

Thailand's Economic Outlook 2007 and 2008 (As of November 2007)

27 November 07

The Fiscal Policy Office (FPO), Ministry of Finance, forecasts that Thailand's economic growth in 2007 is expected to grow at 4.5 percent per year. Main economic drivers are robust export growth and expansionary public expenditures that help to support the Thai economy at the time when private expenditures have been slowed down. Economic stabilities in 2007 remain strong with a current account surplus forecasted to be 5.0 percent of GDP and headline inflation to remain low at 2.2 percent. In 2008, Thai economy is forecasted to grow by 5.0 percent per year (in the range of 4.5-5.5 percent), following the revival of domestic demand especially from the low base in 2007. However, current account surplus in 2008 is likely to be lower at 3.3 percent of GDP (in the range of 3.0-3.6 percent), following forecasted decline in export value growth as well as accelerated import value growth from recovery of domestic expenditure. However, headline inflation in 2008 is estimated to rise to 4.0 percent per year (in the range of 3.8-4.2 percent), following expected increase in energy and commodity prices. The details of the forecast are summarized as follows:

1. Thai Economy in 2007

1.1 Economic growth in 2007

Thailand's economic growth in 2007 is forecasted to grow at 4.5 percent per year, slightly declined from the 5.0 percent growth last year. The slowdown of economic growth can be attributed to decelerating private consumption and private investment, estimated to grow at 1.5 percent and 0.2 percent per year, respectively, as a result of diminishing consumers and investors' confidences from political uncertainty. However, the Thai economy in 2007 has been supported by robust growth in export volume of goods and services, which is expected to grow at 6.4 percent, while import volume of goods and services is estimated to grow at only 3.5 percent in 2007. Also, accelerated public spending has played a vital role in supporting the economy at the time when private spending slowed down. Public consumption and public investment are likely to grow at 9.2 percent and 2.9 percent per year, respectively. This is consistent with an expansionary fiscal policy implemented in Fiscal Year (FY)2007 in which the government achieved the highest disbursement record of 93.9 percent of the FY 2007 total budget framework of 1.57 trillion Baht.

1.2. Economic Stability in 2007

Economic stability in 2007 to remains strong with current account to GDP in 2007 to be surplus by 5.0 percent, primarily due to high trade surplus arising from expected high export value growth of 15.7 percent per year while import value only is estimated to grow at 8.8 percent per year. Headline inflation is forecasted to remain low at 2.2 percent per year.

2. Thai Economy in 2008

2.1 Economic growth in 2008

Thailand's economic growth in 2008 is forecasted to grow at 5.0 percent per year (in the range of 4.5-5.5 percent), following the revival of domestic demand especially from the low base of private consumption and private investment in 2007, along with increasing farmers' income following rising prices of agricultural products in the world markets, wages and salary increases in the public sector, minimum wage increase, revival of consumer confidence after the general election in December 2007, private consumption in 2008 is likely to improve by growing at 2.5 percent per year (in the range of 2.1-2.9 percent). Meanwhile, private investment in 2008 is forecasted to improve from a very low base in 2007 to expand at 5.3 percent per year (in the range of 4.4-6.2 percent) as capital utilization level is currently very high at near potential level while many of the investment projects approved this year by the Board of Investment is expected to begin implementation next year. In addition, continued accelerating public expenditure would support the domestic demand in 2008 in which public consumption would expand at 4.5 percent per year (in the range of 4.0-5.0 percent) and public investment would expand at 4.5 percent per year (in the range of 0.4-8.6 percent). Accelerated public investment, especially from the infrastructure investment projects, is a crucial factor in supporting the private-sector investment through crowding-in effect of investment.

However, export volume of goods and services in 2008 is projected to grow at 5.5 per year (in the range of 4.8-6.2 percent). Although Thailand's traditional export market, especially the US, may slow down, it is expected that government policies to diversify Thailand's export to new markets especially to countries in the Asia Pacific and the Middle East where their economic growths remain strong, would support Thailand's export to continue to expand well. Import volume of goods and services is expected to accelerate to 5.8 percent per year (in the range of 4.7-6.9 percent), following the revival of domestic demand.

2.2. Economic stability in 2008

External economic stability in 2008 is likely to remain strong, although internal stability may encounter some inflationary pressure. Current account surplus is forecasted to decline to 3.3 percent of GDP (in the range of 3.0-3.6 percent) due to lower trade surplus following decelerated export value growth of 10.7 percent per year (in the range of 10.1-11.3 percent), and accelerated import value growth of 13.7 percent per year (in the range of 12.3-15.1 percent). However headline inflation in 2008 is forecasted to be 4.0 percent per year (in the range of 3.8-4.2 percent) following expected rising prices of oils and other commodities in the world markets.

The summary table of the economic forecasts is shown below:

Major Assumptions and Economic Projections of 2007 and 2008 (As of November 2007)

	2006	2007f	2008 f	
			Avg.	Range
Major Assumptions				
<u>Exogenous Variables</u>				
1) Average Economy Growth of Major Trading Partners (percent y-o-y)	4.4	4.1	3.8	3.5-4.0
2) Dubai Crude Oil Price (US dollar per Barrel)	61.5	67.8	83.0	80.0-85.0
<u>Policy Variables</u>				
3) Exchange Rate (Baht /US dollar)	37.9	34.6	33.8	33.5-34.0
4) Repurchase Rate (Policy Rate) at year end (percentage per annum)	5.00	3.25	3.25	3.00-3.50
5) Government Budget and Carry-over Expenditure (Billion Baht)	1.93	2.15	2.27	2.26-2.28
Projections				
1) Economic Growth (percent y-o-y)	5.0	4.5	5.0	4.5-5.5
2) Real Consumption Growth (percent y-o-y)	3.2	2.6	2.8	2.5-3.1
- Real Private Consumption	3.1	1.5	2.5	2.1-2.9
- Real Public Consumption	3.4	9.2	4.5	4.0-5.0
3) Real Investment Growth (percent y-o-y)	4.0	0.9	5.1	3.4-6.8
- Real Private Investment	3.9	0.2	5.3	4.4-6.2
- Real Public Investment	4.5	2.9	4.5	0.4-8.6
4) Export Volume of Goods and Services (percent y-o-y)	8.6	6.4	5.5	4.8-6.2
5) Import Volume of Goods and Services (percent y-o-y)	1.6	3.5	5.8	4.7-6.9
6) Trade Balance (billion US dollar)	2.3	11.3	8.4	7.4-9.4
- Export Value of Goods in US dollar (percent y-o-y)	17.5	15.7	10.7	10.1-11.3
- Import Value of Goods in US dollar (percent y-o-y)	7.4	8.8	13.7	12.3-15.1
7) Current Account (billion US dollar)	2.8	12.1	8.8	8.1-9.5
- Percentage of GDP	1.4	5.0	3.3	3.0-3.6
8) Headline Inflation (percent y-o-y)	4.7	2.2	4.0	3.8-4.2
Core Inflation (percent y-o-y)	2.3	1.1	1.9	1.7-2.1

f = forecast by Fiscal Policy Office, Ministry of Finance, Thailand