thailand's trading partners, especially the US, look set to recover more strongly in 2004. While the currently high growth of private consumption is expected to return to a more moderate but sustained level, public spending, especially public investment, is expected to increase and be a supporting factor for further economic growth. This is partly due to the supplementary budget of 135.5 billion baht set aside for this fiscal year.

The acceleration in investment will speed up imports. Therefore, it is possible that the trade and current account surpluses will narrow in 2004, in spite of the favourable export trend. This situation, however, is normal during an economic upturn. Headline inflation and core inflation as well as unemployment are expected to remain low.

Compared with 2003, external risks to economic growth in 2004 will be reduced owing to the strengthening world economic recovery. Nevertheless, the upward trend in foreign interest rates and the US current

account deficit problem, which may add pressure on the US dollar and other regional currencies, need to be monitored closely. Furthermore, problems of international terrorism and volatile world oil prices continue to be key risk factors as they did last year. On the domestic side, risks to growth

may arise from possible imbalances or overheating in some sectors of the economy such as the real estate market and household debt. In the short run, the danger of the avian flu outbreak remains, but the situation is expected to be under control within the first half of 2004.

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1.2 World Economic Conditions

The world economy recovered slowly in 2003 due to the effect of the US-Iraqi War during the first half of the year. While the economic performance of major industrial countries started to partially recover, the recovery of the world economy still depended largely on the US economy. As of September 2003, the International Monetary Fund (IMF) forecasted that global economic growth in 2003 and 2004 would be 3.2 and 4.1 percent, respectively.

The **US economy**, the main engine of world economic growth, showed signs of recovery such as improved business sentiments and consumer confidence and the concomitant increase in consumption and investment. Nevertheless, the US still faced the problem of high current account and fiscal deficits. Meanwhile, the fragile labour market and excess production capacity adversely affected confidence in the US dollar with possible implications for the overall stability of the world economy.

Economic conditions in the **Euro area** remained fragile. Despite signs that the economic downturn had already bottomed out and business and consumer confidence had begun to improve, the economy recovered only slowly and unemployment continued to increase. Moreover, manufacturing production showed no signs of a sustained upward trend, and the German economy continued to be in recession for the third consecutive year, hindering regional recovery. However, external demand is projected to be a factor in accelerating regional growth in the future.

The **Japanese economy** picked up markedly in 2003 owing to the recovery in exports, manufacturing production, and investment. In addition, financial conditions improved as evidenced by, for example, increases in stock and bond prices. Going forward, the economy is expected to moderately recover but remains in a state of

deflation. At the same time, domestic structural problems may continue to impede growth in the future.

The **Asian economies** slowed down during the first half of 2003 owing to uncertainties from the US-Iraqi War and the outbreak of SARS. Nevertheless, these economies started to recover during the third quarter due to supporting factors such as strengthening private consumption as a result of accommodative monetary and fiscal policies as well as the incipient recovery of the world economy.

World Trade. According to the IMF forecasts, world trade volume in 2003 would expand by 2.9 percent, decelerating slightly from the previous year's expansion of 3.2 percent. This slowdown in world trade was a result of the US-Iraqi War and the outbreak of SARS in Asia.

Inflation. Overall price pressure remained subdued as the world economy slowly recovered. The average inflation rate for developed economies was 1.8 percent, while the average inflation rate for developing countries was 5.9 percent in 2003.

Interest Rates. During the first half of 2003, interest rates continued to be on a downward trend. In particular, the US Federal Reserve lowered the federal funds rate by 25 basis points to the level of 1.0 percent per annum in June due to the risk of deflation and uncertainties regarding the US economic recovery. The European Central Bank also lowered its policy rate twice in March and June by a total of 75 basis points, to the level of 2.0 percent per annum, due to sluggish economic growth and the concomitant appreciation of the euro against the US dollar. Nevertheless, in the latter half of 2003, analysts viewed interest rates as having bottomed out. The Reserve Bank of Australia raised its policy rate twice in November and December by a total of 50

basis points, to the level of 5.25 percent per annum, as the recovering Australian economy had already exerted some upward pressure on prices and resulted in an over-expansion of credits. In addition, the Bank of England

increased its policy rate by 25 basis points, to the level of 3.75 percent per annum, amidst an economic recovery and a strong expansion of credits.

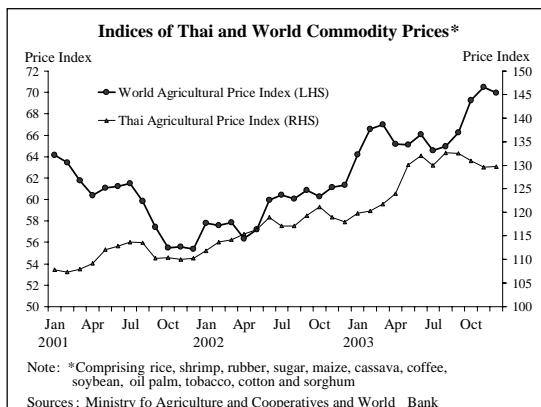
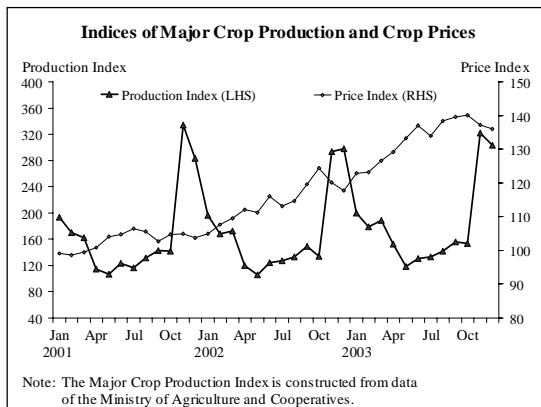
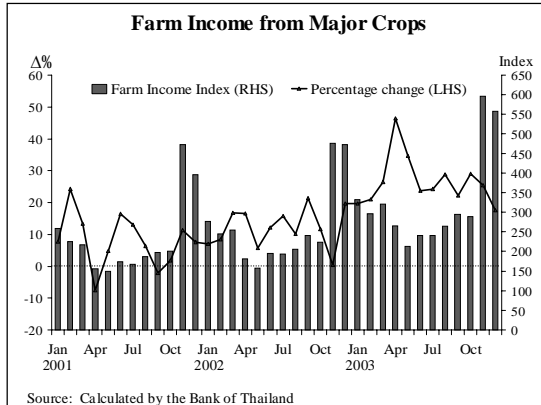
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Part 2: Economic Conditions in 2003

2.1 Agricultural Sector

Farm Income from Major Crops, Crop Production and Crop Prices

Δ%	2002	2003	2003			
			Q1	Q2	Q3	Q4
Farm Income	11.1	25.6	22.2	35.0	25.0	22.6
Crop Production	0.0	7.8	5.6	14.7	5.4	7.4
Crop Prices	11.0	16.5	15.7	17.7	18.6	14.1



Overview of 2003

Farm income from major crops expanded by 25.6 percent, which was a record high, as a result of both favourable output and prices. **Crop production** increased by 7.8 percent, attributed mainly to the output of rice and cassava. Meanwhile, **crop prices** rose by 16.5 percent, led by the increase in the prices of natural rubber and Hom Mali rice in response to continued favourable global demand.

The rapid expansion in farm income caused private consumption to expand well in 2003, as reflected by higher sales of commercial cars and motorcycles throughout all regions of the country.

While farm income from major crops expanded strongly, income from livestock and fishery suffered from unfavourable prices. **Livestock prices** fell by 2 percent due to the significant fall in the price of swine as domestic consumers switched to consume broiler rather than swine when the price of broiler declined during the first half of the year. At the same time, **fishery prices** fell by 0.8 percent following the decrease in prawn price by 6.3 percent due to higher competition from other producers in the world market and greater supply of white Vannamei shrimp domestically.

World agricultural prices (twelve commodities related to Thai commodities) continued to be on an upward cycle, with the current year's prices rising by 12.5 percent as a result of natural rubber, cassava, and soybean prices.

Major Farm Products

Paddy. In 2003, output of paddy increased for both the first and second crops. In particular, second crop output expanded by 14.2 percent from the acceleration in planting to compensate for the first crop losses in 2002/03 due to floods at the end of 2002. As for the production of first crop in 2003/04, this year's favourable weather led to the expansion of output by 6.9 percent.

In addition, Thai paddy export improved in 2003 as world paddy production in 2002/03 suffered from natural disasters such as a heavy drought in India. This allowed the quantity of Thai rice export to increase by 3.1 percent to 7.6 million tonnes, with the quantity of Hom Mali paddy export increasing at the exceptional rate of 52.7 percent. Meanwhile, the export value of paddy increased by 9.1 percent to B76.3 billion.

Cassava. Favourable cassava price in 2002, coupled with the ease in planting and harvest, encouraged farmers to switch from maize to cassava production. This led to the expansion in cassava planting areas by 9.1 and 3.4 percent in 2002/03 and 2003/04, respectively. The subsequent increase in cassava output by 15.1 percent, however, caused the price of cassava to fall by 15.7 percent this year.

Rubber. Output of natural rubber rose by 2.0 percent in 2003 from an increase in output per *rai*. Meanwhile, the price of natural rubber continued to increase at an average rate of 38.8 percent following strong world demand, mainly from the expansion of China's vehicle industry.

Broiler. Production and price of broiler increased by 3.9 and 2.7 percent, respectively, following improved demand from the European Union, where broiler output was affected by avian flu during March to May 2003, and continued demand from Japan. As a result, the export value of broiler rose from the previous year by 13.5 percent.

In the middle of November 2003, however, avian flu began to spread in the province of Nakorn Sawan and continued to spread to every region of the country. It is expected that this epidemic will have an impact on the production and export performance of broiler in 2004.

Shrimp. While domestic shrimp production surged, particularly that of Vannamei shrimp, shrimp export encountered problems with chemical residue found at the beginning of the year. This coupled with an expansion of shrimp farming, especially in China and Vietnam, led to a continued fall in the price of shrimp, despite the government's subsidy programme and campaign to encourage domestic consumption of shrimp.

Outlook for 2004

Farm income from major crops is expected to expand further in 2004, though at a slower pace than in 2003, due to both production and price factors. **Crop output** will rise only moderately due to reduced rainfall in the previous year, thus less reserved water for planting paddy. At the same time, **major crop prices** are expected to climb at a decelerated rate since the prices of Hom Mali paddy and natural rubber are already quite high, despite continued demand from the international market.

Fishery and livestock prices are expected to fall following the prices of shrimp and broiler. These agricultural products face not only new competitors, such as China and Vietnam, but also avian flu, which is likely to dampen the price of broiler along with demand both domestically and abroad.

Overall, **Thai commodity prices** are likely to face a levelling trend due to a slower rate of increase in major crop prices while fishery and livestock prices continue to decline.

World agricultural prices (twelve commodities related to Thai commodities) are likely to rise further but at a decelerated rate compared to 2003.

Trend of Major Crops

Paddy. Paddy yield is expected to be close to that of 2003. Although second crop paddy is likely to be reduced by lower water availability, increased yield from the first crop should be sufficient to compensate for the fall in the second crop. Meanwhile, domestic price is on an upward trend, partly from the government's support in setting the price higher than last year's price by 200 baht per tonne and partly from rice export which is expected to remain strong.

Rubber. Rubber output is expected to be higher than in 2003 due to an increase in planting area. Along with continued world demand, the price of natural rubber should rise,

though at a slower rate than in the preceding year.

Cassava. Cassava yield is expected to rise slightly following an increase in output per *rai*. At the same time, demand from Europe is likely to be strong as supply in Europe has been affected by a heat wave while Europe's purchasing power has also increased from the appreciation of the euro versus the US dollar. This is likely to lead to higher cassava price in 2004.

Broiler. Production and price of broiler are expected to fall as avian flu reduced the demand for Thai broiler both domestically and abroad.

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Major Crop Production, Trade, and Consumption

(Unit: Million tonnes)

Thai Crops ^{1/}	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004 ^E	Δ%
Paddy	24.18	25.85	26.52	26.06	26.84	3.0
First Crop	19.02	19.79	20.90	19.63	20.91	6.5
Second Crop ^{3/}	5.16	6.06	5.62	6.43	5.93	-7.7
Rubber	2.20	2.38	2.45	2.46	2.51	2.0
Maize	4.06	4.16	4.47	4.23	4.16	-1.7
Cassava	19.06	18.40	16.87	18.28	20.40	11.6
Sugarcane	52.86	52.17	62.64	77.56	78.17	0.8
Mungbean	0.24	0.22	0.24	0.22	0.23	6.0
Soybean	0.32	0.31	0.26	0.26	0.27	4.9
Oil Palm	3.26	4.09	4.01	4.00	4.59	14.7
Coffee	0.08	0.09	0.05	0.05	0.06	9.9
World Crops ^{2/}	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004 ^E	Δ%
Grains						
Production	1,871.4	1,839.3	1,872.8	1,816.7	1,825.6	0.5
Trade	240.4	232.5	240.3	239.8	224.7	-6.3
Rice (milled)						
Production	408.7	397.9	398.6	380.1	391.3	2.9
Trade	22.8	24.4	27.9	27.2	25.5	-6.3
Maize						
Production	607.4	588.6	599.3	602.5	610.0	1.2
Trade	73.4	76.5	74.3	78.1	77.0	-1.3
Soybean						
Production	159.9	175.2	184.9	196.8	198.7	1.0
Trade	45.7	53.9	53.6	62.7	67.5	7.7
Rubber						
Production	6.9	6.9	7.1	7.4	7.7	5.0
Consumption	6.8	7.2	7.0	7.4	7.7	4.6

Notes: E = Estimated

^{1/} Forecast data from the Office of Agricultural Economics, June 2003

^{2/} Estimated in January 2003

^{3/} Production is based on the calendar year, i.e., the figure under 2003/2004 is the production during January 1 to December 31, 2004.

Δ% represents percentage change from the same period last year.

Sources: Office of Agricultural Economics;

World Production, Market and Trade Reports, Foreign Agriculture Service, United States Department of Agriculture; and

LMC Commodity Bulletin, January 2004.

Thai Farm Prices

(Unit: Baht/tonne)

	2002	2003	2003			
			Q1	Q2	Q3	Q4
Farm Price Index^{1/} (1995 =100)	116.9	127.8	120.6	128.7	131.7	130.1
Δ%	5.8	9.4	6.5	10.0	11.7	9.0
Crop Price Index^{1/}	114.3	133.1	124.3	133.1	137.3	137.8
Δ%	11.0	16.5	15.7	17.7	18.6	14.1
Hom Mali Paddy	5,582	7,477	6,139	7,675	8,439	7,655
Δ%	1.5	34.0	23.4	47.6	36.2	9.6
Paddy Class 1 (5%)	4,973	5,107	5,083	5,146	5,215	4,983
Δ%	8.7	2.7	8.2	5.4	0.6	-2.8
Rubber	27,103	37,631	35,283	36,220	36,967	42,050
Δ%	29.4	38.8	59.6	40.3	21.4	40.0
Maize	4,050	4,480	4,320	4,533	4,613	4,453
Δ%	3.9	7.5	6.7	5.0	11.7	6.8
Cassava	1,113	871	933	920	837	793
Δ%	33.1	-15.7	-12.2	-17.4	-17.4	-15.6
Livestock Price Index^{1/}	111.9	109.6	99.1	111.8	115.9	111.6
Δ%	-1.6	-2.0	-14.8	-2.5	4.7	5.5
Fishery Price Index^{1/}	130.1	129.0	130.6	131.6	129.7	124.2
Δ%	-0.9	-0.8	1.4	0.2	-1.5	-3.4
Wood Price Index^{1/}	104.5	108.8	107.6	109.2	109.2	109.2
Δ%	0.9	4.2	3.3	4.4	4.4	4.4

Notes: ^{1/} Base year is 1995.

Δ% represents percentage change from the same period last year.

The Farm Price Index is constructed from data of the Fish Marketing Organisation, Ministry of Agriculture and Cooperatives, and Ministry of Commerce.

World Agricultural Prices^{1/}*(Unit: US\$/tonne)*

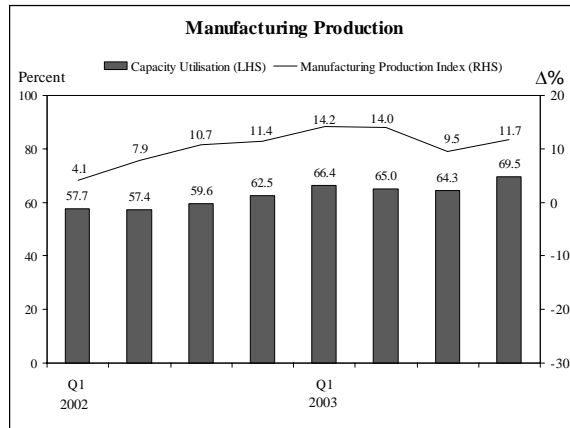
	2002	2003	2003			
			Q1	Q2	Q3	Q4
World Agricultural Price Index	59.2	66.6	65.9	65.5	65.3	69.9
(1995 =100)						
Δ%	-0.9	12.5	14.2	13.2	8.0	14.7
Rice 5%	192	198	199	199	197	196
Δ%	11.0	3.0	3.6	1.0	2.7	5.0
Shrimp	10,515	11,456	11,797	11,680	11,350	10,997
Δ%	-30.3	8.9	1.5	18.8	14.4	2.9
Rubber	771	1,056	955	978	1,019	1,273
Δ%	28.4	37.0	50.0	28.9	18.1	54.4
Sugar	152	156	186	159	144	135
Δ%	-20.3	2.9	20.9	15.6	0.0	-21.2
Cassava	88	111	95	99	113	139
Δ%	10.9	26.6	16.8	15.3	18.6	54.7
Maize	99	105	106	107	101	108
Δ%	10.7	6.2	16.6	18.0	-6.2	-0.2
Oil Palm	390	443	445	420	409	499
Δ%	36.6	13.6	32.8	11.4	-0.4	13.9

Notes: ^{1/} Only twelve commodities related to Thai agricultural commodities are included, namely, rice, shrimp, rubber, sugar, maize, cassava, coffee, soybean, oil palm, tobacco, cotton and sorghum. Δ% represents percentage change from same period last year.

The World Agricultural Price Index is constructed from data of the World Bank.

2.2 Manufacturing Sector

In 2003, **manufacturing production** accelerated from the previous year in both domestic-oriented and export-oriented sectors. With this, the expansion also became more broad-based compared to 2-3 years ago.



Manufacturing Production Index*
(Percentage change)

Industry	2001	2002	2003 ^p		
			H1	H2	Year
Textiles	0.6	-0.4	0.3	-0.3	0.0
Vehicles and Equipment	23.3	19.7	46.0	21.6	32.1
Petroleum Products	2.2	1.9	5.8	3.1	4.4
Beverages	13.6	20.0	22.1	13.7	17.7
Electronics and Electrical Appliances	-26.8	24.1	15.6	30.0	23.1
Food	-2.9	2.8	19.8	12.6	17.0
Setting Jewellery	3.9	0.0	-1.2	4.8	2.0
Construction Materials	9.9	13.4	-3.2	6.7	1.5
Iron and Steel Products	2.5	24.3	0.9	3.3	2.1
Tobacco	-3.0	3.2	0.9	6.5	3.7
Others	0.7	2.3	24.0	4.0	13.2
Total *	1.3	8.5	14.1	10.6	12.3
(Excluding Vehicles)	-1.6	6.6	9.0	8.3	8.7

Note: * Covering 45 products with 62.4 percent of the overall value added in the manufacturing sector.
P = preliminary data
Source: BOT surveys

Capacity Utilisation*
(Unit: Percentage)

Industry	Average 1995-1996	2001	2002	2003 ^p		
				H1	H2	Year
Vehicles and Equipment	74.5	44.5	54.6	66.2	72.7	69.4
Petroleum Products	89.5	74.8	76.2	79.1	80.0	79.5
Beverages	82.6	36.4	50.5	56.0	57.2	56.6
Electronics and Electrical Appliances	65.9	47.5	55.4	55.8	68.3	62.1
Food	40.3	42.1	45.1	65.7	42.4	54.0
Construction	88.0	52.3	56.9	57.5	57.6	57.6
Iron and Steel Products	64.7	50.0	60.6	63.5	65.3	64.4
Tobacco	79.7	52.1	53.8	54.4	57.1	55.8
Others	78.9	77.0	71.4	77.4	70.7	74.0
Total *	75.0	53.5	59.3	65.7	66.9	66.3

Note: * Covering 43 products with 44.5 percent of the overall value added in the manufacturing sector.
P = preliminary data
Source: BOT surveys

The **Manufacturing Production Index** (MPI) expanded by 12.3 percent, up from 8.5 percent in the previous year. Higher household income, strengthening consumer confidence, and low interest rates caused domestic-oriented industries (those exporting less than 30 percent of their production) to expand well, especially vehicles, motorcycles, and beverages. At the same time, with international demand picking up, export-oriented industries (those exporting more than 60 percent of their production) accelerated, particularly the manufacturing of integrated circuits (IC), food and block rubber. However, industries serving both the domestic and export markets (those exporting between 30-60 percent of their production) slowed down from the previous year following a decline in steel and textile production.

The manufacturing **capacity utilisation rate** averaged at 66.3 percent, up from 59.3 percent in 2002 in tandem with the acceleration in industrial output.

The details of industries exhibiting strong growth in 2003 are as follows:

Production of **vehicles and equipment** expanded by 32.1 percent following an increase in exports as well as domestic demand, especially with the introduction of new passenger car models at the end of 2002. At the same time, other factors also stimulated domestic consumption, including low interest rates and continuous sales promotions, for example, favourable payment conditions and free car insurance. Moreover, vehicle exports rose sharply, owing in part to an expansion of the production base for export. As a result, the capacity utilisation rate of this sector rose from 54.6 percent in 2002 to 69.4 percent in 2003.

Production of **electronics and electrical appliances** continued to expand, especially during the second half of the year when IC production rose sharply in tandem with a rebound in the global electronics cycle and the US economic recovery. Meanwhile,

production of television sets rose due to strong exports to the EU and Middle East markets. Thus, the capacity utilisation rate of this industry increased from 55.4 percent in 2002 to 62.1 percent this year.

Production of **beverages** expanded by 17.7 percent in 2003, induced particularly by increased liquor production following good domestic economic conditions coupled with keener competition among low priced beer producers in order to maintain market shares. The average capacity utilisation for the year was 56.6 percent compared to 50.5 percent in the previous year.

Production of **food** expanded well in almost every product. In particular, production of sugar and canned pineapple rose significantly following the expansion of planting area and favourable weather conditions. Production of both canned and frozen seafood also grew rapidly, especially in the first half of the year when the US-Iraqi War raised demand overseas and the SARS outbreak hindered exports of major competitors like China and Vietnam. The average capacity utilisation for the year was 54.0 percent, up from 45.1 percent in 2002.

Production of **petroleum** grew by 4.4 percent in 2003, accelerating from the previous year in line with the recovery of domestic

demand. The capacity utilisation rate of this industry averaged at 79.5 percent, up from 76.2 percent in 2002.

Production of **other products** also expanded significantly. Most notable in this category are petrochemicals and block rubber, which grew buoyantly due to higher prices and increased demand both domestically and abroad. The average capacity utilisation rate of this industrial category thus rose from 71.4 percent in 2002 to 74.0 percent this year.

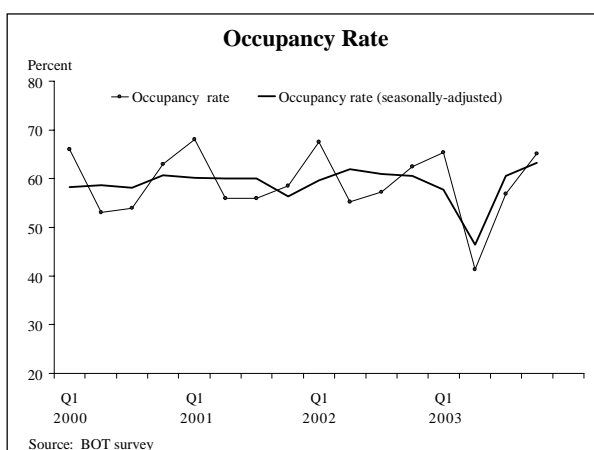
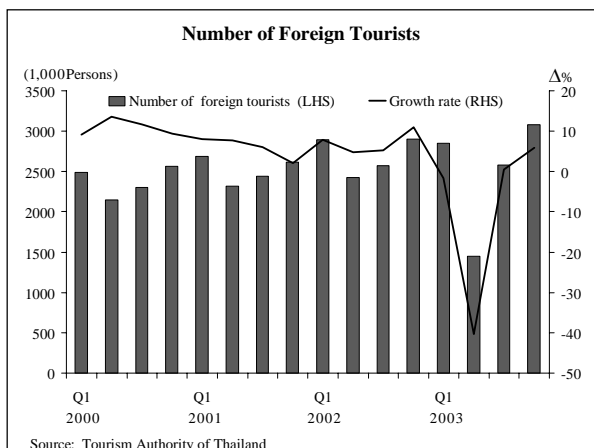
Nevertheless, there are industries which registered slower production growth in 2003 than in 2002, such as **construction materials** and **steel products**. Production of construction materials grew by only 1.5 percent compared to 13.4 in the previous year, owing to a high base in 2002 from increased price competition and accelerated production among cement producers in order to maintain market shares in the first half of that year. With higher raw material cost while being unable to raise output prices, steel producers were forced to reduce production during the second and third quarters of 2003, causing the average production for the year to expand by only 2.1 percent compared to 24.3 percent in 2002. In the last quarter of 2003, however, production of cement and steel products improved clearly due to very strong demand from the construction sector.

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2.3 Services

2.3.1 Tourism and Hotel Industry



Foreign Tourists Classified by Nationality

Country	Δ (%)			Market Share (%)	
	2002		2003	2002	
	Year	Jan-Sep	Jan-Sep	Jan-Sep	Jan-Sep
East Asia	7.8	7.4	-15.3	58.1	56.5
- Malaysia	12.4	17.3	-11.5	12.0	12.1
- Japan	5.2	-2.7	-19.9	11.6	10.7
- South Korea	28.4	26.7	-6.7	6.3	6.8
Europe	5.7	3.5	-6.0	23.5	25.3
USA	6.9	1.7	-9.4	6.5	6.8
Others	7.3	7.1	-15.6	11.9	11.4

Note: Δ % represents percentage change from the same period last year.

Source: Tourism Authority of Thailand

In 2003, the **tourism and hotel industry** was strongly affected by several temporary adverse shocks such as the US-Iraqi War and the outbreak of SARS in Asia. The number of foreign tourists in the second quarter dropped by 40.3 percent year-on-year, but the situation soon began to improve toward the end of the third quarter from effective measures to control the spread of the virus and bring back tourists' confidence. Measures to stimulate tourism, especially the promotion of local tourism during the special holidays at the time of the Asia-Pacific Economic Cooperation (APEC) summit and the opening of low cost airlines also facilitated the recovery of the travel industry in the last quarter of 2003. For the entire year, the number of foreign tourists totalled 9.95 millions, which was only 7.8 percent less than that of the previous year. Foreign revenues from tourism amounted to B323.4 billion, and the hotel occupancy rate averaged at 57 percent, slightly lower than that of the previous year.

The structure of foreign tourists in the first nine months of 2003 did not change significantly. The outbreak of SARS deterred tourists from all countries, especially those from East Asia. Nevertheless, tourists from East Asia continued to account for the largest share, 56.5 percent, of all foreign tourists to Thailand, followed by those from Europe and the US, accounting for 25.3 and 6.8 percent, respectively.

In 2004, the tourism industry is expected to expand from various promotion measures initiated by the government to make Thailand become the tourism capital of Asia and a high-quality travel destination by 2007. The Thai tourism market is likely to be able to expand in many areas such as travel for meeting, convention and exhibition; leisure/health travel; and long-stay travel, all of which will facilitate the expansion of the hotel business in turn.

Tourism Indicators

	2002	2003 ^P	2003			
			Q1	Q2	Q3	Q4
1. Number of foreign tourists (million persons)	10.8	10.0	2.9	1.4	2.6	3.1
Δ%	7.3	-7.8	-1.6	-40.3	0.5	5.9
2. Income from tourism (billion baht)	339.7	323.4	92.2	53.3	78.8	99.0
3. Occupancy rate (percent)	60.6	57.0	65.4	41.3	56.9	65.1
4. Room rates (baht)	1,194	1,170	1,334	1,082	1,026	1,237

Notes: ^P = preliminary data

Δ% represents percentage change from the same period last year.

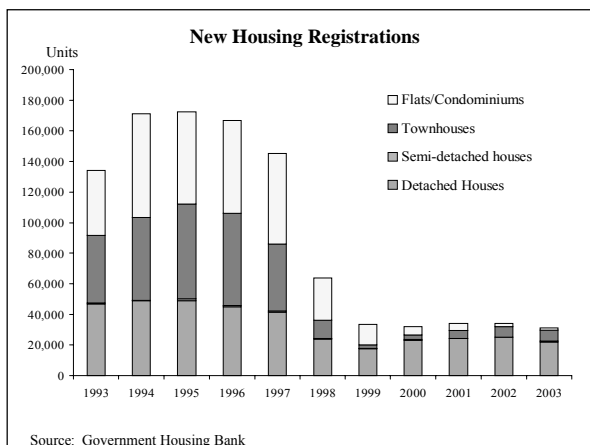
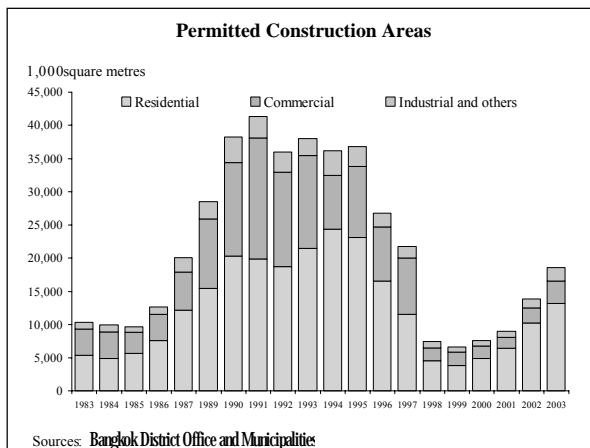
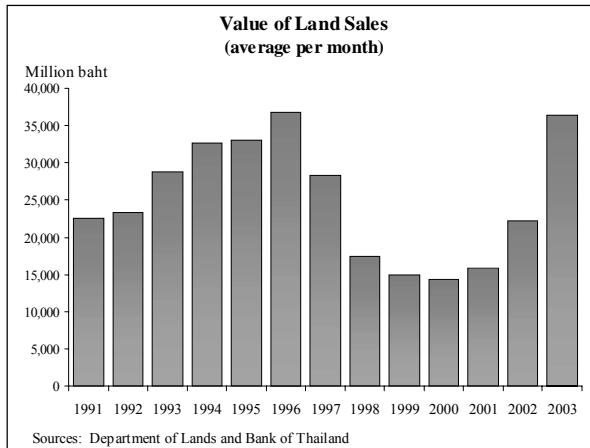
Sources: Tourism Authority of Thailand and Bank of Thailand

Sectoral Analysis Team 2

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2.3.2 Real Estate

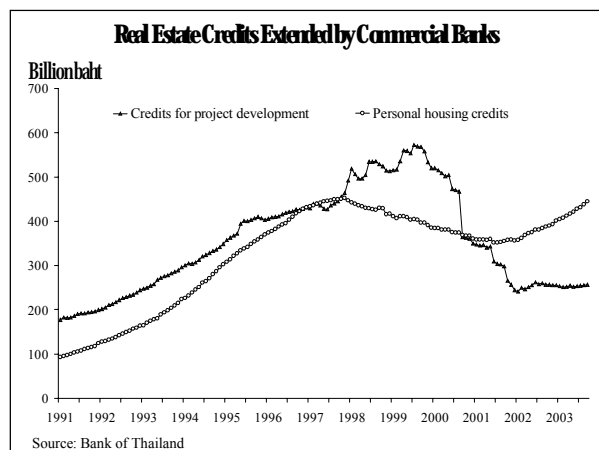
Real estate activities accelerated strongly in 2003, after the market had bottomed out in 2000, with housing demand being a major driving force. The value of land transactions for the entire kingdom totalled B437.0 billion, up by 64.6 percent from the previous year, with 25 percent of the transactions occurring in December alone due to the approaching expiration of transfer fee reduction at the end of the year as well as the rush to transfer property before the reappraisal of land by the Treasury Department and the new city plan for Bangkok take effect and thereby raise land and housing prices in 2004.



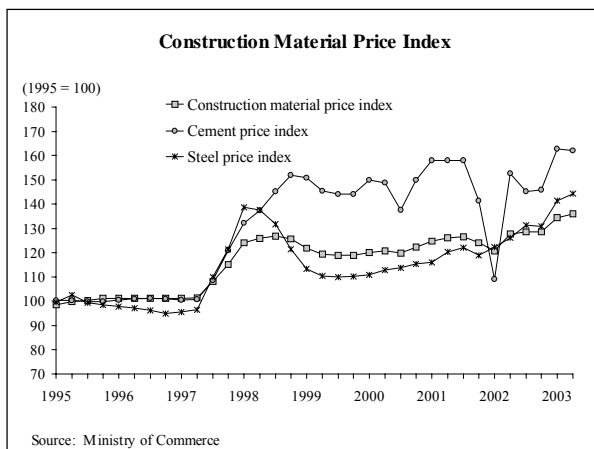
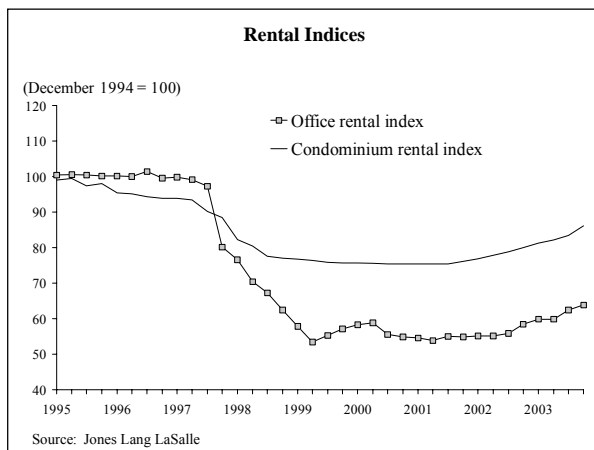
The exceptional level of activities in December 2003 caused the average value of land transactions per month to be close to that of 1996 (B36.8 billion), the year with the highest level of transactions before the 1997 crisis. Moreover, the number of transactions was close to that of 1995 (74,402 units), the year with the highest number of transactions before the crisis.

However, other real estate indicators, such as permitted construction areas and new housing registrations, were still lower than that of the pre-crisis period despite strong growth in recent years.

Major factors supporting buoyant real estate activities in 2003 include the low interest rate environment and high growth of housing credits extended by commercial banks, both of which made home-owning much more affordable. As of end-September 2003, the outstanding level of personal housing credits was B444.9 billion, growing by 15 percent year-on-year.



The increase in real estate demand which exceeded that of supply led to some upward pressure on real estate prices in 2003. Overall, housing prices were higher by 10 percent, while land prices in certain locations also rose and construction cost adjusted upward with higher prices of raw materials such as steel and cement. At the same time, the rise in the condominium rental index for the central business district encouraged greater demand for investment in condominiums.



Real estate activities is expected to slow down somewhat in the first quarter of 2004, partly because of the expiration of the transfer fee reduction and measures initiated by the Bank of Thailand to curb speculative activities in the real estate market. Nevertheless, the trend for the rest of the year should remain quite strong with genuine demand for housing and accommodating interest rates.

The partial slowdown in real estate demand coupled with greater supply, partly due to the government's housing programme for low-income families,¹ is likely to help relieve some real estate price pressure in 2004.

Real estate trends by type of property are as follows:

Housing Projects. The growth of housing projects should moderate from 2003 due to the slowdown of high-end housing which had already expanded at an exceptional rate in 2003. However, demand for middle-range housing should remain strong.

Condominiums. Supply of condominiums is expected to be high in 2004-2005, in line with the introduction of new condominium projects. The expansion of supply should accommodate the prevailing demand excess in this sector.

Office Buildings. Office buildings are likely to expand at a higher rate after no new supply came out during the past 2-3 years. At present, some construction projects that were on hold have already been resumed as the general market picks up.

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¹ The Government Housing Programme will create housing of 1 million units for low-income families within 5 years (2003-2007). At present, 112 units out of a total of 4,175 units planned for 2003 have been completed.

Real Estate Indicators

	2002	2003	2003			
			Q1	Q2	Q3	Q4
Value of Land Transactions (Million baht)	265,746	436,998	74,615	85,232	98,205	178,911
Δ%	40.5	64.4	38.4	33.9	40.9	128.0
Permitted Construction Areas (1,000 square metres)	13,891	18,539	3,456	4,174	4,939	6,108
Δ%	55.1	33.5	9.7	29.7	38.6	54.4
New Housing Registrations (Bangkok and surrounding areas) (Units)	34,035	50,549	8,764	10,359	11,998	19,473
Δ%	0.0	48.7	4.9	2.4	53.4	165.2
- Housing Projects	14,371	30,088	3,999	5,390	6,189	14,510
- Flats/Condominiums	1,971	1,908	220	196	1,017	475
- Self-built Houses	17,693	18,598	4,545	4,773	4,792	4,488
Volume of Cement Sales (1,000 tonnes)	23,020	24,249	6,321	5,921	5,942	6,065
Δ%	20.9	5.3	-6.0	10.5	4.1	15.9
Real Estate Credits Extended by Commercial Banks ^{1/} (Million baht)	655,463	701,118 ^{2/}	664,176	681,108	701,118	n.a.
Δ%	9.2	9.0 ^{2/}	8.0	6.0	9.0	n.a.
- Credits for Project Development ^{1/}	254,906	256,202 ^{2/}	251,949	253,196	256,202	n.a.
- Personal Housing Credits ^{1/}	400,557	444,916 ^{2/}	412,227	427,912	444,916	n.a.

Notes: ^{1/}Data as of end-period

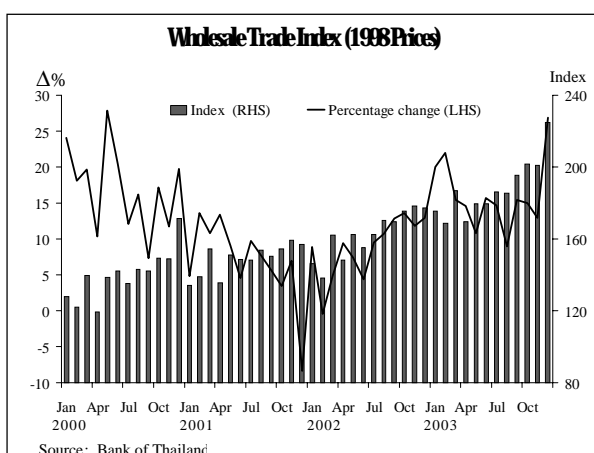
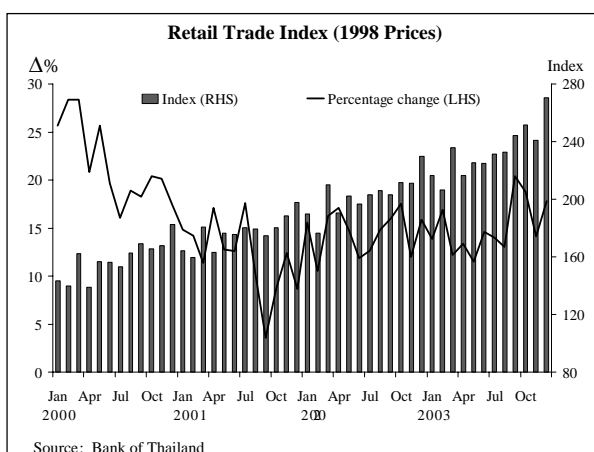
^{2/}Data as of end-September 2003

Δ% represents percentage change from the same period last year.

n.a. = no data available

Sources: Department of Lands, Government Housing Bank, and Bank of Thailand

2.3.3 Trade



Both retail and wholesale trade expanded well in 2003. Despite some slowdown in the second quarter due to the outbreak of SARS, activities recovered quickly especially in the last quarter of the year when the government promoted local tourism during the special holidays at the time of the APEC summit in Bangkok.

Important factors supporting the growth of trade in 2003 include rising farm income, an expansion in non-farm employment, a moderate increase in the price level, low interest rates, expanding non-bank credits to consumers, and the success of the One Tambon One Product (OTOP) promotion by the government. Moreover, improved economic conditions induced greater confidence of both consumers and entrepreneurs.

In 2004, trade is expected to expand further as supporting factors remain favourable.

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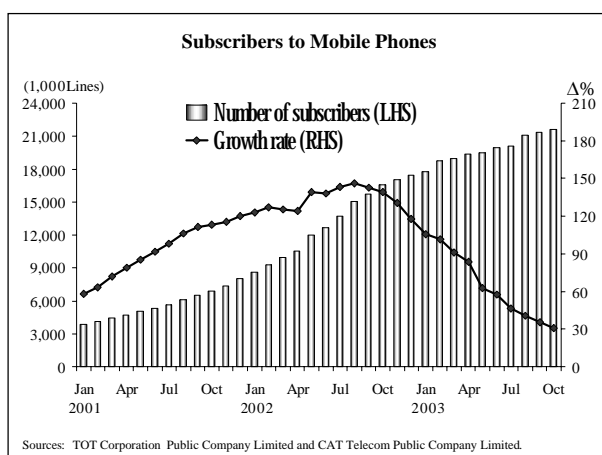
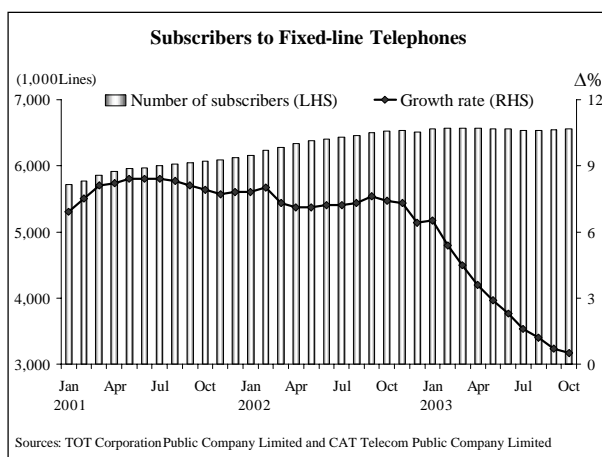
Retail and Wholesale Trade Indices

	2002	2003	2003			
			Q1	Q2	Q3	Q4
Retail Trade Index	202.5	233.0	219.4	222.3	236.1	254.3
Δ%	14.6	15.1	14.2	13.1	15.8	16.9
Wholesale Trade Index	162.1	188.0	177.1	176.3	189.2	209.3
Δ%	8.9	15.9	19.0	13.6	13.0	18.3

Note: Δ% represents percentage change from the same period last year.

Source: Bank of Thailand

2.3.4 Telecommunications



Telecommunication Services

(Unit: Million Lines)

	2002	2003			
		Q 1	Q 2	Q 3	Oct ^E
Fixed-line Telephones ^{1/}	6.513	6.564	6.555	6.544	6.552
Δ%	6.4	4.5	2.3	0.7	0.5
Mobile Phones ^{1/}	17.436	18.994	19.948	21.330	21.611
Δ%	117.7	90.8	57.3	35.5	30.5

Note: ^{1/}Data as of end-period
 Δ% represents percentage change from the same period last year.
 E = estimated data

Sources: TOT Corporation Public Company Limited and CAT Telecom Public Company Limited .

The telecommunications industry exhibited strong growth in 2003, mainly from the expansion of the mobile phone business. The number of mobile phone subscribers as of end-October 2003 stood at 21.6 millions, up by 30.5 percent year-on-year, while the number of fixed-line subscribers did not change significantly.

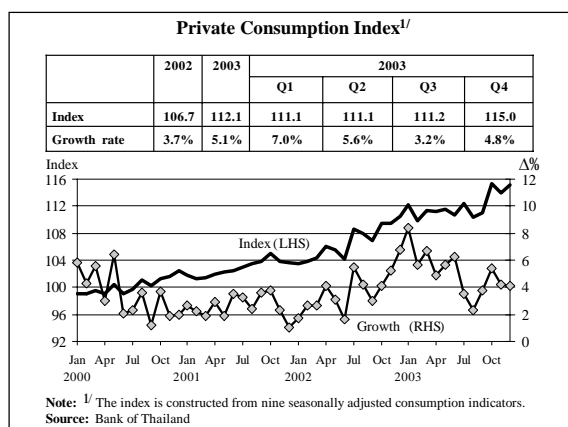
Factors behind the growth of the mobile phone business during the past 2 years include the economic recovery and rising consumer purchasing power coupled with technological advancement and marketing by the service providers to raise demand for both mobile phones and services.

However, the mobile phone business is likely to expand at a more moderate rate going forward as Thailand's subscription rate per capita is already quite high. At the same time, market competition among mobile phone service providers will become more intense, both in terms of service and price, thus pushing service fees as well as mobile phone prices down. Meanwhile, fixed-line service providers will have to improve their competitive capability in order to compete with their mobile phone counterparts. It is thus likely that fixed-line service fees will also fall while the availability of additional services will increase.

In summary, the expansion of the telecommunications industry is expected to slow down in 2004 in tandem with the mobile phone business. Service fees should fall from intense competition while a wider variety of services will be offered with a continued improvement in technology, including multimedia messaging.

2.4 Private Consumption

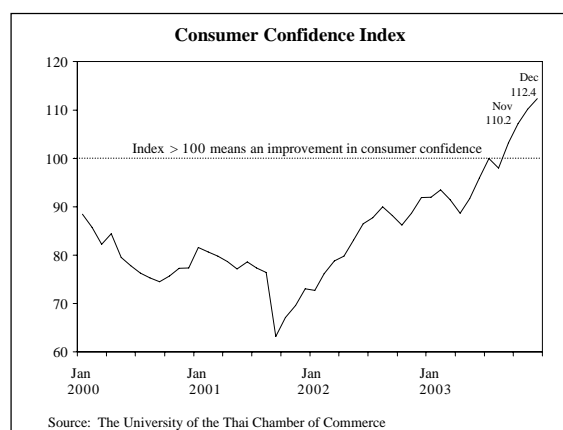
The Private Consumption Index (PCI) increased by 5.1 percent in 2003, accelerating from the previous year's increase of 3.7 percent. The acceleration in PCI growth in the first quarter was mostly due to higher sales of vehicles. However, PCI growth moderated in the second quarter amidst concerns regarding Severe Acute Respiratory Syndrome (SARS), and decelerated further in the third quarter as a result of decelerated automobile sales owing to the lack of new car models to stimulate consumer interest. In the final quarter, extra national holidays during the Asia-Pacific Economic Cooperation (APEC) summit and higher sales of passenger cars and motorcycles, especially the new models, led to accelerated PCI growth.



A number of factors contributed to the overall acceleration of private consumption in 2003:

- (1) Higher consumer purchasing power in tandem with a diminishing unemployment rate, a strong increase in farm income, improved corporate profits, and a rise in stock prices.
- (2) Increased consumer confidence except during SARS.
- (3) A supportive financial environment, especially in regard to low interest rates and improved consumer credit access.

The details on private consumption indicators are as follows:

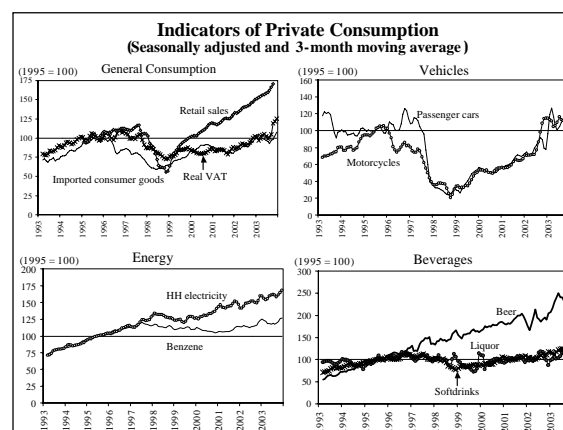


Indicators of general consumption.

The collection of value-added taxes on consumption goods rose by 15.0 percent, constituting an acceleration in growth from last year in line with the country-wide rise in retail sales. Meanwhile, imported consumer goods expanded significantly by 10.4 percent, with the increases in imported electrical appliances and food and beverages being the most notable.

Indicators of vehicle sales .

Passenger car sales rose by 42.0 percent, up significantly from the previous year's growth of 20.8 percent as a result of increased consumer purchasing power, low interest rates, and a greater number of new car models introduced at the motor show at the end of 2002 as compared to the previous years. Although motorcycle sales decelerated from last year's growth of 42.0 percent to 28.2 percent this year, motorcycle sales continued to expand significantly nonetheless.



Indicators of energy consumption.

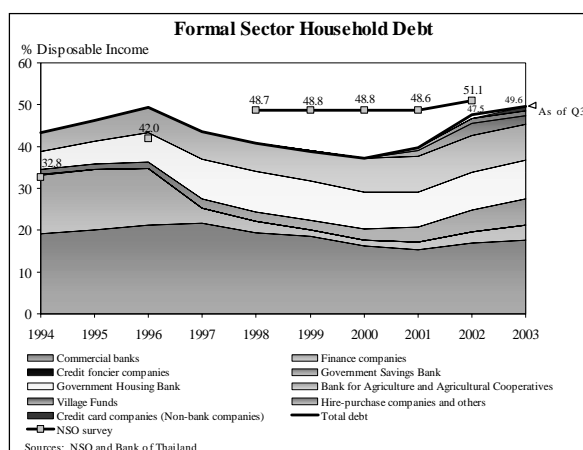
Residential electricity usage rose by 6.2 percent, accelerating from the previous year's growth of 3.7 percent in tandem with the recovery of the real estate sector and increased sales of electrical appliances. However, the usage of benzene fuel, amidst the volatility of oil prices, expanded at a decelerated rate compared to the previous year.

Indicators of beverage consumption.

The sales of beer and soft drinks expanded by 25.1 and 14.4 percent, respectively, as compared to the previous year's growth rates of 1.7 and 4.5 percent. The accelerated growth was partly due to regular sales promotions. Liquor sales, however, did not expand at a high rate as a result of an anti-drinking campaign, especially during the Buddhist lent.

Nonetheless, the issue of private consumption sustainability, especially when household debt has been rising, merits attention. The rise in household debt has been supported by a number of factors including increased consumer confidence with regard to steadily improving income and employment prospects as well as greater access to consumer

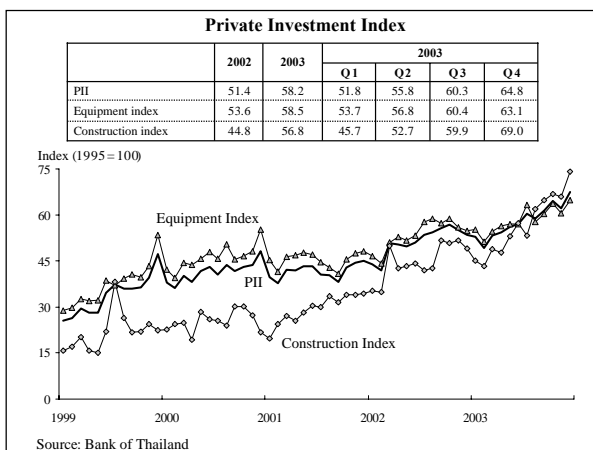
credit. To the extent that these factors may impair the traditional thrifty culture of Thai consumers, they should be monitored closely. According to the National Statistical Office (NSO), average household debt in 2002 had increased to B82,485 from B68,279 in 2001, or up by 17.9 percent. Measured as a share of household disposable income, aggregate household debt in 2002 was at 51.1 percent. Meanwhile, the Bank of Thailand's data show that household debt in the formal sector amounted to 49.6 percent of disposable income at the end of the third quarter of 2003 and was trending marginally upwards.



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2.5 Private Investment



Private Investment

Δ%	2002	2003	2003			
			Q1	Q2	Q3	Q4
Private Investment	13.2	17.9	19.8	16.8	16.5	18.5
Private Investment Index	23.4	13.2	13.8	10.7	10.6	17.5

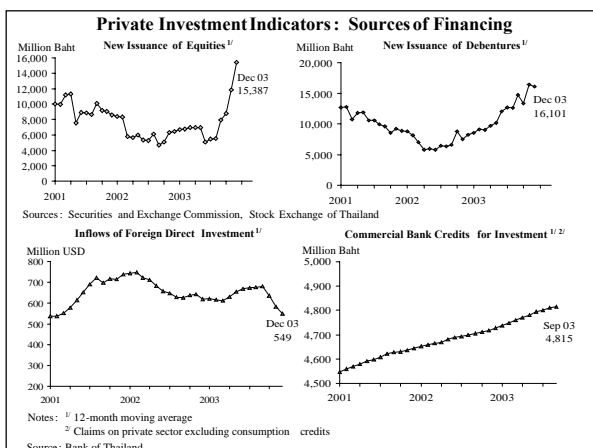
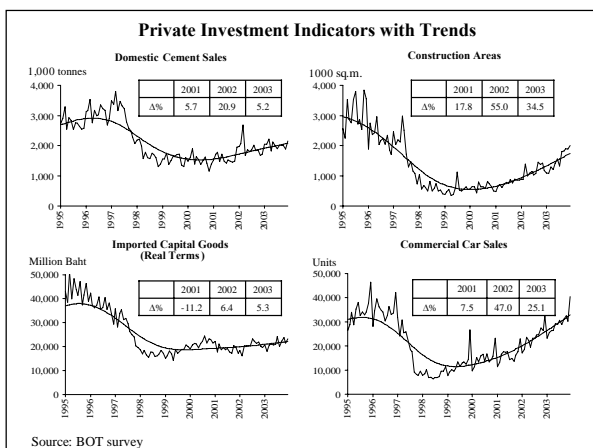
Source: NESDB and Bank of Thailand

Private Investment Indicators

Δ%	2001	2002	2003
Value of projects applying for BOI support	-47.9	41.7	21.5
Value of BOI approved projects	-4.6	-39.0	75.8
Newly registered business capital	-19	1.9	22.9*
Domestic sales of capital goods (real terms)	7.6	-3.7	6.8**

Note: *January - November 2003 **January - October 2003

Sources: BOI, Ministry of Commerce, Bank of Thailand, and Revenue Department

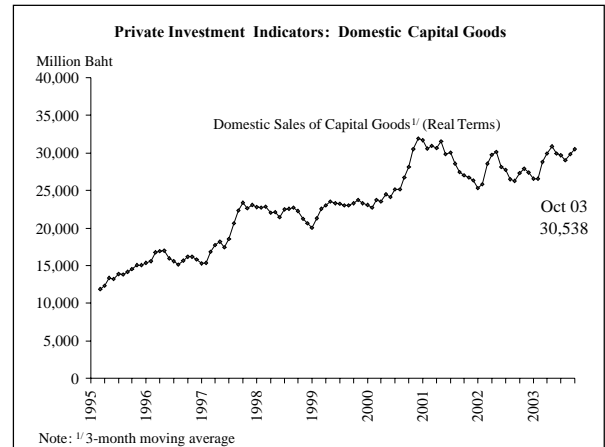


Private investment, which comprises about 15 percent of GDP, expanded by 17.9 percent in 2003, accelerating from the previous year's increase of 13.2 percent. Meanwhile, the Bank of Thailand's Private Investment Index (PII) accelerated largely throughout the year both in equipment and construction investment in tandem with improved business sentiments. Furthermore, the values of projects approved by the Board of Investment (BOI) and newly registered capital investment in 2003 indicate an investment climate that was clearly an improvement over the previous year's.

Components of the PII, namely commercial car sales, imported capital goods, permitted construction areas, and domestic cement sales, all registered strong growth in 2003 despite the US-Iraqi War and the outbreak of Severe Acute Respiratory Syndrome (SARS) which adversely affected investor confidence as seen by the delay of some investment during the first half of the year. The economy's strong recovery and increased exports led meanwhile to rising capacity utilisation and the concomitant increase in demand for investment to expand productive capacities. The manufacturing sectors that expanded their productive capacities this year include cement, electronics, and electrical appliances. In addition, an accommodating financial environment in terms of ample sources of funding and low interest rates together with improving corporate performance was an important factor contributing to the private sector's ability to invest.

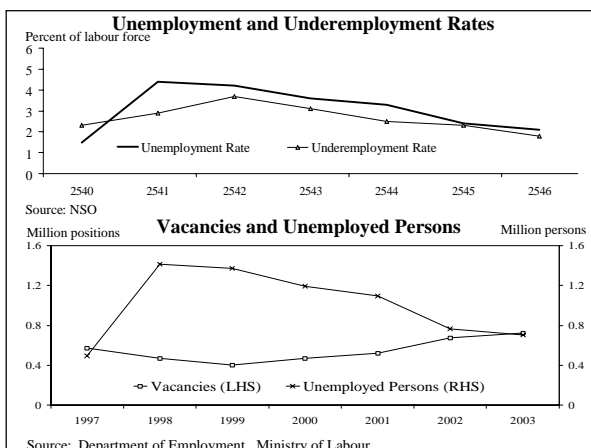
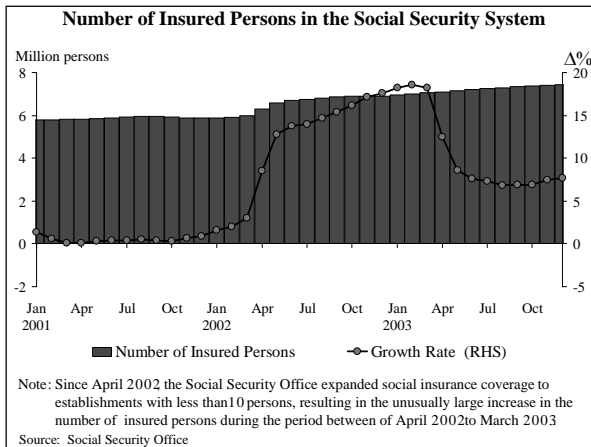
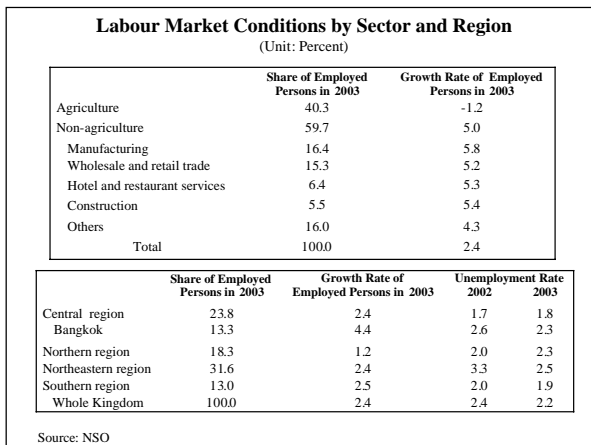
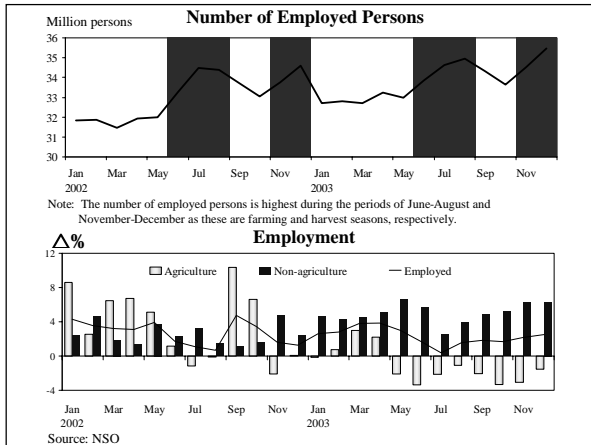
However, the limited definitional coverage of certain components of the PII caused the growth of the index to be lower in 2003 than in 2002. In particular, the components of the PII do not include domestic machinery and equipment, the importance of which has been gradually rising in recent years. Indeed, sales of domestic capital goods at constant prices increased by 6.8 percent year-on-year during the first ten months of 2003 compared to a decrease of 4.7 percent during the same period in 2002.

Looking forward, investment indicators are favourable for 2004 for the following reasons: (1) the three-month forward Business Sentiments Index (BSI) was above 50 in January 2004, confirming an upward trend in business sentiments; (2) the value of BOI certificates issued amounted to about B105 billion in the second half of 2003; and (3) many industries, such as those producing galvanised iron, wire rods, motorcycles, tyres, integrated circuits, zinc metal, pulp, and upstream petrochemicals, have already operated at capacity utilisation rates above 70 percent and their respective pre-crisis levels, indicating the tendency to expand productive capacities in the near future.



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2.6 Labour Market Conditions



In 2003, the number of employed persons increased by 2.4 percent from the previous year due to the increase in non-agricultural employment which rose by 5.0 percent in tandem with the expansion of employment in the manufacturing, construction, hotel and restaurant, and wholesale and retail trade sectors. Agricultural employment decreased by 1.2 percent, however, as a result of drought and increased labour demand from non-agricultural sectors which prompted agricultural workers to migrate.

Employment rose in all regions of Thailand but especially in Bangkok. The greatest decrease in the unemployment rate occurred in the Northeastern region partly due to the shift of labour to the manufacturing and services sectors in the greater Bangkok metropolitan area.

Private hiring in the formal sector, as measured by the social insurance coverage, also rose significantly. At end-2003, the number of insured workers stood at 7.43 millions, growing by 7.7 percent year-on-year.

A labour issue that merits attention is the possible tightening of the labour market and the resulting pressure on wages. The increase in the number of employed persons in tandem with the economic recovery has already led to the lowest unemployment rate since 1998. In 2003, the unemployment rate stood at 2.2 percent, having decreased from 2.4 percent in 2002 which was also the average rate during 1990-1996. The aforementioned developments, together with the decrease in underemployment and increasing vacancies, indicate a labour market that may tighten in the future. Nevertheless, wage pressure thus far has been minimal due to the willingness of the surplus labour in the agricultural sector to shift to the non-agricultural sector.

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2.7 Price Level

In 2003, the **Consumer Price Index (CPI)** rose by 1.8 percent, accelerating from the previous year's increase of 0.7 percent, as a result of a 3.6 percent increase in food prices and a 0.7 percent increase in non-food prices. **Core CPI** (excluding fresh food and energy) rose by 0.2 percent and remained well within the target inflation bracket of 0-3.5 percent.

Inflation remained low throughout the year because of the following reasons:

(1) Residential rental rates fell considerably partly due to low interest rates which led to more households choosing to purchase, rather than rent, real estate.

(2) The baht appreciated from the average of 43.00 baht per US dollar in 2002 to 41.50 baht per US dollar in 2003. As a result, import prices fell.

(3) Increased competition pressured firms to keep their prices low in order to maintain market share.

(4) Administered prices, especially the prices of basic necessary goods such as public utility and tuition fees, rose only modestly under the government's supervision.

Nevertheless, prices of goods in certain categories increased significantly. For example, within the food category, the price of rice, flour, and flour products increased by 9.8 percent in the face of increased external demand for Hom Mali rice. At the same time, the price of transportation and communication increased by 3.1 percent as a result of higher fuel prices.

On the whole, headline inflation remained above core inflation because of the increase in food and energy prices.

Consumer Price Index

(percentage change from the same period last year)

	Weight (percent)	2002	2003	2003			
				Q1	Q2	Q3	Q4
Headline Consumer Price Index	100.0	0.7	1.8	1.9	1.7	1.9	1.6
Food and beverages	38.5	0.3	3.6	2.0	4.2	4.4	4.2
Non-food and beverages	61.5	0.8	0.7	1.9	0.4	0.4	0.2
Core Consumer Price Index	75.3	0.4	0.2	0.3	0.2	0.0	0.1

Source: Bureau of Trade and Economic Indices, Ministry of Commerce

The **Producer Price Index (PPI)** increased by 4.0 percent in 2003, accelerating from the previous year's increase of 1.6 percent. The rise in PPI was due to higher prices in all categories, namely agricultural, mining and manufactured products which rose by 10.9, 5.8 and 2.9 percent, respectively. While agricultural prices rose with the increase in the prices of paddy rice and rubber as a result of government support

measures, manufactured product prices rose following the increase in the prices of petroleum, metal, and non-metal products, and mining product prices rose following the increase in the prices of liquid petroleum, natural gas and metal ore.

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Producer Price Index

(percentage change from the same period last year)

	Weight (percent)	2002	2003	2003			
				Q1	Q2	Q3	Q4
Producer Price Index	100.0	1.6	4.0	5.3	4.0	4.0	2.9
Agricultural Products	13.1	10.0	10.9	9.9	12.2	11.5	9.8
Mining Products	1.9	-1.3	5.8	8.1	6.5	6.4	2.5
Manufactured Products	85.0	0.6	2.9	4.5	2.7	2.7	1.7

Source: Bureau of Trade and Economic Indices, Ministry of Commerce

2.8 International Trade and the Balance of Payments

Export value rose substantially in 2003, in line with the growth of trading partners' economies as well as the recovery of the world electronics industry and agricultural prices. Import value grew in tandem with domestic demand and the need for imported raw materials for the production of exports. Overall, the trade account registered a higher surplus compared to the previous year, but the services, income and transfers account recorded a smaller surplus because the outbreak of SARS adversely affected tourism revenues. Nonetheless, a large trade surplus led to a bigger current account surplus than in 2002. Meanwhile, net capital movements registered a much larger deficit due to debt repayment by the BOT, the government and state enterprises coupled with an accumulation of foreign assets by commercial banks. As a result, the balance of payments recorded only a slight surplus this year compared to a surplus in excess of US\$4 billion in 2002.

Exports

Export value totalled US\$78.4 billion, rising by 18.6 percent year-on-year as export volume expanded by 10.0 percent while export prices surged by 7.9 percent. A key factor behind this robust growth of Thai exports is the expansion of major trading partners' economies, particularly the ASEAN countries and China. As a result, Thai exports to the ASEAN countries and China together grew by 30 percent and accounted for 27.7 percent of total exports in 2003. At the same time, manufactured exports benefited from the recovery of the world electronics and vehicle markets, while demand for agricultural products also rose, contributing to both higher agricultural export volume and prices.

The details of Thailand's major export items are as follows:

Agricultural Products. Export value of agricultural products soared primarily from the increase in prices. In particular, export value of **rubber** rose by 60.2 percent, in line with the

expanding vehicle industry, particularly in China, the ASEAN countries, and Japan. Meanwhile, export value of **rice** increased by 13.7 percent as a result of higher price of Hom Mali rice in the ASEAN market, while export volume of rice did not increase due to strong competition from other exporting countries, particularly India which enjoyed export subsidy in the first half of the year. As for **tapioca**, despite a decline in price, its export value still rose by 26.9 percent with a surge in the export volume in line with demand for tapioca chips and pellets from China for alcohol production and from the EU to be used as animal feed. Export value of **frozen fowl** increased by 11.7 percent due mainly to the increase in export volume, particularly to the EU, which is a major market. However, export price of frozen fowl fell because of intense competition from low-cost producers, particularly Brazil and China.

Fishery Products. Export value of **frozen shrimp** increased by 7.9 percent year-on-year due to volume expansion in line with demand from the US, a major market which accounted for as high as 52.1 percent of Thailand's frozen shrimp exports in 2003. Nevertheless, frozen shrimp export faced some difficulties during the year. Towards the end of 2003, a group of US shrimp farmers filed a request for anti-dumping investigation against 6 countries, namely Thailand, India, Vietnam, China, Brazil, and Ecuador. Moreover, export value of frozen shrimp to the EU fell by 66.7 percent as a result of strict examination for chemical residues. This did not have a significant impact on the overall export performance of the product, however, because the EU market accounted for only 0.5 percent of frozen shrimp exports and the situation also improved later as the 100% examination was replaced with a 10% random inspection on 27 June 2003.

Manufactured Products. Export value of manufactured products grew by 17.9 percent and

accounted for as much as 85.8 percent of total exports in 2003, close to that of the previous year.

Export value of **hi-tech products**, which accounted for 59.4 percent of total exports, grew by 18.4 percent in 2003. Under this category, export value of **electronics products** rose by 18.0 percent in line with the recovering world electronics industry, with **computers and parts** and **integrated circuits (IC) and parts** doing most favourably. Despite a decline in exports to the US, exports to other major markets expanded well, namely, those to the ASEAN countries, the EU, and China which particularly used imported products from Thailand as raw materials for Chinese electronics exports. Meanwhile, export value of **electrical appliances** grew by 13.7 percent, with the US, EU, ASEAN, and Japanese markets all growing fast. Export value of **base metal products** increased by 27.2 percent, particularly from iron and steel exports to China, a major market whose domestic production fell short of domestic demand. Export value of **vehicles and parts** also grew well at 37.7 percent, with the major export markets being the ASEAN countries, Australia, and Japan. Meanwhile, export value of **chemical products** rose by 36.3 percent in line with the expansion of trading partners' economies and strong cyclical demand for petrochemicals, and export value of **plastic products** grew by 24.0 percent, with the major export markets being the ASEAN countries, China, Hong Kong, and the US.

As for **labour-intensive products**, export value of **garments** rose only by 1.6 percent in 2003 because exports to the US, a major market accounting for more than half of this product's exports, fell by 1.9 percent due to intense competition from exporters with labour cost advantage such as China and Vietnam. Nonetheless, exports to the EU market still expanded. Meanwhile, export value of **precious stones and jewellery** continued to grow by 8.3 percent from the previous year, with the export of silver accessories gaining an increasing share in the US market in particular, and export value of

footwear grew by 3.4 percent, notably the export of sports shoes to the US.

In the category of **resource-based products**, export value of **canned seafood** increased by 4.7 percent, primarily from an expansion in volume. Export value of **furniture and parts** grew by 8.6 percent, with major markets such as the US, Japan, and the EU all expanding well. At the same time, export value of **sugar** rose from both higher volume and price, and the export markets which expanded particularly favourably were Indonesia, Japan, and Russia. Export value of **rubber products** rose in line with an expansion in demand from the automobile industry abroad, while export value of **canned pineapple** grew by 27.4 percent from both higher export volume and price, partly as a result of raw material shortage in the world market.

Imports

In 2003, **import** value amounted to US\$74.2 billion, up by 17.1 percent from the previous year due to a 9.3 percent surge in volume in line with recovering domestic demand and greater need for raw materials to produce export products, while import prices rose by 7.2 percent.

The details of Thailand's major import items are as follows:

Consumer Goods. Import value of consumer goods grew by 12.9 percent, most notably non-durable items in the category of food and beverages including dairy products, cereals, and fruits and vegetables, which altogether expanded by 15.9 percent due partly to the free trade arrangement in fruits and vegetables between Thailand and China since October 2003. At the same time, import values of toiletries and cosmetics, clothing and footwear, and medicinal and pharmaceutical products also increased. As for durable products, their import value grew by 9.8 percent primarily from the import of electrical appliances.

Intermediate Products and Raw Materials.

Notable items in this category are **gems and precious stones** and **iron and steel**. While import value of gems and precious stones rose in tandem with jewellery exports, import value of iron and steel increased in line with the expansion of domestic industries, particularly the automobile industry.

Capital Goods. Import value of capital goods increased by 14.9 percent primarily from an 11.7 percent growth in import volume. Although import value of **computers** fell by 3.6 percent, import value of **computer parts** grew as rapidly as 33.5 percent while that of **IC and parts** expanded correspondingly. At the same time, import value of **non-electrical machinery and parts** grew by 23.0 percent, particularly those used in the automobile, construction, paper, transportation and communication, food and metal industries as well as office equipment. As for **electrical machinery and parts**, which are used mostly in the electronics industry, import value grew by 6.3 percent in line with the cyclical recovery of world electronics demand in the second half of the year. In addition, two commercial aircrafts were imported, amounting to approximately US\$400 million.

Vehicles and Parts. Import value of vehicles and parts rose by 36.7 percent, mostly from car chassis, bodies, and tyres.

Crude Oil. Import value of crude oil grew by 23.7 percent primarily from the price factor as the average import price of crude oil in 2003 was US\$26 per barrel, compared to US\$22 per barrel in the previous year. Meanwhile, import volume of crude oil rose by only 4.1 percent.

Trade, Services, and Current Account Balances

Although imports grew briskly in 2003, the more rapid expansion of exports led to a higher **trade surplus** of US\$4.2 billion this year compared to US\$2.7 billion in 2002. However, the **services, income and transfers account** registered a narrower surplus of US\$3.8 billion,

compared to US\$4.3 billion in 2002, due to the outbreak of SARS which led to a 7.8 percent year-on-year drop in the number of foreign tourists and thus a significant decline in tourism revenues. Furthermore, investment income receipts, especially of the public sector, fell in line with declining rates of return. On the contrary, service payments rose as outbound tourism expenditures increased by 5.8 percent despite a fall in the number of outbound Thai tourists of 4.4 percent. In addition, investment income payments rose from the previous year due to higher interest payments as well as higher profit and dividend remittances by the private sector, which more than offset the decline in interest payments by the public sector due to the early payment of the IMF loan package.

Nevertheless, as the increase in the trade surplus was of greater magnitude than the reduction in the services surplus, the **current account** surplus widened from US\$7.0 billion in 2002 to US\$8.0 billion this year.

Net Capital Movements

Net capital movements were in deficit by US\$8.6 billion this year, widening from a deficit of US\$4.2 billion in 2002 due mainly to the debt repayment by the public sector as well as the accumulation of foreign assets by commercial banks. The details of net capital movements in 2003 are as follows.

Capital flows of the private sector recorded a deficit of US\$8.8 billion, which was larger than in the previous year. Of this, the **banking sector** switched from registering a surplus of US\$1.8 billion in 2002 to posing a deficit of US\$2.4 billion this year with an accumulation of **commercial banks'** foreign assets by US\$1.6 billion as opposed to a reduction of foreign assets by US\$3.6 billion in the previous year. This accumulation of foreign assets owed mainly to the commercial banks' swap transactions with the BOT. Meanwhile, debt repayments by **Bangkok International Banking Facilities (BIBFs)** were close to the previous

year's level. As for the **non-bank private sector**, a large deficit of US\$6.4 billion was registered; nevertheless, this was smaller than a deficit of US\$7.5 billion in 2002. Foreign direct investment, particularly **equity investment**, recovered from 2002 because foreign investors increased their direct investments in the metal and automobile industries, whereas in the previous year foreign companies underwent financial restructuring by converting equity into debt which resulted in a large outflow of equity capital. **Portfolio investment** switched from a deficit of US\$1.1 billion in the previous year to a slight surplus this year with inflows of foreign investment in equity securities and a smaller amount of debt security redemption relative to the previous year. At the same time, **other loan repayments** (between unaffiliated private entities) fell from US\$2.2 billion in 2002 to US\$1.5 billion this year, largely in the form of net debt repayment and early payment by the chemical, machinery and transport equipment, and petroleum-product trading industries.

Capital flows of the public sector (including the BOT) recorded a surplus of

US\$0.2 billion this year. The **BOT** registered a net surplus of US\$2.6 billion despite the early payment of the IMF loan package which amounted to US\$4.9 billion. The **public sector (excluding the BOT)** registered a deficit of US\$2.4 billion, due largely to the repayment of long-term loans under the debt refinancing and prepayment plan of **the government and state enterprises**. Loans that were refinanced were mostly for public projects from Japan Bank for International Cooperation (JBIC).

Balance of Payments

Although the current account registered a large surplus, a much wider deficit in the net capital movements compared to the previous year resulted in a **balance of payments** surplus of only US\$143 million in 2003, significantly smaller than that of US\$4.2 billion in 2002. Nonetheless, as a result of the surplus in the balance of payments, **international reserves** at end-2003 rose to US\$42.1 billion, equivalent to 6.8 months of imports, while the outstanding net forward obligations of the BOT stood at US\$5.2 billion.

Balance of Payments Division
Tel. 0 2283 5636

Balance of Payments

(Unit: Million US\$)

	2002			2003		
	Year	H1	H2	Year ^{1/}	H1 ^{1/}	H2 ^{1/}
Exports, f.o.b.	66,092	31,015	35,077	78,416	37,034	41,382
($\Delta\%$)	4.8	-2.0	11.6	18.6	19.4	18.0
Imports, c.i.f.	63,353	29,854	33,499	74,214	34,496	39,718
($\Delta\%$)	4.6	-4.3	14.0	17.1	15.5	18.6
Trade balance	2,739	1,161	1,578	4,202	2,538	1,664
Services, income and transfers	4,269	1,438	2,831	3,773	1,191	2,582
Current account balance	7,008	2,599	4,409	7,975	3,729	4,246
Capital movements (net)	-4,181	-672	-3,509	-8,604	-4,925	-3,679
Private sector	-5,703	-3,440	-2,263	-8,855	-4,659	-4,196
-Banks	1,776	904	872	-2,446	-2,386	-60
Commercial banks	3,401	1,355	2,046	-1,298	-1,981	683
BIBFs	-1,625	-451	-1,174	-1,148	-405	-743
-Non-banks	-7,479	-4,344	-3,135	-6,409	-2,273	-4,136
Public sector	-2,510	-583	-1,927	-2,418	-381	-2,037
Bank of Thailand	4,032	3,351	681	2,669	115	2,554
Errors and omissions	1,407	853	554	772	143	629
Overall balance^{2/}	4,234	2,780	1,454	143	-1,053	1,196

Note : ^{1/} Preliminary data^{2/} Actual data $\Delta\%$ represents percentage change from the same period last year.

Sources: Customs Department and Bank of Thailand

2.9 External Debt

External debt outstanding stood at US\$52.3 billion as of end-2003, declining from US\$59.5 billion at end-2002, as a result of the debt repayment of US\$9.6 billion. However, total external debt fell by only US\$7.2 billion over the year due to an appreciation of the yen that resulted in a higher value of yen-denominated debt in US dollar terms. The details of the external debt can be summarised as follows:

External Debt Outstanding*
(Unit: Million US\$)

	2001	2002	2003	Dec. 03 Compared to Dec. 02
1. Public Sector	28,306	23,305	16,946	-6,359
1.1 BOT (Long-term)	8,325	4,902	0	-4,902
1.2 Govt and State Enterprises	19,981	18,403	16,946	-1,457
Long-term	19,834	18,016	16,561	-1,455
Short-term	147	387	385	-2
2. Private Sector	39,203	36,154	35,312	-842
Long-term	25,961	24,622	24,315	-307
Short-term	13,242	11,532	10,997	-535
2.1 Banks	9,354	8,136	7,051	-1,085
Long-term	4,334	3,929	3,735	-194
Short-term	5,020	4,207	3,316	-891
2.1.1 Commercial Banks	3,262	2,963	2,796	-167
Long-term	1,765	1,529	1,277	-252
Short-term	1,497	1,434	1,519	85
2.1.2 BIBFs	6,092	5,173	4,255	-918
Long-term	2,569	2,400	2,458	58
Short-term	3,523	2,773	1,797	-976
2.2 Non-banks	29,849	28,018	28,261	243
Long-term	21,627	20,693	20,580	-113
Short-term	8,222	7,325	7,681	356
Total Debt (1+2)	67,509	59,459	52,258	-7,201
Long-term	54,120	47,540	40,876	-6,664
Short-term	13,389	11,919	11,382	-537
Share (%)	100.0	100.0	100.0	
Long-term	80.2	80.0	78.2	
Short-term	19.8	20.0	21.8	
Share (%)	100.0	100.0	100.0	
Private	58.1	60.8	67.6	
Public	41.9	39.2	32.4	

* Including valuation change

Source: Bank of Thailand

External debt of the private sector stood at US\$35.3 billion, declining by US\$0.8 billion from end-2002 due mainly to a reduction in short-term debt of BIBFs and long-term debt of commercial banks. Nonetheless, external debt of the non-bank sector rose by US\$0.2 billion, mostly in the form of short-term loans.

External debt of the public sector amounted to US\$17.0 billion, falling by US\$6.4 billion from end-2002 due to the BOT's repayment of US\$4.9 billion for its IMF loan package as well as a reduction in external debt of the government and state enterprises by the total amount of US\$1.5 billion. In particular, the decline in the external debt of the government and state enterprises was due to a number of factors: (1) the government and state enterprises' loan repayment and prepayment plans, (2) a redemption of maturing yen-denominated bonds and negotiable certificate of deposit issued by FIDF, and (3) Thai commercial banks' purchase of short-term Euro Commercial Papers (ECP) and long-term Floating Rate Notes (FRN) issued by the Thai government.

External Debt Structure

The ratio of long-term to short-term debt as of end-2003 was 78:22, declining from 80:20 at end-2002. Meanwhile, the ratio of private to public debt was 68:32, increasing from 61:39 in the previous year due to public debt repayment.

Balance of Payments Division
Tel. 0 2283 5625

2.10 Fiscal Conditions

According to the Budget Act B.E. 2546 (2003), the government's net revenue was estimated at B825 billion while government expenditure was budgeted at B999.9 billion, resulting in a planned budget deficit of B174.9 billion.

Nonetheless, government revenue for FY 2003 was higher than anticipated owing to the economy's rapid growth and improved tax administration. At the same time, government expenditure declined from the previous year partly owing to a lower-than-anticipated disbursement rate. As a result, the government recorded a cash surplus for the entire fiscal year.

For FY 2004, the government will pursue a policy of gradually reducing the fiscal deficit so as to balance between the maintenance of short-run

fiscal stimulus and the medium-term fiscal discipline. The government thus set a budget expenditure of B1,028 billion with a resulting planned budget deficit of B99.9 billion.

However, at the beginning of FY 2004, the Ministry of Finance revised its revenue projection upwards by B135.5 billion and proposed additional budget expenditure by the same amount in order to maintain the same degree of fiscal impulse as the original budget. The supplementary budget was allocated as follows: (1) pension and gratuities: B33 billion; (2) early retirement programme for civil servants: B14.6 billion; (3) salary increase for civil servants: B16.6 billion; (4) competitiveness enhancement programme: B59 billion; and (5) transfer to local government: B12.3 billion.

Treasury Account Position						
(Unit: Billion baht)						
	Fiscal Year					
	2002	2003	2004			
			Q1	Oct	Nov	Dec
Revenue	845.4	960.6	256.8	81.9	69.0	105.9
(Δ%)	(10.5)	(13.6)	(25.4)	(28.2)	(5.9)	(39.7)
Expenditure	972.2	938.4	298.3	84.2	83.4	130.6
(Δ%)	(11.0)	(-3.5)	(24.0)	(-2.9)	(5.2)	(75.7)
: Disbursement rate (%)	89.2	89.1	26.0	7.2	7.1	11.7
(not including debt principal repayment)						
Budgetary Deficit (-) or Surplus (+)	-126.8	22.2	-41.5	-2.3	-14.4	-24.7
Non-Budgetary Deficit (-) or Surplus (+)	8.1	12.1	4.0	4.7	-6.6	5.8
Cash Deficit (-) or Surplus (+)	-118.7	34.3	-37.5	2.4	-21.0	-18.9
: (% of GDP)	(-2.2)	(0.6)	(n.a.)			
Financing						
Net Domestic Borrowing	161.0	45.0	-33.1	-21.2	-11.5	-0.3
Net Foreign Borrowing	-31.9	-38.9	-3.0	-0.3	-1.7	-1.0
Use of Treasury Cash Balance	-10.4	-40.5	73.6	19.1	34.2	20.2
Treasury Cash Balance (end-period)	82.8	123.3	49.7	104.1	69.9	49.7

Source: Comptroller-General's Department, Ministry of Finance
Data Management Group, Bank of Thailand

Fiscal Position

Government Revenue

In FY 2003, revenue remitted to the treasury account totalled B960.6 billion, increasing from the previous fiscal year by 13.6 percent. Of this total, taxes comprised B869.8 billion, increasing by 14.8 percent from the previous year in tandem with economic growth and improved tax administration as well as an expanded tax base. More specifically, corporate income tax revenue rose by 27.0 percent, personal income tax revenue by 7.9 percent, and excise tax revenue by 18.6 percent. The increase in excise tax revenue was partly due to the collection of excise tax on new sectors, such as telecommunications. Meanwhile, value-added tax (VAT) revenue rose by only 2.8 percent as a result of the transfer of B40.6 billion of VAT revenue to local administrative authorities

as compared to the previous fiscal year's transfer of B16.5 billion. If this transfer to local administrative authorities were not to be counted, VAT revenue would increase by 18.0 percent.

In the first quarter of FY 2004, remitted government revenue equalled B256.8 billion, increasing by 25.4 percent year-on-year. This was partly due to the sale of state-owned shares to Vayupak Fund 1 for B70.0 billion, of which B25.1 billion was remitted to the treasury account.

On the whole, net revenue collection amounted to B257.5 billion, exceeding the target stated in the Budget Act by B71.9 billion. Tax revenue and non-tax revenue exceeded their targets by B40.9 billion and B31.7 billion, respectively.

Government Revenue						
(Unit: Billion baht)						
	Fiscal Year					
	2002	2003	2004			
			Q1	Oct	Nov	Dec
Total Revenue	845.4	960.6	256.8	81.9	68.9	105.9
(Δ%)	(10.5)	(13.6)	(25.4)	(28.2)	(5.9)	(39.7)
Taxes	758.0	869.8	219.7	77.8	64.7	77.2
(Δ%)	(10.7)	(14.8)	(17.5)	(31.3)	(3.8)	(18.2)
- Income base	279.3	332.6	61.5	21.2	16.6	23.7
(Δ%)	(10.2)	(19.1)	(29.5)	(43.8)	(19.4)	(25.7)
Personal income tax	103.2	111.4	28.7	10.0	9.0	9.7
(Δ%)	(6.4)	(7.9)	(19.7)	(26.3)	(12.9)	(20.0)
Corporate income tax	157.2	199.7	32.1	11.2	7.4	13.5
(Δ%)	(12.6)	(27.0)	(36.3)	(64.2)	(24.0)	(25.4)
- Consumption base	362.3	404.3	125.1	43.8	38.6	42.7
(Δ%)	(13.5)	(11.6)	(15.9)	(23.6)	(9.1)	(15.0)
Value added tax	138.7	142.6	52.8	20.3	15.9	16.6
(Δ%)	(8.8)	(2.8)	(17.5)	(38.3)	(12.3)	(3.0)
Excise tax	210.0	249.1	68.8	22.2	21.6	25.1
(Δ%)	(17.4)	(18.6)	(15.1)	(14.0)	(7.1)	(24.3)
- Foreign trade base	95.1	109.1	27.8	8.9	8.8	10.1
(Δ%)	(5.2)	(14.7)	(2.8)	(2.7)	(-7.6)	(14.1)
Other Incomes	87.4	90.8	37.1	4.1	4.3	28.8
(Δ%)	(8.1)	(3.9)	(107.1)	(-11.8)	(53.0)	(173.8)

Source: Comptroller-General's Department, Ministry of Finance

Government Expenditure

In FY 2003, government expenditure equalled B938.4 billion, decreasing from the previous year by 3.5 percent. In the first and second quarters, government expenditure declined by 6.5 and 20.2 percent year-on-year, respectively, as a result of the reform of the civil service's organisational structure. Another contributing factor was the change in the disbursement procedure for local administrative authorities' investment budgets. Nevertheless, in the third and fourth quarters, government spending accelerated as a result of a measure to increase the disbursement rate. Expenditure in the said quarters thus grew by 13.2 and 2.6 percent year-on-year, respectively. For the entire fiscal year the

annual disbursement rate was 89.1 percent, falling short of the targeted rate of 92.0 percent.

In the first quarter of FY 2004, government expenditure totalled B298.3 billion, increasing by 24.0 percent year-on-year. Within the quarter, expenditure fell by 2.9 percent in October but increased in the following two months. Important expenditures include the B32.5 billion worth of pensions, B14.7 billion to the Education Loan Fund, and B14.8 billion to the National Health Security Fund. The quarter's disbursement rate equalled 26.0 percent, exceeding the previous fiscal year's first quarter disbursement rate of 22.3 percent.

Government Expenditure by Economic Classification						
(Unit: Billion baht)						
	Fiscal Year					
	2002	2003	2004			
			Q1	Oct	Nov	Dec
Total Expenditure	972.2	938.4	298.3	84.2	83.4	130.6
(Δ%)	(11.0)	(-3.5)	(24.0)	(-2.9)	(5.2)	(75.7)
Current Expenditure	761.6	775.2	260.2	73.1	71.7	115.4
(Δ%)	(11.3)	(1.8)	(24.6)	(-6.4)	(8.9)	(77.5)
- Wages and salaries	317.3	338.7	86.6	28.9	28.3	29.4
(Δ%)	(0.7)	(6.7)	(3.4)	(1.7)	(4.4)	(4.1)
- Purchased of goods and services	173.2	168.9	39.7	11.2	12.1	16.4
(Δ%)	(7.2)	(-2.5)	(16.9)	(38.7)	(-4.3)	(23.9)
- Interest payments	69.0	65.1	20.0	7.2	3.4	9.4
(Δ%)	(8.3)	(-5.7)	(7.1)	(-4.9)	(37.9)	(8.9)
- Subsidies and transfers	202.1	202.5	113.9	25.8	27.9	60.2
(Δ%)	(40.6)	(0.2)	(57.1)	(-24.1)	(18.2)	(304.1)
Capital Expenditure	210.6	163.2	38.1	11.1	11.7	15.2
(Δ%)	(9.8)	(-22.5)	(20.7)	(27.8)	(-13.1)	(62.9)
- Acquisition of fixed capital assets	139.0	112.1	19.6	4.2	7.5	7.9
(Δ%)	(-10.5)	(-19.3)	(-19.1)	(-49.8)	(-6.9)	(1.1)
- Capital transfers	71.5	51.0	16.5	6.9	4.2	5.3
(Δ%)	(98.5)	(-28.6)	(124.9)	(1741.3)	(-22.5)	(244.3)
- Lending and purchases of share and financial assets	0.1	0.1	2.0	0.0	0.0	2.0
(Δ%)	(-80.4)	(-17.9)	(n.a.)	(0.0)	(0.0)	(0.0)

Source: Comptroller-General's Department, Ministry of Finance

Data Management Group, Bank of Thailand

Government Financing

In FY 2003, the government recorded a cash surplus of B34.3 billion, equivalent to 0.6 percent of GDP. At the same time, the government's domestic borrowing totalled B45.0 billion with net foreign loan repayment totalling of B38.9 billion. Treasury reserves thus rose to B123.3 billion at the end of the fiscal year.

In the first quarter of FY 2004, the government financed its cash deficit of B37.5 billion as well as its net domestic and external debt payments in the amount of B33.1 billion and B3.0 billion, respectively, with a reduction of B73.6 billion in treasury reserves. As a result, treasury reserves fell to B49.7 billion at the end of this quarter.

State Enterprises

In FY 2003, the net operating profits of state enterprises amounted to B83.7 billion, increasing from the previous fiscal year by 7.3 percent. However, due to the rise in the state enterprises' revenue remitted to the Ministry of Finance by 12.4 percent, state enterprises' retained earnings funds for investment fell to B137.5 billion, decreasing from the previous year by 6.4 percent.

State enterprises disbursed B93.0 billion of capital expenditure, decreasing from the previous year by 20.4 percent with a disbursement rate of 62.9 percent of the targeted B147.9 billion. The low disbursement rate resulted from delays in large projects such as the construction of Suvarnabhumi Airport and Krabi power plants and the purchasing of aircraft for Thai Airways International. State enterprises therefore recorded a surplus of B44.5, equivalent to 0.8 percent of GDP.

State Enterprises' Balances			
(Unit: Billion baht)			
	Fiscal Year		
	2001	2002	2003
Retained income	130.1	146.9	137.5
($\Delta\%$)	(22.9)	(13.0)	(-6.4)
Investment Expenditure	131.0	116.9	93.0
($\Delta\%$)	(-12.6)	(-10.8)	(-20.4)
State Enterprises' Balances	-0.9	30.1	44.5
(% of GDP)	(-0.0)	(0.6)	(0.8)

Source: National Economic and Social Development Board (NESDB)

Public Debt

At the end of FY 2003, total public debt stood at B2,918.1 billion or 49.7 percent of GDP, decreasing from the previous fiscal year's debt-to-GDP ratio of 55.1 percent. Public debt in the form of direct government borrowing amounted to B1,639.6 billion, while government-guaranteed and non-guaranteed debt of non-financial state enterprises totalled B694.6 billion and B156.5 billion, respectively. Debt outstanding of the Financial Institutions Development Fund (FIDF) amounted to B427.4 billion.

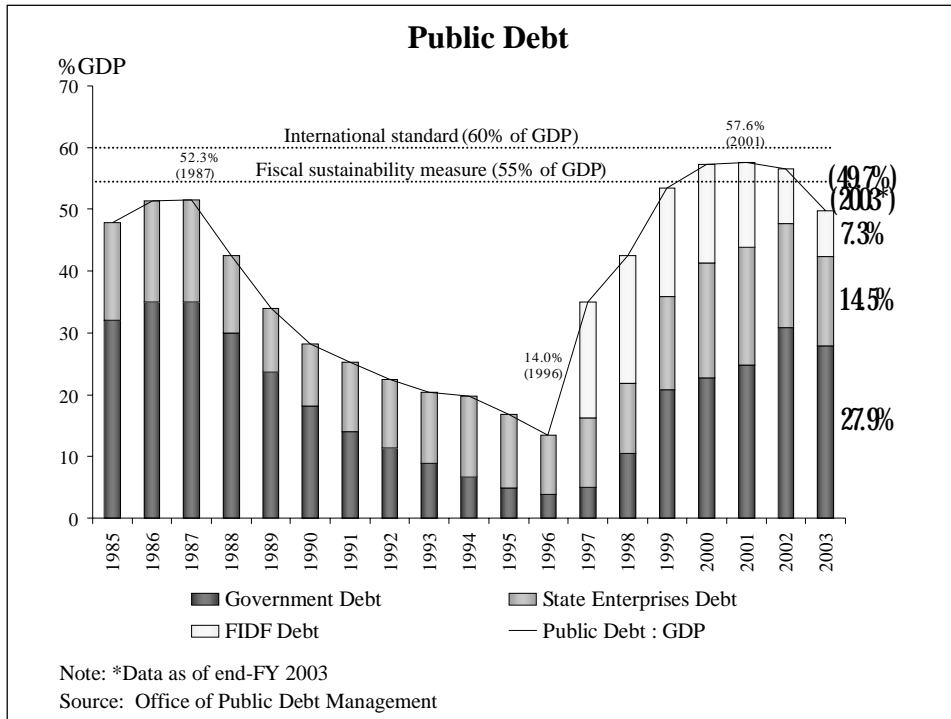
The decrease in the ratio of public debt to GDP was partly due to the decrease in the planned

fiscal deficit in FY 2003. Furthermore, the economic recovery resulted in government revenue exceeding its expected target. As a result, the government was able to borrow less than expected and to early repay some of its foreign debt.

In addition, the Ministry of Finance, with the purpose of achieving fiscal sustainability, established the following objectives: (1) to maintain public debt such that it does not exceed 55 percent of GDP; (2) to contain government debt service such that it does not exceed 16 percent of budgeted expenditures; and (3) to achieve a balanced budget for FY 2005.

Public Debt			
(Unit: Billion baht)			
Fiscal Year			
	2001	2002	2003
1. Debt incurred from direct borrowing	1,263.7	1,670.5	1,639.6
(% GDP)	(24.8)	(31.4)	(27.9)
1.1 foreign debt	449.6	409.6	332.3
1.2 domestic debt	814.1	1,261.0	1,307.4
2. Debt of non-financial state enterprises	970.5	907.1	851.0
(% GDP)	(19.1)	(17.0)	(14.5)
2.1 government-guaranteed debt	796.4	772.0	694.6
foreign debt	384.8	351.4	305.1
domestic debt	411.6	420.6	389.5
2.2 non-government-guaranteed debt	174.1	135.2	156.5
foreign debt	74.9	63.2	61.1
domestic debt	99.2	71.9	95.3
3. Financial Institutions Development Fund (FIDF)	697.5	357.3	427.4
(% GDP)	(13.7)	(6.7)	(7.3)
3.1 government-guaranteed debt	112.0	112.0	62.0
3.2 non-government-guaranteed debt	585.5	245.3	365.4
4. Total (1+2+3)	2,931.7	2,934.9	2,918.1
(% GDP)	(57.6)	(55.1)	(49.7)

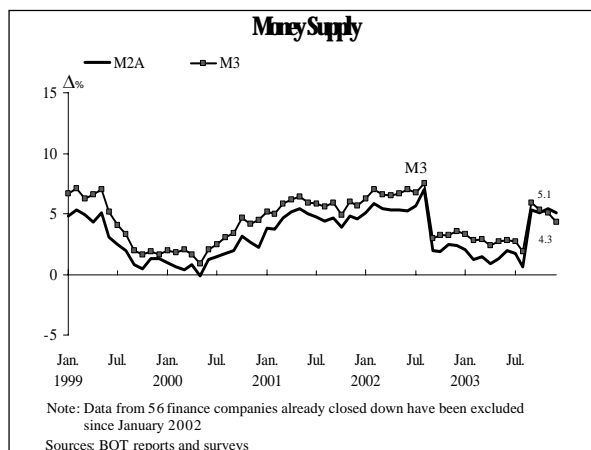
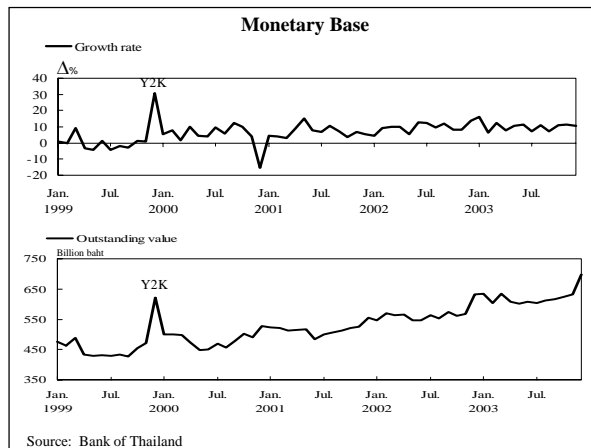
Source: Office of Public Debt Management



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2.11 Monetary Conditions

1. Monetary Base and Money Supply



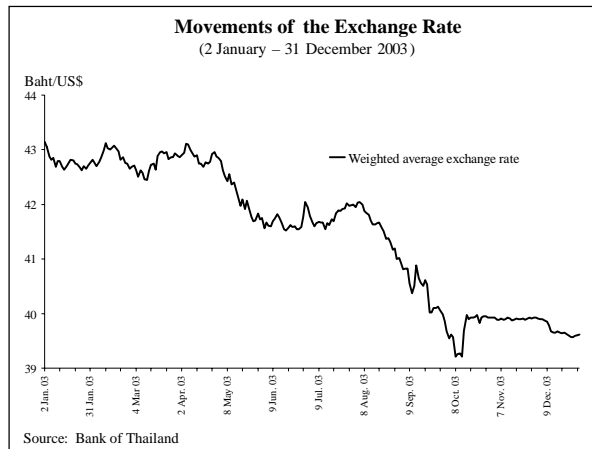
Monetary base expanded in line with the economic recovery, rising from B632.7 billion at end-2002 to B699.7 billion at end-December 2003, or up by 10.6 percent.

The major supply-side factors contributing to the growth of monetary base in 2003 include: (1) a continued increase in net foreign assets due partly to the current account surplus and the BOT's foreign exchange acquisition from capital inflows in spite of foreign debt repayments by both the public and private sectors; (2) an increase in the BOT's net claims on the government compared to the previous year due to a decline in government deposits at the BOT; and (3) a substantial decline in the BOT's net claims on financial institutions due to an absorption of increased liquidity from foreign exchange acquisition.

M2A and M3 increased by 5.1 and 4.3 percent, respectively. During the first eight months of the year, the year-on-year growth rates of M2A and M3 stayed low at around 1.4 and 2.7 percent, respectively, as a large amount of private deposits had been withdrawn by the public to purchase government saving bonds in September 2002. However, during the last four months of the year, the growth rate of money supply rose back to normal and was comparable to the level prior to the purchase of the aforementioned government saving bonds.

2. Exchange Rate, Interest Rates, and Government Bond Yields

2.1 Exchange Rate

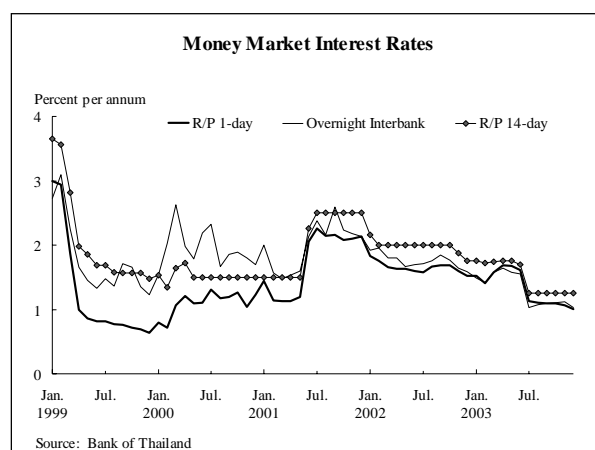


In 2003, the baht fluctuated within the range of 39.21–43.15 baht per US dollar, averaging at 41.50 baht per US dollar which was equivalent to a 3.6 percent appreciation from the previous year's average.

During the first half of the year, the appreciation of the baht was driven by both internal and external factors, most importantly the weak sentiments of the US dollar emanating from uncertainties regarding the US-Iraqi War and the US economic recovery. Meanwhile, the

continued improvement in the Thai economic performance, with concomitant expansions in private spending and exports, induced large capital inflows into the Thai stock market. Nevertheless, the baht was quite volatile and depreciated periodically during the first half of the year due to concerns about the US-Iraqi War and the outbreak of SARS as well as the corresponding adjustment to movements of regional currencies, especially the Japanese yen.

In the latter half of the year, the baht appreciated substantially, reaching the strongest level for the year at 39.21 baht per US dollar in October. The main supporting factors include (1) improving fundamentals of and confidence in the Thai economy; (2) rising stock market index; (3) credit upgrades by many international rating agencies; and (4) weak sentiments of the US dollar. It was also during this period that the BOT issued measures to curb speculative capital flows on 11 September and 14 October 2003, in order to mitigate the baht's volatility from short-term speculations.



2.2 Short-term Interest Rates

Short-term money market rates were generally on a declining trend in 2003. In the first quarter, money market rates fell as liquidity was high in the banking system especially after the New Year and Chinese New Year festivals. However, liquidity tightened slightly in March from the announcement of the US-Iraqi War, which raised uncertainties in the financial markets. Overall, the quarterly average of the 1-day repurchase rate declined from 1.65 percent per annum in the last quarter of 2002 to 1.50 percent per annum, while the overnight interbank rate fell from 1.76 percent per annum to 1.49 percent per annum over the same period.

In the second quarter of 2003, short-term money market rates adjusted upward, due partly to tightened liquidity in the banking system in preparation for the Songkran festival. Although the BOT cut the policy interest rate by 50 basis points on 27 June 2003, which led immediately to a decline in the short-term money market rates, the effect on the quarterly average rates was small as the cut came close to the end of the quarter. Thus, on the whole the quarterly rates edged up slightly from the previous quarter with the 1-day repurchase and overnight interbank rates averaging at 1.66 and 1.59 percent per annum, respectively.

In the third quarter of the year, the effect of the aforementioned policy rate reduction brought down money market rates, with the 1-day repurchase rate averaging at 1.11 percent per annum and the overnight interbank rate averaging at 1.07 percent per annum.

In the final quarter of 2003, money market rates continued to decline and remained low. This owed partly to the fact that, in November, representative commercial banks for the sale of the Vayupak Fund invested their liquid funds awaiting settlement in the repurchase market. Liquidity also surged in December from the transfer of government pensions and gratuities and the government's loan repayment to financial institutions. Therefore, the 1-day repurchase rate averaged at 1.06 percent per annum and the overnight interbank rate averaged at 1.09 percent per annum for the quarter.

2.3 Government Bond Yields

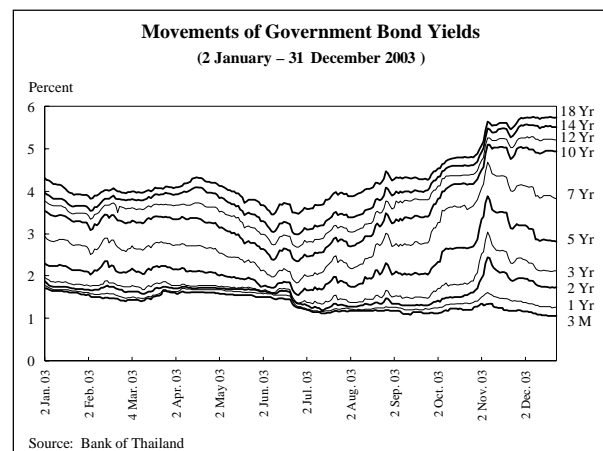
In the first quarter of 2003, government bond yields declined further from the levels at end-2002, consistent with the declining trend of commercial banks' interest rates and high demand for investment by commercial banks while the supply of new bonds was limited. However, in early February 2003, government bond yields increased due to profit taking by investors.

In April 2003, government bond yields at all maturities rose in line with the upward trend of money market rates. However, from May until mid-June, government bond yields adjusted downward again, particularly at the long end, in anticipation of limited government bond supply as the forecast of the FY2003 fiscal position was adjusted from a deficit to a surplus. In addition, there was an expectation of a federal funds rate cut which might lead in turn to a policy rate cut in Thailand. As it turned out, the BOT did subsequently cut the policy interest rate by 50 basis points, and government bond yields declined further towards the end of June.

Government bond yields continued to decline in early July from the effect of the policy rate cut. However, they later rose, especially at the long end, from the relaxation of foreign exchange control by the BOT in July, the notification permitting six types of financial institutions to invest in debt securities abroad

from August onwards, and uncertainties about the issuance of government bonds to compensate for the losses incurred by the Financial Institutions Development Fund (FIDF).

Government bond yields, especially the medium- to long-term maturities, increased significantly in the last quarter of the year. Major factors behind this upward movement include (1) news on the issuance of 7-year government bonds to compensate for the losses incurred by the FIDF; (2) an increase in the supply of bonds by both the public and private sectors; and (3) a strong increase in the Thai stock market index which led to a shift of investment from bonds to stocks. However, between mid-November to December, government bond yields adjusted downward due to the postponement of FIDF bond auction to early 2004 and the cancellation of BOT bond issuance previously scheduled for December.



3. Commercial Bank Deposits and Private Credits (Including Investment in Private Securities)

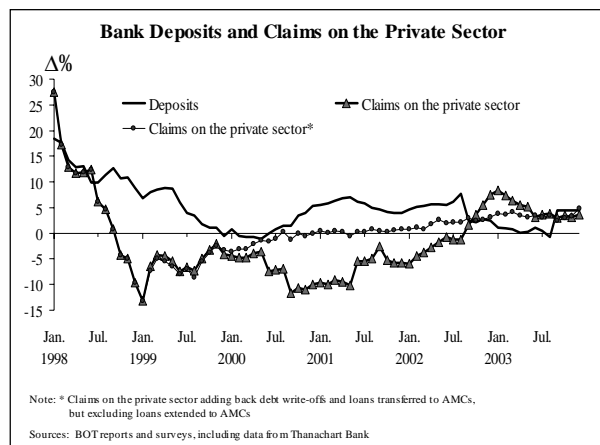
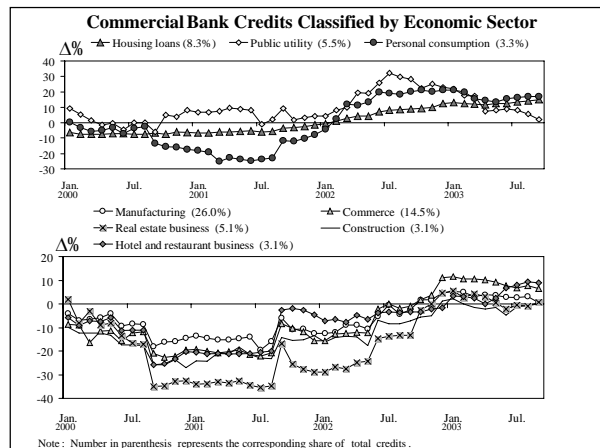
3.1 Commercial Bank Deposits

Between January and August 2003, the year-on-year growth of commercial bank deposits was moderate as a consequence of the large withdrawal of funds to purchase government saving bonds in September 2002. However, after this effect on year-on-year growth ended in September 2003, deposits grew at a normal pace during the last four months of the year and at end-2003, the outstanding commercial bank deposits were 4.4 percent higher than at end-2002.

3.2 Commercial Bank Private Credits (Including Investment in Private Securities)

In 2003, private credits (including investment in private securities) of commercial banks continued to expand in line with the recovery of domestic production. During the first quarter, the increase in private credits was partly a result of credit expansion by state-owned commercial banks in accordance with the government's economic stimulus policy. From April to December, credits expanded further but at a slightly slower rate of 3.8 percent year-on-year, due mostly to credits to businesses from both private and state-owned commercial banks. At end-2003, the outstanding level of private credits was 3.6 percent higher than at end-2002. As for private credits adding back debt write-offs and loans transferred to AMCs, but excluding loans extended to AMCs, the outstanding amount expanded on average by 4.8 percent year-on-year in 2003.

Credits to major economic sectors which recorded high growth include credits extended to the export, commerce and property sectors as well as wholesale agricultural products and hotels and restaurants. Credits to home-buyers and for personal consumption, including credit card loans, which altogether accounted for 13 percent of total credits, continued to expand at a high rate from the previous year, partly as a consequence of the low interest rate environment, high competition among the service providers, and improved economic conditions. Nevertheless, the BOT has been closely monitoring the credit card business in order to protect consumers against over-indebtedness.



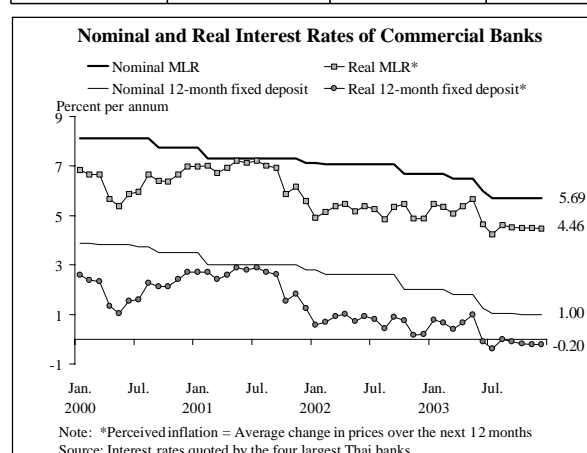
3.3 Interest Rates of Commercial Banks

In 2003, large commercial banks gradually reduced their deposit and lending rates in March, June and July in line with the policy rate signal and each bank's liquidity position. The average of the four largest Thai commercial banks' 3-month fixed deposit rates thus fell from 1.75 percent per annum at end-December 2002 to 1.00 percent per annum, while the average 12-month fixed deposit rate declined from 2.00 percent per annum to 1.00 percent per annum. The minimum lending rate (MLR) also dropped from the average of 6.69 percent per annum to 5.69 percent per annum.

Real deposit and lending rates declined over the year as a result of higher expected inflation, with the downward trend in real MLR helping to boost the overall economic activities. At end-December 2003, the 12-month deposit rate and real MLR of the four largest commercial banks averaged at -0.20 and 4.46 percent per annum, respectively.

Average Interest Rates of the Four Largest Thai Commercial Banks

2003	Percent per annum		
	3-month fixed deposit rates	12-month fixed deposit rates	MLR
January	1.75	2.00	6.69
February	1.75	2.00	6.69
March	1.50	1.81	6.50
April	1.50	1.81	6.50
May	1.50	1.81	6.50
June	1.25	1.25	6.00
July	1.06	1.06	5.69
August	1.06	1.06	5.69
September	1.06	1.06	5.69
October	1.00	1.00	5.69
November	1.00	1.00	5.69
December	1.00	1.00	5.69



4. Operating Profits of Commercial Banks

Business performance of commercial banks improved during the first nine months of 2003. Thai commercial banks experienced a steady improvement in performance despite a net loss in the third quarter of the year due to an increase in loan loss provision of some commercial banks. Operating profits (before loan loss provision) of the entire banking system during the first nine months of 2003 amounted to B67.35 billion, compared to B54.03 billion during the same period of the previous year. Of this total amount, operating profits of Thai commercial banks accounted for B61.30 billion, compared to B42.31 billion in the first nine months of 2002. Most of this came from higher net interest income due to falling interest expenses as well as from an increase in non-interest income, including fees, service charges and foreign exchange income.

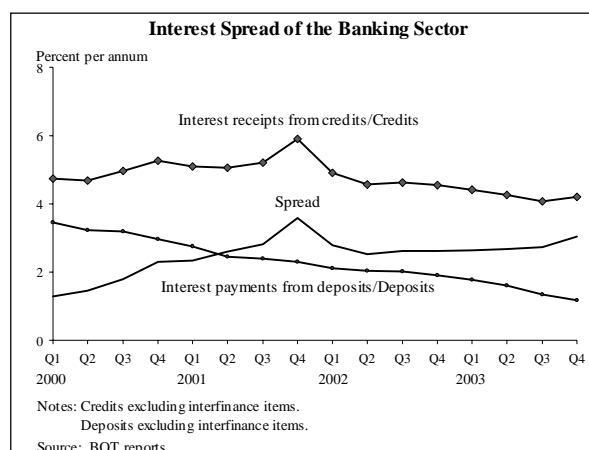
As for foreign bank branches, operating profits fell from B11.72 billion during the first nine months of 2002 to B6.05 billion, owing mainly to lower interest income and dividend receipts.

Operating Results of the Banking Sector
(Unit: Billion baht)

	2002	2002	2003		
		Q4	Q1	Q2	Q3
Banking system					
- Pre-provision profit	67.5	13.5	21.6	23.2	22.5
- Loan loss provision	43.3	-22.9	-4.1	-2.9	-22.4
- Net profit/loss before tax	24.2	-9.4	17.5	20.3	0.1
Thai banks					
- Pre-provision profit	56.2	13.8	17.9	23.2	20.3
- Loan loss provision	-44.7	-23.6	-4.1	-7.2	-23.1
- Net profit/loss before tax	11.4	-9.7	13.7	16.0	-2.9
Foreign banks					
- Pre-provision profit	11.4	-0.3	3.8	0.0	2.3
- Loan loss provision	1.4	0.7	0.1	4.3	0.7
- Net profit/loss before tax	12.8	0.4	3.8	4.3	3.0

Source: Bank of Thailand

The effective interest rate spread of commercial banks widened in 2003 to 2.73 percent at the end of the third quarter compared to 2.62 percent a year earlier. This resulted mainly from an increase in the interest rate spread of Thai commercial banks as interest expenses on deposits declined by a larger magnitude than interest receipts from loans extended. The effective interest rate spread of foreign commercial banks also declined slightly.



The ratio of capital to risk-weighted assets averaged at 13.41 percent for the first nine months of 2003, compared to 14.06 percent in 2002. Non-performing loans (NPL) continued to decline and stood at B641.58 billion or 12.72 percent of outstanding loans at end-2003, compared to B772.56 billion or 15.79 percent of outstanding loans at end-2002.

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2.12 Capital Market Developments

Non-bank Financing to the Private Sector

In 2003, major non-bank financing sources for both businesses and households were as follows:

1. Issuance of equity and debt securities. The increase in common stock issuance was mainly from the recapitalisation of businesses in the property development and transportation sectors as well as companies under financial rehabilitation. As for debt securities, most were in the form of debentures issued by businesses in the construction material, chemical and transportation industries, namely Siam Cement Public Company Limited, Aromatics (Thailand) Public Company Limited, and Thai Airways International Public Company Limited.

2. Credits extended by specialised financial institutions. In 2003 (data up to November), credits extended by specialised financial institutions increased by B108.3 billion from end-2002, owing partly to the government's promotion of credit extension via government-initiated projects such as the People's Bank by the Government Savings Bank, credits to the property sector by the Government Housing Bank, and credits for small and medium enterprises by the Small Industrial Finance Corporation (SIFC).

3. Consumption credits, personal loans and trade credits. These credits, especially hire-purchase credits and credit card loans, continued to increase in line with stronger consumer confidence and greater income stability. At the same time, incentives were offered by credit companies, mostly in association with business enterprises, particularly credits for the purchase of automobiles, electrical appliances and mobile phones. In addition, there was keen competition among service providers in the credit card and personal loan business.

Developments in the Secondary Bond Market

In 2003, the total trading volume of debt securities was B2,606.7 billion, up by 21.5 percent from 2002. This was supported by an increase in the issuance of debt securities by both the public and private sectors as alternatives for investors under the low interest rate environment. However, the trading volume of debt securities in the secondary market dropped in the latter half of the year because investors shifted their investments from the bond market to the stock market which yielded higher returns. The average daily trading volume which increased from B10.3 billion in the first quarter to B11.8 billion in the second quarter thus fell subsequently to B10.6 billion and B9.7 billion in the third and fourth quarters, respectively.

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Non-bank Financing to the Private Sector

(Unit: Billion baht)

Sources of Financing	2002	2003 ^P
1. Credits from Non-bank Financial Institutions^{1/}	36.90	175.90
Finance companies	-75.20	52.20
Specialised financial institutions	104.00	108.30
Listed companies which provide consumer credits and hire-purchase services ^{2/}	8.10	15.40
2. Capital Market (Non-financial Institutions)^{3/}	131.50	187.20
Equity (common and preferred stocks)	56.30	84.80
Domestic debt instruments	75.20	102.40
Total	168.40	363.10

Notes: ^{1/}Change in the outstanding balance from the end of last year

^{2/}Total change in the outstanding balances of eight credit companies excluding Thitikorn Public Co., Ltd., which was listed on the Stock Exchange of Thailand in 2003

^{3/}Value of newly issued securities

^P Preliminary data

- For finance companies and specialised financial institutions, as of end-November 2003

- For listed companies which provide consumer credits and hire-purchase services, as of end-September 2003

- For equity and domestic debt instruments, as of end-December 2003

Sources: Bank of Thailand, Securities Exchange Commission, and Stock Exchange of Thailand

Part 3: Important Policies and Measures

3.1 Monetary Measures	Party Involved	Salient points	Effective Dates	Source
<p>1. Interest Rate Policy MPC Decisions on</p> <ul style="list-style-type: none"> - 20 January 2003 - 3 March 2003 - 21 April 2003 - 2 June 2003 - 27 June 2003 <p><i>(Special Supplementary Session)</i></p> <ul style="list-style-type: none"> - 21 July 2003 - 11 September 2003 - 28 October 2003 - 12 December 2003 		<p>The MPC decided to lower the 14-day repurchase rate from 1.75 to 1.25 percent per annum on 27 June 2003, in view that core inflation remained low, allowing monetary policy to ease further in order to safeguard the economy against external and financial uncertainties. In addition, the reduction in the policy interest rate could help reduce the risk of core inflation falling below the target range and dampen speculative capital inflows driven by the differential between domestic and foreign interest rates, thereby strengthening the growth process of the Thai economy going forward.</p>	-	<p>BOT News No. 2/2003, BOT News No. 9/2003, BOT News No. 12/2003, BOT News No. 17/2003, BOT News No. 19/2003, BOT News No. 22/2003, BOT News No. 31/2003, BOT News No. 34/2003, BOT News No. 41/2003, respectively</p>
<p>2. Financial Market Measures 2.1 Guidelines for foreign exchange positions</p>	<ol style="list-style-type: none"> 1. Domestic commercial banks 2. Foreign bank branches (excluding Bangkok International Banking Facilities: BIBF) 3. Industrial Finance Corporation of Thailand (IFCT) 4. Export-Import Bank of Thailand (EXIM Bank) 5. Asia Credit Public Co., Ltd. 	<p>The BOT adjusted the computation method for the foreign exchange positions of overseas branches of commercial banks registered in Thailand. For example, foreign currency loans classified as doubtful of loss are to be included in the foreign exchange position net of provisions, which is calculated based on the regulations of the country where the branch operates.</p>	-	<p>Circular No. BOT.FPG. (21)C.167/2546 dated 21 January 2003</p>

3.1 Monetary Measures	Party Involved	Salient points	Effective Dates	Source
2.2 Resale of foreign securities to domestic customers	1. Commercial banks (excluding BIBF) 2. EXIM Bank 3. IFCT 4. Asia Credit Public Co., Ltd.	The BOT expanded the maximum amount of foreign securities which could be resold to institutional investors who are not permitted to undertake foreign currency transactions in Clause 3 of Circular No. FMOG.(05)C. 2/2000 dated 29 May 2000, from US\$10 million to US\$50 million.	-	Circular No. FMOG(51)C. 1/2003 dated 22 April 2003
3. Foreign Exchange Control				
3.1 Extension of the business scope for foreign exchange agencies	Domestic commercial banks	The BOT extended the business scope for foreign exchange agencies to include activities such as providing settlement services for commercial banks or any individual via cash or cheque.	-	Circular No. BOT.FPG. (31)C. 1020/2546 dated 18 April 2003
3.2 Guidelines and procedures for foreign exchange (Issue No.12)	1. Commercial banks (excluding BIBF) 2. EXIM Bank 3. Islamic Bank of Thailand 4. IFCT 5. Asia Credit Public Co., Ltd.	The BOT adjusted the guidelines and procedures on foreign exchange to cover foreign exchange transactions by the Islamic Bank of Thailand which received permission to conduct such business on 11 September 2003.	11 September 2003	Circular No. FMOG (03)C. 4/2003 dated 1 October 2003
3.3 Relaxation of exchange control regulations	Six types of institutional investors: 1. Life insurance companies; 2. The Government Pension Fund, 3. Provident funds, 4. The Social Security Fund, 5. Mutual funds (excluding private funds), 6. Specialised financial institutions.	1. The BOT relaxed some exchange control regulations, allowing six types of financial institutions to invest in securities abroad.	-	Circulars No. FMOG. (05)C. 1691/2003, 1694/2003, and 2/2003 dated 22 July 2003, and BOT News No. 23/2003

3.1 Monetary Measures	Party Involved	Salient points	Effective Dates	Source
	1. Commercial banks (excluding BIBF) 2. EXIM Bank 3. IFCT 4. Asia Credit Public Co., Ltd.	2. The BOT lengthened the permissible period for the holding of foreign currency deposits from 3 to 6 months.		
	State enterprises	3. The BOT allowed Thai state enterprises to freely hedge foreign currency debt up to the maturity of the debt.		
4. Measures Against Baht Speculation 4.1 Measures to prevent baht speculation 4.2 Measure to curb short-term capital inflows	1. Commercial banks (excluding BIBF) 2. EXIM Bank 3. Islamic Bank of Thailand 4. IFCT 5. Asia Credit Public Co., Ltd.	The BOT issued additional measures to limit financial institutions' short-term borrowing from non-residents (NR), for example, by stipulating that NR can maintain deposits in current or saving accounts for settlement only and that deposits for other purposes must have a maturity of at least 6 months.	-	Circular No. BOT.FMOG. (03)C.2262/2003 dated 14 October 2003, and BOT News 33/2003
	Financial institutions	The BOT limited baht borrowings from NR or engagements in similar transactions with no underlying trade or investment to B50 million, except for contracts with maturity over 3 months. This measure was applied to 6 businesses listed in the notification.	12 September 2003	BOT News No.32/2003
5. Supervision and Development of Financial Institutions 5.1 Credits and non-performing loans (NPL) 5.1.1 Modification of the NPL definition	1. Commercial banks 2. Foreign bank branches	The BOT redefined NPL from loans which are pass-due for more than 3 months to loans which are classified as	End of December 2002	Circulars No. FPG. (22)C. 7/2546, 9/2546, and

3.1 Monetary Measures	Party Involved	Salient points	Effective Dates	Source
	3. Finance companies, finance and securities companies 4. Credit foncier companies	substandard, doubtful, doubtful of loss and loss in accordance with the classification guidelines in the BOT notification. The new definition includes debtors classified as doubtful of loss for which a commercial bank has already set aside 100 percent provision and which has been previously written off but not yet recorded in the accounts.		10/2546, dated 16 January 2003
5.1.2 Measures on housing loans	1. Commercial banks 2. Finance companies, finance and securities companies 3. Credit foncier companies	The BOT stipulated that financial institutions can extend credits or lend to any individual for a residential property with a value above B10 million in an amount not exceeding 70 percent of the actual housing price, with land or building serving as collateral.	1 December 2003	Circular No. BOT.FPG. (21) C. 2544/2546 dated 28 November 2003
5.2 Expansion of the business scope of financial institutions				
5.2.1 Permission for commercial banks to utilise debt instruments in risk management	Commercial banks (excluding BIBF)	The BOT allowed commercial banks to conduct forward bond transactions, bond options transactions and equity linked index swap transactions, considering all three transactions as creating obligations in the category of “interest rate-related contracts.”	12 April 2003	Circular No. FPG. (21)C. 56/2546 dated 16 April 2003 and notified on 8 April 2003
5.2.2 Permission for commercial banks to conduct deposit or borrowing transactions with returns payment indexed to variables	Commercial banks (excluding BIBF)	The BOT set the scope of transactions and supervision policy, e.g., by allowing commercial banks to borrow through said transactions under compliance with regulations on the maintenance of liquid assets as if such transactions were deposit transactions.	18 April 2003	Circular No. FPG. (21)C. 57/2546 dated 18 April 2003 and notified on 16 April 2003

3.1 Monetary Measures	Party Involved	Salient points	Effective Dates	Source
5.2.3 Permission for commercial banks to engage in credit default swap transactions	<ol style="list-style-type: none"> 1. Commercial banks (excluding BIBF) 2. Finance companies, finance and securities companies 	<p>The BOT stipulated the scope of credit default swap transactions, requiring commercial banks which engage in such transactions to comply with the supervision criteria as prescribed by the BOT, e.g., criteria on the maintenance of capital funds.</p>	<p>24 April 2003 (finance companies) 2 May 2003 (commercial banks)</p>	<p>Circular No. FPG. (21)C. 61/2546 and 67/2546 dated 29 April 2003 and 2 May 2003, respectively</p>
5.2.4 Permission for commercial banks to engage in financial services consistent with Shariah Banking Services	Commercial banks (excluding BIBF)	<p>The BOT stipulated that commercial banks conducting interest-free units rename such engagements from “Interest-Free Units” to “Shariah Banking Services” and comply with the criteria mentioned in this notification.</p>	21 November 2003	<p>Circular No. FPG. (11)C. 43/2546 dated 1 December 2003 and notified on 10 November 2003</p>
5.2.5 Permission to engage in business related to the management of escrow accounts	Finance companies, finance and securities companies	<p>The Minister of Finance permitted finance companies and finance and securities companies to provide settlement services for property or other fees, from buyers or prospect buyers who have made or are going to make contract deals, by depositing such payments as promissory notes issued by finance companies and finance and securities companies, or by depositing at commercial banks, and administering the withdrawal of such funds.</p>	13 December 2003	<p>Circular No. BOT.FPG (11)C. 2689/2546 dated 23 December 2003, and Ministry of Finance Notification dated 3 December 2003</p>
6. Financial Assistance to Priority Economic Sectors 6.1 Cancellation of assistance to priority economic sectors	<ol style="list-style-type: none"> 1. Commercial banks 2. Finance companies, finance and securities companies 3. IFCT 	<p>The BOT ceased financial assistance to the following economic sectors: industry, storage service, livestock, trading agricultural crops, agricultural or industrial project for rural development, and rice trade by rice mill entrepreneurs.</p>	31 January 2003	<p>Circular No. BOT.FMOG. (06)C.3/2003 dated 2 January 2003</p>

3.1 Monetary Measures	Party Involved	Salient points	Effective Dates	Source
6.2 Purchase of promissory notes from small and medium enterprises (SME)	<ol style="list-style-type: none"> 1. Commercial banks 2. Finance companies, finance and securities companies 3. IFCT 4. EXIM Bank 5. Small and Medium Enterprise Development Bank of Thailand (SME Bank) 	<p>The BOT reduced the interest rate charged on financial institutions when purchasing promissory notes issued by SME from 1.75 to 1 percent per annum.</p>	5 July 2003	Circular No. BOT.FMOG.(06)C. 1549/2003 dated 4 July 2003
6.3 Lending with promissory notes from SME as collaterals	<ol style="list-style-type: none"> 1. Commercial banks 2. Finance companies, finance and securities companies 3. IFCT 4. EXIM Bank 5. SME Bank 6. Bank for Agriculture and Agricultural Cooperatives (BAAC) 7. Government Savings Bank (GSB) 	<p>The BOT changed the assistance scheme from purchasing promissory notes issued by entrepreneurs to lending to financial institutions with promissory notes issued by those entrepreneurs as collaterals, charging interest rate at 1 percent per annum and extending credit of an amount equivalent to 60 percent of the promissory notes used as collaterals.</p>	1 October 2003	Circular No. BOT.FMOG.(05)C. 1845/2003 dated 15 August 2003

3.2 Fiscal Measures	Source	Date of Announcement	Effective Dates	Link
1. Tax Measures				
1.1 - Determination of the excise tax rate with regards to the following businesses: 1) Nightclubs and discotheques 2) Baths, saunas, and massage parlours 3) Horse racetracks 4) Lottery ticket issuers 5) Golf courses 6) Telecommunications - Fixed-line telephone - Mobile telephone	Cabinet Synopsis	28 January 2003	-	
- Collection of excise tax from telecommunication services by separating out the tax portion from shared revenue remitted from private concessionaries to the government	Cabinet Synopsis	11 February 2003	-	www.thaigov.go.th
1.2 Reduction of the Value Added Tax (VAT) rates as follows - Continue to impose the rate of 7 percent between 1 October 2003 and 30 September 2005 - Raise the VAT rate to 10 percent from 1 October 2005 onwards	Cabinet Synopsis	9 September 2003	-	Select -Cabinet Synopsis -Archive -Date
1.3 Resolution to the double taxation problem of liquor	Cabinet Synopsis	16 September 2003	-	
1.4 Annulment of tax privileges for BIBF engaged in domestic lending	Cabinet Synopsis	11 November 2003	-	
1.5 - Tax measures to encourage private sector support of education	Cabinet Synopsis	11 November 2003	-	
- Tax measures to support education by exempting import duties on educational goods	Cabinet Synopsis	2 December 2003	-	

3.2 Fiscal Measures	Source	Date of Announcement	Effective Dates	Link
1.6 Reduction and exemption of customs duties for businesses operating within duty-free zones and producing for domestic sales	Cabinet Synopsis	25 November 2003	-	
1.7 Tax measures to support the corporatisation of the Communications Authority of Thailand in the form of VAT exemption for stamp sales and personal income tax exemption for income earned from stamp sales or discount on stamp purchases	Cabinet Synopsis	2 December 2003	-	
1.8 Cancellation of the special business tax (SBT) exemption for real estate activities from 31 December 2003 onwards	Cabinet Synopsis	9 December 2003	1 January 2004	
1.9 Measures to support debt restructuring by extending the deadline for tax exemption and tax and registration fee privileges to 31 December 2004	Cabinet Synopsis	23 December 2003	1 January 2004	www.thaigov.go.th Select -Cabinet Synopsis -Archive -Date
2. Expenditure Measures				
2.1 Reform of the budget accounting system for governmental and local administrative authorities	Cabinet Synopsis	4 February 2003	-	
2.2 Draft Budget Act B.E. 2004 with a total budget expenditure of B1,028 billion and a planned budget deficit for the fiscal year	Cabinet Synopsis	4 February 2003 22 April 2003 26 May 2003	-	
2.3 - Draft Acts on civil service pensions and gratuities and the Government Pension Fund	Cabinet Synopsis	22 April 2003	-	
- Draft ministerial regulations on the allotment and receipt of pensions and gratuities		14 October 2003	-	
- Exemption of personal income tax for pensions and gratuities		2 December 2003	-	

3.2 Fiscal Measures	Source	Date of Announcement	Effective Dates	Link
<p>2.4 Draft Royal Decree on the commencement date for the collection of contributions for unemployment benefits</p> <p>2.5 - Strategy to adjust the size of the civil service sector</p> <ul style="list-style-type: none"> - Measures to improve and manage civil service employment - Measures to control labour compensation in the civil service sector <p>2.6 Cancellation of public guarantee for creditors of financial institutions and the remittance of FIDF fees calculated from the outstanding liabilities to creditors</p>	<p>Cabinet Synopsis</p> <p>Cabinet Synopsis</p> <p>Cabinet Synopsis</p>	<p>28 April 2003</p> <p>23 September 2003</p> <p>29 November 2003</p> <p>23 December 2003</p> <p>4 November 2003</p>	<p>1 January 2004</p> <p>-</p> <p>-</p> <p>-</p> <p>-</p>	<p>www.thaigov.go.th</p>
<p>3. Public Borrowing and Debt Management Measures</p> <p>3.1 External borrowing plan for FY 2003 and its first revision</p> <p>3.2 Regulations on state enterprises' debt to equity swap</p>	<p>Cabinet Synopsis</p> <p>Cabinet Synopsis</p>	<p>4 February 2003</p> <p>7 October 2003</p> <p>16 September 2003</p>	<p>-</p> <p>-</p> <p>-</p>	<p>Select</p> <ul style="list-style-type: none"> -Cabinet Synopsis -Archive -Date
<p>4. State Enterprise Measures</p> <p>4.1 - Government housing projects for low income earners and the urban poor</p> <ul style="list-style-type: none"> - Action plans for government housing projects in congested areas <p>4.2 Revision of the cabinet resolution on the allocation of proceeds from the privatisation of state enterprises</p>	<p>Cabinet Synopsis</p> <p>Cabinet Synopsis</p> <p>Cabinet Synopsis</p>	<p>14 January 2003</p> <p>22 July 2003</p> <p>4 November 2003</p> <p>4 November 2003</p> <p>1 July 2003</p>	<p>-</p> <p>-</p> <p>-</p> <p>-</p> <p>-</p>	

3.2 Fiscal Measures	Source	Date of Announcement	Effective Dates	Link
4.3 Corporatisation of the following state enterprises: - Communications Authority of Thailand - Metropolitan Waterworks Authority - Electricity Generating Authority of Thailand 4.4 State enterprises' budget plan for FY 2004	Cabinet Synopsis	8 July 2003 19 August 2003 14 October 2003	-	
5. Other Measures 5.1 Procedures for asset capitalisation and land reform 5.2 Draft Act on the National Village and Urban Community Fund 5.3 Establishment of the Ministry of Finance's Vayupak Fund 1 with a capitalisation limit of B100 billion 5.4 Changes in the roles and responsibilities of provincial treasury offices	Cabinet Synopsis	4 March 2003 22 April 2003 18 March 2003 16 September 2003 24 June 2003 1 July 2003 14 October 2003 30 September 2003	1 January 2003 - - -	www.thaigov.go.th Select -Cabinet Synopsis -Archive -Date

3.3 Others Measures	Source	Date of Announcement	Effective Dates	Link
1. Agricultural Measures				
1.1 Cooperation on rubber among Thailand, Indonesia, and Malaysia	Cabinet synopsis	4 February 2003	-	
1.2 Measures to assist sugarcane planters	Cabinet synopsis	18 February 2003 30 December 2003	-	
1.3 Solution to the raw milk problem	Cabinet synopsis	8 April 2003	-	
1.4 Systematic solution to the palm oil problem	Cabinet synopsis	22 April 2003	-	
1.5 Project to plant rubber to raise income for and provide economic stability to farmers in new rubber planting areas	Cabinet synopsis	26 May 2003	-	
1.6 Endorsement of the convention on tobacco regulation	Cabinet synopsis	10 June 2003	-	
1.7 Draft ministerial regulations on the determination of epidemics, animal illnesses, and animal meat not suitable for consumption	Cabinet synopsis	17 June 2003	-	www.thaigov.go.th Select - Cabinet Synopsis - Archive - Date
1.8 Establishment of the Laboratory Centre for Food and Agricultural Products Company Limited (LCFA)	Cabinet synopsis	17 June 2003	-	
1.9 Project to transfer technology in producing organic fertilizer, organic chemical fertilizer, and micro-organic fertilizer to the grass-roots economy	Cabinet synopsis	2 September 2003	-	
1.10 Allocation of funds from the Fund for Farmers Assistance and the extension of loan repayment periods	Cabinet synopsis	9 September 2003	-	
1.11 Credit support to shrimp farmers who meet the GAP (Good Agriculture Practice) and COC (Code of Conduct) standards	Cabinet synopsis	30 September 2003	-	

3.3 Others Measures	Source	Date of Announcement	Effective Dates	Link
1.12 Draft royal decrees for the establishment of the Thai Rubber Organisation and the export of rubber from the kingdom	Cabinet synopsis	4 November 2003	-	
2. International Trade Measures				
2.1 - Policy and measures regarding the import of animal feeds in 2003	Cabinet synopsis	21 and 28 January 2003	-	
- Policy and measures regarding the import of animal feeds in 2004	Cabinet synopsis	2 and 16 December 2003	-	
2.2 Exemption and reduction of customs duties for the ASEAN Free Trade Area	Cabinet synopsis	21 January 2003	-	
2.3 Rotation of technical officers stationed in major port cities in Germany, France, the Netherlands, Italy, and the United Kingdom to coordinate with laboratories in charge of inspection of imported goods from Thailand	Cabinet synopsis	11 February 2003	-	www.thaigov.go.th Select - Cabinet Synopsis - Archive - Date
2.4 Regulations on the export of fruits and vegetables	Cabinet synopsis	4 March 2003	-	
2.5 Measures to prevent and suppress the smuggling of agricultural products into Thailand	Cabinet synopsis	19 May 2003	-	
2.6 Imposition of surcharge and anti-dumping duties on imported products	Cabinet synopsis	3 June 2003	-	
2.7 Change in the customs duty on imported stainless steel pipes with square-shape cross-section under subheadings 7306.4 and 7306.6, from 1 to 12 percent	Cabinet synopsis	10 June 2003	-	
2.8 Bilateral trade agreement between Thailand and China on fruits and vegetables	Cabinet synopsis	10 and 24 June 2003	-	

3.3 Others Measures	Source	Date of Announcement	Effective Dates	Link
2.9 Solution to the problem regarding longan export to China	Cabinet synopsis	17 June 2003	-	
2.10 Removal of prawn and chicken inspection in the European Union	Cabinet synopsis	8 July 2003	27 June 2003	
2.11 Rationalisation of the customs duty structure for agricultural, processed agricultural, and manufacturing products in preparation for trade liberalisation	Cabinet synopsis	29 July 2003	-	
2.12 Halal food promotion in Iran and the United Arab Emirates	Cabinet synopsis	29 July 2003	-	
2.13 Investment protection in accordance with the Investment Protection and Promotion Agreement between Thailand and other countries	Cabinet synopsis	19 August 2003	-	
2.14 Removal of anti-dumping surcharge on imported metal with H-shape cross-section from Poland	Cabinet synopsis	26 August 2003	-	www.thaigov.go.th Select - Cabinet Synopsis - Archive - Date
2.15 Liberalisation of the soybean market under the obligations of the World Trade Organisation in 2004	Cabinet synopsis	23 September 2003	1 January 2004 to 31 December 2004	
2.16 Measures regarding the import of electrical appliances and other electronics	Cabinet synopsis	23 September 2003	1 October 2003	
2.17 Import administration	Cabinet synopsis	28 October 2003 and 25 November 2003	-	
2.18 Assignment of agencies to register and certify factories for export to the US	Cabinet synopsis	28 October 2003	-	
2.19 Export of rubber	Cabinet synopsis	4 November 2003	-	
2.20 Customs duty reduction for yachts and vessels for pleasure	Cabinet synopsis	18 November 2003	-	

3.3 Others Measures	Source	Date of Announcement	Effective Dates	Link
2.21 Collection of customs duties in line with the development in information technology and cross-border trade promotion policy	Cabinet synopsis	25 November 2003	-	
2.22 Cooperation on an emerging market (the Netherlands) between Thailand and the Netherlands	Cabinet synopsis	25 November 2003	-	
2.23 Exemption of customs duties on fruits and vegetables for the Union of Myanmar	Cabinet synopsis	16 December 2003	-	
2.24 Rationalisation of the customs duty structure for plate glass, bar zinc, zinc alloys, and plain coins	Cabinet synopsis	23 December 2003	-	
3. Industrial Measures				
3.1 Budget to support the promotion of local liquor production from agricultural output	Cabinet synopsis	14 January 2003	-	www.thaigov.go.th Select - Cabinet Synopsis - Archive - Date
3.2 Work plan and framework to promote national competitiveness	Cabinet synopsis	21 January 2003	-	
3.3 Solution to the problem of high gasoline prices	Cabinet synopsis	11 and 25 February 2003	8 February - 31 May 2546	
3.4 Policy and plan to support small and medium enterprises (SMEs) in Thailand (2002-2006)	Cabinet synopsis	6 May 2003	-	
3.5 Cooperation between the National Science and Technology Development Agency (NSTDA) under the Ministry of Science and Technology and Toyota Motors Company Limited	Cabinet synopsis	24 June 2003	-	
3.6 Bangkok Fashion City Project	Cabinet synopsis	8 July 2003	-	
3.7 Work plan to promote the competitiveness of the vehicle industry	Cabinet synopsis	22 July 2003	-	

3.3 Others Measures	Source	Date of Announcement	Effective Dates	Link
3.8 Establishment of a venture capital fund to promote the competitiveness of Thai businesses	Cabinet synopsis	22 July 2003	-	
3.9 Solution to the systemic problem of sugarcane and sugar	Cabinet synopsis	22 July 2003	-	
3.10 Extension of the operational period of the SMEs and People Financial Advisory Centre (SFAC)	Cabinet synopsis	5 August 2003	-	www.thaigov.go.th
3.11 Enhancement of productivity in the sugarcane and sugar industry for greater competitiveness in the world market	Cabinet synopsis	28 October 2003	-	Select - Cabinet Synopsis - Archive - Date
3.12 Determination of the standard and methodology to estimate revenues as well as determine and set sugarcane prices, sugar production costs, and income sharing between sugarcane planters and sugar mills for the crop year 2003/2004	Cabinet synopsis	25 November 2003	-	
4. Price Measures				
4.1 Electricity price adjustment (Ft)	Resolution by the Sub-committee on the Automatic Adjustment Mechanism	14 February 2003 17 June 2003	June-September 2003	www.eppo.go.th
4.2 Adjustment of train fares and air-conditioning supplementary charges	State Railway of Thailand	26 May 2003	1 October 2003	www.railway.co.th
4.3 Adjustment of liquid petroleum gas (LPG) prices	Energy Policy and Planning Office	4 December 2003	5 December 2003	www.eppo.go.th

3.3 Others Measures	Source	Date of Announcement	Effective Dates	Link
5. Labour Measures				
5.1 Draft ministerial regulations on labour protection of outwork and the determination of weight which an employee may carry	Cabinet synopsis	25 March 2003	-	
5.2 Draft royal decree to determine the starting date of the contribution to the Social Security Fund for unemployment insurance	Cabinet synopsis	28 April 2003	1 January 2004 onwards	
5.3 Guidelines for the establishment of the one-stop service office for overseas employment	Cabinet synopsis	26 May 2003 19 August 2003	-	
5.4 Draft ministerial regulations on the determination of the contribution rates to the Social Security Fund for unemployment insurance and the payment rates of unemployment benefits	Cabinet synopsis	17 June 2003	-	
5.5 Draft ministerial regulations regarding labour protection in the agricultural sector and the establishment of management standards for work safety, sanitation, and working environment	Cabinet synopsis	22 July 2003	-	www.thaigov.go.th Select - Cabinet Synopsis - Archive - Date
5.6 - Notification of the Ministry of Labour regarding the minimum wage (Announcement No. 2)	Cabinet synopsis	5 August 2003	1 August 2003	
- Adjustment of the minimum wage	Cabinet synopsis	16 December 2003	1 January 2004	
5.7 Draft ministerial regulations on granting work permits to alien workers	Cabinet synopsis	19 August 2003	-	
5.8 Ratification of the C138 Minimum Age Convention A.D. 1973 of the International Labour Organisation (ILO)	Cabinet synopsis	7 October 2003	-	
5.9 Acknowledgement of ILO conventions and recommendations	Cabinet synopsis	30 December 2003	-	

3.3 Others Measures	Source	Date of Announcement	Effective Dates	Link
6. Service Measures				
6.1 Opening and development of borders to promote trade and tourism	Cabinet synopsis	28 January 2003	-	
6.2 The sixth meeting of ASEAN tourism ministers and the second meeting between ASEAN tourism ministers and tourism ministers of China, Japan, and South Korea	Cabinet synopsis	11 February 2003	-	
6.3 Measures to prevent and contain the SARS virus	Cabinet synopsis	1, 22, 28 April 2003	-	
6.4 Promotion of long-stay tourism	Cabinet synopsis	19 May 2003	-	
6.5 Agreement between the Kingdom of Thailand and the Republic of Portugal on the exemption of visa stamp for diplomatic, official, and special passports	Cabinet synopsis	3 June 2003	-	www.thaigov.go.th Select - Cabinet Synopsis - Archive - Date
6.6 Thailand Elite Card Programme	Cabinet synopsis	29 July 2003	-	
6.7 Re-examination of the immigration protocol for foreign tourists	Cabinet synopsis	16 September 2003	-	
6.8 Immigration protocol for holders of Thailand Elite Cards	Cabinet synopsis	16 September 2003	-	
6.9 Promotion of regional airports as centres of air and tourism travel	Cabinet synopsis	7 October 2003	-	
6.10 Cooperation on tourism between Thailand and India	Cabinet synopsis	7 October 2003	-	
6.11 Cooperation on tourism between Thailand and the Republic of Chile	Cabinet synopsis	14 October 2003	-	
6.12 Draft royal decree for the tour guide business	Cabinet synopsis	28 October 2003	-	

3.3 Others Measures	Source	Date of Announcement	Effective Dates	Link
6.13 Development of the multi-purpose ship landing dock in Ranong	Cabinet synopsis	5 August 2546	-	
6.14 Transportation system of the country and the transformation of the Thai Maritime Navigation Company Limited to Thailand's national shipping line	Cabinet synopsis	4 November 2003	-	www.thaigov.go.th Select - Cabinet Synopsis - Archive - Date
6.15 Establishment of the Thai Aviation Industry Company Limited	Cabinet synopsis	16 December 2003	-	
7. Capital Market Measures				
7.1 Specification of the investment ratio of mutual funds (No. 8)	Office of the Securities and Exchange Commission (SEC)	10 July 2003	16 July 2003	
7.2 Rules, conditions and procedures for securities dealing of debt instruments (No. 7)	SEC	11 July 2003	1 August 2003	
7.3 Permission for mutual funds and private funds to invest in foreign bonds or debt securities	SEC	8 August 2003	8 August 2003	
7.4 - Specification of the investment ratio of provident funds (No. 5)	SEC	8 August 2003	8 August 2003	
- Specification of the investment ratio of provident funds (No. 6)	SEC	26 December 2003	1 January 2004	
7.5 Specification of the investment ratio of provident funds with policy to invest in the money market (No. 2)	SEC	8 August 2003	8 August 2003	www.sec.or.th

3.3 Others Measures	Source	Date of Announcement	Effective Dates	Link
7.6 Rules, conditions and procedures for the establishment and management of mutual funds to resolve problems in the financial institution system (No. 7)	SEC	21 August 2003	26 August 2003	
7.7 Rules, conditions and procedures for the establishment and management of property funds and their claims (No. 3)	SEC	21 August 2003	26 August 2003	
7.8 Rules, conditions and procedures for the establishment and management of property funds to resolve problems in the financial institution system (No. 7)	SEC	21 August 2003	26 August 2003	
7.9 - Rules, conditions and procedures for the establishment and management of Vayupak Fund	SEC	30 September 2003	1 October 2003	www.sec.or.th
- Rules, conditions and procedures for the establishment and management of Vayupak Fund (No. 2)	SEC	3 November 2003	1 November 2003	
7.10 Rules, conditions and procedures for the sale of Vayupak Fund investment units and the designation of sale representatives	SEC	3 November 2003	1 November 2003	
7.11 Rules and procedures regarding the value per unit and the calculation of the number of units for pension funds	SEC	19 September 2003	1 January 2004	