

## *Press Release*

### *Thailand's Economic Outlook 2008 (As of June 2008)*

25 June 2008

**The Fiscal Policy Office (FPO), Ministry of Finance, announced Thailand's economic forecast for 2008 that the Thai economy continues to possess strong economic fundamental and resiliency to withstand external economic shocks. In this connection, The Thai economy in 2008 is forecasted to grow in the range of 5.0-6.0 percent, equivalent to the earlier March forecast and improving from 4.8 percent growth in the previous year.** This economic expansion is expected to continue from the strong growth achieved in the first quarter in 2008 at 6.0 percent, while external demand from trading partners continues to be supportive following strong economic performances of emerging Asian and Middle Eastern continues as well as higher-than-expected depreciation of Thai Baht. These result in continued strong export in 2008. At the same time, domestic demand is expected to recover from the low base last year, supported by increasing farmers' income following rising agricultural prices, increasing minimum wages, government measures to revitalize and stimulate domestic economy, and accelerated government spending. However, private sector expenditures may not fully recover due to accelerating inflation, increasing interest rate, and lowered consumers' and investors' confidences. External stability in 2008 will remain strong with current account surplus in the range of 1.0-2.0 percent of GDP while internal stability in 2008 may face some risks from increasing headline inflation in the range of 6.0-8.0 percent due to rising energy and commodity prices in the world markets. Details of the economic forecast are as follows:

#### **1. Economic growth in 2008**

The Thai economy in 2008 is forecasted to grow at 5.6 percent per year (in the range of 5.0-6.0 percent), increasing from 4.8 percent growth in 2007. Stronger-than-expected external demand in 2008 is likely to be the main economic driver in which export volume of goods and services is projected to increase by 8.0 percent per year (in the range of 7.5-8.5 percent), increasing from 7.1 percent per year in 2007. This strong export performance can be attributed to diversifying Thailand's export destinations to new emerging markets which continue to expand at strong pace (the so-called Export Decoupling), and greater-than-expected depreciation of Thai Baht currency vis-à-vis U.S. dollar, as well as increasing tourism income from the low base last year. For import volume of goods and services in 2008 is forecasted to rebound in line with domestic economy, and grow by 9.7

percent per year (in the range of 9.2-10.2 percent), increasing from previous year's growth of 3.5 percent per year.

For domestic demand in 2008, private consumption and investment are likely to recover from the low bases in 2007, but higher inflationary risk, rising interest rate and lower consumers' and investors' confidence may lead to slower recovery than previously anticipated. Private consumption in 2008 is projected to increase by 3.5 percent per year (in the range of 3.0-4.0 percent), improving from 1.5 percent in 2007, due to higher real income of farmers following rising agricultural prices in the world markets, increasing minimum wages, government measures to revitalize and stimulate domestic economy, and accelerated government spending. On private investment in 2008, it is projected to recover from an exceptionally low base of 0.5 percent per year in 2007 to grow at 8.5 percent per year (in the range of 8.0-9.0 percent) in 2008. Supporting factors for improving private investment are pent-up demand for investment as clearly shown in high level capital utilization rate which indicates near full capacity level at present as well as many new investment projects that has been approved by the Board of Investment last year is expected to start their project implementation this year. Moreover, accelerating government expenditures under the targeted fiscal deficits in Fiscal Year 2008 and Fiscal Year 2009 at -1.8 percent and -2.5 percent of GDP, respectively, and accelerating the implementation of public investment projects are expected to support domestic demand in 2008.

## **2. Economic stability in 2008**

External economic stability in 2008 is likely to remain resilient while internal economic stability may encounter some risks from higher inflationary pressure. Current account balance in 2008 is forecasted to record a surplus at 1.4 percent of GDP (in the range of 1.0-2.0 percent of GDP) declining from 6.1 percent last year due to smaller trade surplus compared to last year. Export value is expected to grow at slower pace than import value. Export value growth in 2008 is forecasted to be 20.3 percent per year (in the range of 19.3-21.3 percent), while import value growth is forecasted to accelerate to 30.0 percent per year (in the range of 29.0-31.0 percent), following rapid increase in energy prices and recovery in domestic demand. Headline inflation in 2008 is forecasted to increase at 7.2 percent per year (in the range of 6.0-8.0 percent), comparing to 2.3 percent per year in the previous year, due to increasing energy prices as well as major commodities' prices in the world markets.

Summary table of 2008 economic forecast is attached herewith.

**Major Assumptions and Economic Projections of 2008 (As of June 2008)**

	2007	2008f		2008f	
		(As of Mar 2008)		(As of June 2008)	
		Avg.	Range	Avg.	Range
<b>Major Assumptions</b>					
<u>Exogenous Variables</u>					
1) Average Economic Growth Rate of Major Trading Partners (percent y-o-y)	5.2	4.4	4.2-4.7	4.5	4.0-5.0
2) Dubai Crude Oil Price (U.S. dollar per Barrel)	67.8	93.0	90.0-95.0	116.0	110.0-120.0
<u>Policy Variables</u>					
3) Exchange Rate (Baht per U.S. dollar)	34.6	31.5	31.25-31.75	32.8	32.5-33.5
4) Repurchase Rate (Policy Rate) at year-end (percent y-o-y)	3.25	3.00	3.00-3.25	4.25	4.00-4.50
5) Fiscal-Year Public Expenditure (Trillion Baht)	2.14	2.31	2.29-2.34	2.26	2.20-2.30
<b>Projections</b>					
1) Economic Growth Rate (percent y-o-y)	4.8	5.6	5.0-6.0	5.6	5.0-6.0
2) Real Consumption Growth (percent y-o-y)	2.7	4.6	4.0-5.0	4.1	3.5-4.5
- Real Private Consumption	1.4	4.0	3.5-4.5	3.5	3.0-4.0
- Real Public Consumption	10.8	7.8	7.3-8.3	7.8	7.3-8.3
3) Real Investment Growth (percent y-o-y)	1.4	9.8	9.3-10.3	8.3	7.3-9.3
- Real Private Investment	0.5	9.7	9.2-10.2	8.5	7.5-9.5
- Real Public Investment	4.0	10.1	9.5-10.5	7.4	6.5-8.5
4) Export Volume of Goods and Services (percent y-o-y)	7.1	6.9	6.5-7.5	8.0	7.5-8.5
5) Import Volume of Goods and Services (percent y-o-y)	3.5	10.3	9.8-10.8	9.7	9.2-10.2
6) Trade Balance (billion U.S. dollar)	12.0	-2.4	(-3.4)-(-1.4)	1.7	1.2-2.2
- Export Value of Goods in U.S. dollar (percent y-o-y)	18.1	13.5	12.5-14.5	20.3	19.3-21.3
- Import Value of Goods in U.S. dollar (percent y-o-y)	9.6	25.0	24.0-26.0	30.0	29.0-31.0
7) Current Account (billion U.S. dollar)	14.9	1.5	1.0-2.0	4.0	3.0-5.0
- Percentage of GDP	6.1	0.5	0.3-0.8	1.4	1.0-2.0
8) Headline Inflation (percent y-o-y)	2.3	4.5	4.3-4.8	7.2	6.0-8.0
Core Inflation (percent y-o-y)	1.1	1.9	1.7-2.2	2.7	2.2-3.2

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