

26 March 2008

The Fiscal Policy Office (FPO), Ministry of Finance, forecasts that the Thai economy in 2008 is forecasted to grow at 5.6 percent (in the forecasted range of 5.0-6.0 percent), improving from 4.8 percent growth in the previous year. Economic expansion in 2008 is expected to more balanced with recovery in domestic demand as a result of accelerated public sector spending following government policy to stimulate the domestic economy at the time when external demand is likely to be softened from possible global economic slowdown. External stability in 2008 will remain strong with current account surplus estimated to be 0.5 percent of GDP (in the range of 0.3-0.8 percent of GDP) while internal stability in 2008 may have some risk with increasing headline inflation at 4.5 percent (in a range of 4.3-4.8 percent) due to rising energy and food prices in the world markets. Details of the economic forecast are as follows:

1. Economic growth in 2008

Thai economy in 2008 is forecasted to grow at 5.6 percent per year (in the range of 5.0-6.0 percent). Main economic driver is likely to come from revival of domestic demand especially from the low-based private consumption and private investment in 2007. Private consumption in 2008 is projected to increase by 4.0 percent per year (in the range of 3.5-4.5 percent), improving from 1.4 percent growth in 2007 due to higher real income from increasing trend in farmers' income following rising prices of agricultural products in the world markets and increasing wages and salaries in the public sector as well as minimum wage increase. Moreover, the new tax measures (announced on 4th March 2008) is expected to increase disposable income of the people. On private investment in 2008, it is forecasted to accelerate from a very low base of only 0.5 percent per year in 2007 to grow at 9.7 percent per year (in the range of 9.2-10.2 percent) in 2008. Supporting factors for improving private investment in 2008 are from pending demand of investment as clearly seen from high capital utilization rate which is currently near full capacity level, and many new investment projects, approved by the Board of Investment last year which is expected to start their project implementation this year, as well as the new tax measures to give incentive to private sector to accelerate their investment in 2008. Moreover, the government would expedite budget disbursement process in 2008 under the targeted fiscal deficits at 1.8 percent of GDP in Fiscal Year (FY) 2008 and 2.5 percent of

GDP in FY 2009 as well as accelerate the implementation of mega-project investment in order to stimulate domestic demand and crowd-in private investment.

From the external demand in 2008, it is expected to grow at a slower pace with export volume of goods and services growing by 6.9 percent per year (in the range of 6.5-7.5 percent), compared to 7.1 percent per year in 2007. Softening export growth in 2008 is attributable to projected slower world economic growth resulted from U.S. economic turmoil arising from the sub-prime lending crisis. However, export volume of goods and services is expected to continue expanding at moderate pace despite the impact from world economic slowdown due to diversifying structure of Thailand's export sector to new and emerging markets which continues to grow at strong pace as well as the government policy to promote foreign tourism industry and tourism income. On import volume of goods and services in 2008, it is forecasted to grow at accelerated pace at 10.3 per year (in the range of 9.8-10.8 percent), compared to 3.5 percent per year in 2007, in line with recovery of domestic demand.

2. Economic stability in 2008

External economic stability in 2008 is likely to remain resilient while internal economic stability may encounter some risk from higher inflationary pressure. Current account balance in 2008 is forecasted to record a smaller surplus at 0.5 percent of GDP (in the range of 0.3-0.8 percent of GDP) due to trade deficit following declining export value growth of 13.5 percent per year (in the range of 12.5-14.5 percent), and accelerating import value growth to 25.0 percent per year (in the range of 24.0-26.0 percent). Headline inflation in 2008 is forecasted to pick up at 4.5 percent per year (in the range of 4.3-4.8 percent) due to increasing prices of energy and other commodities in the world markets.

Summary table of 2008 economic forecast is attached herewith.

Major Assumptions and Economic Projections of 2008 (As of March 2008)

	2006	2007	2008 f	
			Avg.	Range
Major Assumptions				
<u>Exogenous Variables</u>				
1) Average Economic Growth Rate of Major Trading Partners (percent y-o-y)	4.5	5.1	4.4	4.2 - 4.7
2) Dubai Crude Oil Price (US dollar per Barrel)	61.5	67.8	93.0	90.0 - 95.0
<u>Policy Variables</u>				
3) Exchange Rate (Baht /US dollar)	37.9	34.6	31.5	31.25 - 31.75
4) Repurchase Rate (Policy Rate) at year end (percentage per annum)	5.00	3.25	3.00	3.00 - 3.25
5) Fiscal-Year Public Expenditure (Billion Baht)	1.89	2.14	2.31	2.29 - 2.34
Projections				
1) Economic Growth Rate (percent y-o-y)	5.1	4.8	5.6	5.0 – 6.0
2) Real Consumption Growth (percent y-o-y)	3.0	2.7	4.6	4.0 – 5.0
- Real Private Consumption	3.2	1.4	4.0	3.5 – 4.5
- Real Public Consumption	2.3	10.8	7.8	7.3 – 8.3
3) Real Investment Growth (percent y-o-y)	3.8	1.4	9.8	9.3 – 10.3
- Real Private Investment	3.7	0.5	9.7	9.2 – 10.2
- Real Public Investment	3.9	4.0	10.1	9.5 -10.5
4) Export Volume of Goods and Services (percent y-o-y)	8.5	7.1	6.9	6.5 - 7.5
5) Import Volume of Goods and Services (percent y-o-y)	2.6	3.5	10.3	9.8 – 10.8
6) Trade Balance (billion US dollar)	1.0	12.0	-2.4	(-3.4) – (-1.4)
- Export Value of Goods in US dollar (percent y-o-y)	17.2	18.1	13.5	12.5 - 14.5
- Import Value of Goods in US dollar (percent y-o-y)	7.8	9.6	25.0	24.0 – 26.0
7) Current Account (billion US dollar)	2.2	14.9	1.5	1.0 – 2.0
- Percentage of GDP	1.0	6.1	0.5	0.3 – 0.8
8) Headline Inflation (percent y-o-y)	4.7	2.2	4.5	4.3 – 4.8
Core Inflation (percent y-o-y)	2.3	1.1	1.9	1.7 – 2.2

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