

## *Press Release*

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

25 September 2008

**The Fiscal Policy Office (FPO), Ministry of Finance, announced the Thai economy for 2008 is forecasted to grow at 5.1 percent per year, lower than the earlier June 2008 forecast at 5.6 percent per year but still improving from 4.8 percent growth in the previous year.** This downward revision is due to slower-than-expected recovery of domestic demand, while export, which has been expanding strongly to support the Thai economy, is expected to grow at a slower pace in the remaining period of this year due to increasing risk from global economic slow down. Internal economic stability is expected to improve from earlier forecast, given that inflation is projected to decline to 6.3 percent, from earlier forecast of 7.2 percent. While external economic stability remains strong, current account in 2008 is expected to be in surplus by 0.4 percent of GDP. For economic outlook in 2009, Thai economy is forecasted to grow in the range of 4.0-5.0 percent, driven by the recovery of domestic demand from low base in this year. However, export may grow at a lower pace due to slower global economic growth. Current account in 2009 is forecasted to be in surplus in the range of 1.0-2.0 percent of GDP. Headline inflation rate in 2009 is forecasted to reduce to 3.0-4.0 percent. Details of the economic forecasts are as follows:

#### **1. Economic Outlook for 2008**

##### **1.1 Economic growth**

The Thai economy in 2008 is forecasted to grow by 5.1 percent per year, decreasing from the previous forecast of 5.6 percent per year, but still higher than 4.8 percent growth in 2007. Private consumption and investment is projected to increase by 2.8 and 5.0 percent per year, respectively, which are lower than previous forecasts at 3.5 and 8.5 percent per year. Slower domestic spending is due to high inflationary pressure and uncertain political situation, which result in consumers and investors postponing their spending and investment plan. Export volume of goods and services would continue to grow at higher rate of 7.8 percent per year, lower than previously anticipated in 2008 at 8.0 percent per year. This slower export of goods and services can be attributed to slower-than-expected growths of Thailand's trading partners, and the tourism sector that is negatively affected by the political demonstration and State of Emergency Decree announced in September 2008. On the other hand, import volume of goods and services in 2008 is forecasted to

grow by 9.6 percent per year, slightly decreasing from previous forecast of 9.7 percent in line with slower pace of domestic demand recovery.

#### 1.2 Economic stability

Internal economic stability is expected to improve from lower headline inflation that is forecasted to decline to 6.3 percent per year, from previously anticipated at 7.2 percent per year, due to the 6-month economic measures by the government announced in July 2008 and declining energy prices in the second half of 2008. External economic stability remains strong, with current account balance which is projected to be surplus by 1 billion USD or 0.4 percent of GDP, although declining from 1.4 percent of GDP in the previous forecast. This is mainly due to increasing trade deficit as import value accelerated to 29.8 percent which is higher than export value growth at 20.0 percent. At the same time, service balance is expected to be lower due to declining foreign tourism revenue in the final quarter of 2008 affected by the State of Emergency Decree.

## 2. **Economic Outlook for 2009**

### 2.1 Economic growth

The Thai economy in 2009 is forecasted to grow at the range of 4.0-5.0 percent per year attributed to the slow domestic economic recovery from a low base in 2008. Private consumption is projected to increase by 3.0-4.0 percent per year as a result of higher real income of households due to decreasing inflationary pressure. Private investment in 2009 is also expected to pick up by 7.0-8.0 percent per year following very low investment growths in the past few years, due to near-full capacity utilization which is expected to induce many new investment projects to be implemented next year to expand capacity production. Moreover, accelerated disbursement of government expenditures under expansionary fiscal policy framework with targeted fiscal deficit at 2.5 percent of GDP in Fiscal Year 2009 would facilitate gradual recovery in domestic demand. Public consumption and investment in 2009 are expected to expand at 7.0-8.0 and 8.0-9.0 percent per year respectively. Accelerating public spending in 2009, especially through Mega-Projects investment, would have crowding-in effect for private investment, and enable the Thai economy to grow higher than forecasted. Nonetheless, export volume of goods and services in 2009 is likely to be slower in the range of 6.5-7.5 percent per year due to slower global economic growth from US economic slow down and the sub-prime crisis. Import volume of goods and services is expected to grow in the range of 6.5-7.5 percent due to the slow down in overall economy.

## 2.2 Economic stability

Economic stability in 2009 is likely to remain resilient. Current account balance in 2009 is forecasted to record a surplus in the range of 1.0-2.0 percent of GDP due to trade balance surplus from decreasing import prices relatively to export prices (improved terms of trade). Import value is forecasted to grow at a decelerating pace in the range of 9.0-11.0 percent per year while export value would slow down to the range of 11.0-13.0 percent per year. Service balance is expected to recover with tourism revenue returning to normal trend in 2009. Headline inflation in 2009 is forecasted to slow down to the range of 3.0-4.0 percent per year as crude oil price is expected to increase at a slower pace than in 2008.

Summary table of 2008 and 2009 economic forecasts is attached herewith.

**Major Assumptions and Economic Projections of 2008 and 2009 (As of September 2008)**

	2007	2008f (As of June 2008)	2008f (As of Sep 08)	2009f (As of Sep 2008)
<b>Major Assumptions</b>				
<u>Exogenous Variables</u>				
1) Average Economic Growth Rate of Major Trading Partners (percent y-o-y)	5.2	4.5	3.9	3.0-3.5
2) Dubai Crude Oil Price (U.S. dollar per Barrel)	67.8	116.0	103.7	95.0- 105.0
<u>Policy Variables</u>				
3) Exchange Rate (Baht per U.S. dollar)	34.6	32.8	33.2	33.0-35.0
4) Repurchase Rate (Policy Rate) at year-end (percent y-o-y)	3.25	4.25	3.75	3.5-4.0
5) Fiscal-Year Public Expenditure (Trillion Baht)	2.14	2.26	2.19	2.37-2.42
<b>Projections</b>				
1) Economic Growth Rate (percent y-o-y)	4.8	5.6	5.1	4.0-5.0
2) Real Consumption Growth (percent y-o-y)	2.7	4.1	2.5	3.5-4.5
- Real Private Consumption	1.4	3.5	2.8	3.0-4.0
- Real Public Consumption	10.8	7.8	1.3	7.0-8.0
3) Real Investment Growth (percent y-o-y)	1.4	8.3	4.3	7.3-8.3
- Real Private Investment	0.5	8.5	5.0	7.0-8.0
- Real Public Investment	4.0	7.4	2.3	8.0-9.0
4) Export Volume of Goods and Services (percent y-o-y)	7.1	8.0	7.8	6.5-7.5
5) Import Volume of Goods and Services (percent y-o-y)	3.5	9.7	9.6	6.5-7.5
6) Trade Balance (billion U.S. dollar)	12.0	1.7	-0.9	1.0-3.0
- Export Value of Goods in U.S. dollar (percent y-o-y)	18.1	20.3	20.0	11.0-13.0
- Import Value of Goods in U.S. dollar (percent y-o-y)	9.6	30.0	29.8	9.0-11.0
7) Current Account (billion U.S. dollar)	14.9	4.0	1.0	4.0-6.0
- Percentage of GDP	6.1	1.4	0.4	1.0-2.0
8) Headline Inflation (percent y-o-y)	2.3	7.2	6.3	3.0-4.0
Core Inflation (percent y-o-y)	1.1	2.7	2.2	1.0-2.0

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