

Thailand's Economic Outlook 2007 (As of August 2007)

23 August 2007

The Fiscal Policy Office (FPO) maintained Thailand's economic growth forecast in 2007 at 4.0 percent per year (in the range of 3.8-4.3 percent). Main economic drivers are accelerated public expenditures that would support gradual recovery of private spending. Export volume of goods and services continues to expand, but could likely soften in the remaining part of the year due to possible economic slowdown among Thailand's trading partners and recent Baht appreciation. Economic stability in 2007 remains strong with a current account surplus forecasted to be around 5.1 percent of GDP (in the range of 4.5-5.5 percent) and low inflation at 2.0 percent (in the range of 1.5-2.5 percent). The details can be summarized as follows:

1. Economic growth

Thai economy in 2007 is forecasted to expand by 4.0 percent (y-o-y), the same growth rate to the previous May 2007 forecast. The economic growth this year is supported by public spending, as the government is likely to meet the target of disbursing 93 percent of the 2007 fiscal year budget of 1.57 trillion Baht. Moreover, the planned expenditure of 1.66 trillion Baht for the 2008 fiscal year (October 2007-September 2008), including a 4-percent increase of government workers' salaries, is expected to boost public spending in the fourth quarter of 2007. Real public consumption and real public investment are forecasted to expand by 11.0 percent per year (in the range of 9.0-13.0 percent) and by 2.7 percent per year (in the range of 0.7-4.7 percent), increasing from the previous forecasts of 10.8 percent and 2.2 percent, respectively. These public expenditures are expected to boost domestic demand going into the latter half of this year.

On private expenditure, FPO forecasts that private consumption and investment in 2007 will pick up in the rest of the year, thanks to the rising public expenditure, the accommodative monetary policy, and the anticipated upcoming general election by the end of the year. However, since private spending in the 1st quarter of 2007 declined more than expected, private consumption is expected to increase by 2.0 percent y-o-y (in the range of 1.5-2.5 percent), down from the earlier forecast of 2.3 percent, while private investment to remain stable from last year with the range of growth at -0.5 to 0.5 percent.

On the external demand, FPO forecasts that export volume of goods and services in 2007 would soften from the previous forecast, in line with expected economic slowdown among Thailand's major trading partners and recent Baht appreciation. Export volume of goods and services in 2007 is expected to grow by 6.5 percent (in the range of 6.0-7.0 percent), decreasing from the previous forecast of 8.1 percent. Import volume of goods and services in 2007 is also forecasted to soften to 2.7 percent y-o-y (in the range of 2.2-3.2 percent) as a result of slower external demand and slower recovery of private expenditures.

2. Economic Stability

External economic stability in 2007 is projected to remain strong with current account to GDP in 2007 to be surplus by 5.1 percent (in the range of 4.5-5.5 percent), primarily due to strong trade surplus arising from higher export value compared to import value. FPO expects that export value of goods in 2007 would increase by 12.5 percent y-o-y (in the range of 12.0-13.0 percent) while import value of goods in 2007 would increase by 6.9 percent y-o-y (in the range of 6.4-7.4 percent).

On internal economic stability in 2007, headline inflation is expected to remain low at 2.0 percent y-o-y (in the range of 1.5-2.5 percent y-o-y) as the Baht appreciation would lessen cost-push inflationary pressure from possible slightly higher crude oil price in the world markets, while slower domestic demand would also lessen demand-pull inflation as well.

The summary table of the economic forecasts is shown below:

Major Assumptions and Economic Projections of 2007 (As of August 2007)

	2006	2007 f (May)		2007 f (August)	
		Avg.	Range	Avg.	Range
Major Assumptions					
<u>Exogenous Variables</u>					
1) Growth Rate for 11 Trading Partners (Percent y-o-y)	4.5	3.9	3.7-4.2	3.9	3.7-4.2
2) Dubai Crude Oil Price (US dollar per Barrel)	61.5	62.0	60.0-64.0	65.5	64.0-68.0
<u>Policy Variables</u>					
3) Exchange Rate (Baht /US dollar)	38.0	35.0	34.5-35.5	34.75	34.25-35.25
4) Repurchase Rate (Policy Rate) at year end (Percent y-o-y)	5.00	3.50	3.25-3.75	3.25	3.00-3.25
5) Government Budget and Carry-over Expenditure (Billion Baht)	1,395	1,576	1,560-1,593	1,576	1,576-1,593
Projections					
1) Economic Growth Rate (percent y-o-y)	5.0	4.0	3.8 - 4.3	4.0	3.8 - 4.3
2) Public Expenditure Growth (percent y-o-y)					
- Real Public Consumption	3.4	10.8	8.8-12.8	11.0	9.0-13.0
- Real Public Investment	4.5	2.2	0.2-4.2	2.7	0.7-4.7
3) Private Expenditure Growth (percent y-o-y)					
- Real Private Consumption	3.1	2.3	1.8-2.8	2.0	1.5-2.5
- Real Private Investment	3.9	0.5	0.3-0.7	0.0	(-0.5)-(-0.5)
4) Export Volume of Goods and Services (percent y-o-y)	8.5	8.1	7.6-8.6	6.5	6.0-7.0
5) Import Volume of Goods and Services (percent y-o-y)	1.6	5.2	4.7-5.7	2.7	2.2-3.2
6) Trade Balance (billion US dollar)	2.2	9.4	8.4-10.4	9.6	8.6-10.6
- Export Value of Goods in US dollar (percent y-o-y)	17.4	13.7	13.2-14.2	12.5	12.0-13.0
- Import Value of Goods in US dollar (percent y-o-y)	7.0	8.3	7.8-8.8	6.9	6.4-7.4
7) Current Account (billion US dollar)	3.2	11.9	10.9-12.9	12.0	11.0-13.0
- Percentage of GDP	1.5	4.9	4.5-5.5	5.1	4.5-5.5
8) Headline Inflation (percent y-o-y)	4.7	2.8	2.5-3.0	2.0	1.5-2.5

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