



สำนักงานเศรษฐกิจการคลัง
Fiscal Policy Office

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Thailand's Economic Projection for 2008 and 2009 (As of December 2008)

The Fiscal Policy Office (FPO), Ministry of Finance, announced that the growth of the Thai economy for 2008 is forecasted to grow at 3.0 percent per year, lower than 4.9 percent growth in the previous year as well as the earlier September 2008 forecast at 5.1 percent per year. This downward revision is due to slower-than-expected recovery of domestic demand, while export of goods and services has a tendency of lower growth than the earlier forecast as a result of global economic slow down and the closedown of major airports, which greatly affected transportation of goods as well as tourists towards the end of the year. Internal economic stability is expected to improve from earlier forecast, given that inflation is projected to decline to 5.6 percent, from earlier forecast of 6.3 percent. While external economic stability faces increasing risks from the current account deficit in 2008, which is expected to be -1.5 percent of GDP. For economic outlook in 2009, Thai economy is forecasted to grow at 1.0 percent per year (or in the forecast range of 0.0-2.0 percent), with the feeble recovery of domestic demand as the main negative factor while export may further contract, which is in line with the slow down in major trading partners' economies. Headline inflation rate in 2009 is forecasted to reduce to 1.0 percent (with the forecast range of 0.0-2.0 percent per year) following the sharp fall in oil price. Current account in 2009 is forecasted to be in deficit by -1.4 percent of GDP (or in the forecast range of -2.4 to -0.4 percent of GDP). 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 3.0 percent per year, lower than 4.9 percent growth in 2007. Private consumption and investment is projected to increase by 2.5 and 4.3 percent per year, respectively. Albeit growing faster than the previous year which grew at 1.6 and 0.6

percent per year, respectively, the recovery of domestic spending is slower than the earlier forecast. Slower domestic spending has been due to high inflationary pressure during the first three quarters and the loss of confidence in uncertain political situation, which results in consumers and investors postponing their spending and investment plan. Export volume of goods and services would continue to grow at higher rate of 3.4 percent per year, much lower than the previous year's growth rate of 7.1 percent per year. This slower export of goods and services can be attributed to slower-than-expected growths of Thailand's trading partners. Furthermore, the closedown of Suvarnabhumi airport from late November to early December is expected to cause sharp reductions in export and the number of in-bound tourists. Consequently the volume of export of services and income from tourism is likely to show significant decline. On the other hand, import volume of goods and services in 2008 is forecasted to grow by 7.3 percent per year, increasing from 2007 of 3.4 percent, as the import volume during the first three quarters expanded in almost every group. Nonetheless, export and import volumes in the last quarter of 2008 would slow down in line with slower pace of domestic demand recovery.

1.2 Economic stability

Headline inflation is forecasted to be 5.6 percent per year, increasing from 2007 at 2.3 percent per year, due to the rapid increase of oil price in the global market during the first half of the year. However, the rapid fall of oil price in the second half of 2008 has caused headline inflation to decline from previously anticipated. External economic stability, on the other hand, faces more risks, with current account balance which is projected to be in deficit by -4.0 billion USD or -1.5 percent of GDP, comparing with the surplus of 5.7 percent of GDP in 2007. This is mainly due to increasing trade deficit as import value accelerated to 28.6 percent per year which is higher than export value growth at 17.0 percent. At the same time, service balance is expected to be in deficit due to declining foreign tourism revenue affected by the closedown of Suvarnabhumi airport from late November to early December 2008, which is the high-season for tourism in the last quarter of the year.

2. Economic Outlook for 2009

2.1 Economic growth

The Thai economy in 2009 is forecasted to grow at 1.0 percent per year (with the range of 0.0-2.0 percent per year) attributed to the slow recovery in private expenditures. Private consumption is projected to slow down from 2008 at 2.2 percent per year (with the range of 1.2-3.2 percent per year) as a



result of lower real income of households due to decreasing farm income following declining agricultural prices coupled with uncertainty in employment situation. Nevertheless, lower headline inflation as a result of lower oil and commodity prices in the global market would mitigate this adverse impact on domestic consumption. Private investment in 2009 is also expected to slow down from 2008 at 3.0 percent per year (with the range of 7.0-8.0 percent per year) as investors postpone their investment plan to evaluate the global economic situation as well as the direction of the Thai economy. In addition, export volume of goods and services in 2009 is likely to be slower at 0.6 percent per year, or in the range of -0.6-1.6 percent per year, due to the severity of rapid global economic slowdown. Import volume of goods and services is also expected to slow down to 1.2 percent per year (or in the range of 0.2-2.2 percent per year) due to the slow down in overall economy.

Moreover, accelerated disbursement of government expenditures would be the major factor that supports domestic demand. Public consumption and investment in 2009 are expected to expand from the low base in 2008 to 8.3 percent (in the range of 7.3-9.3 percent per year) and 5.9 percent per year (in the range of 4.9-6.9 percent per year), respectively. Accelerating public spending, especially through Mega-Projects investment, reductions in policy rate from the current level, and adequate liquidity injection through credit expansion in the business sector, would be the main factor that drives the Thai economy to grow at the high-case at 2.0 percent per year.

2.2 Economic stability

Internal stability in 2009 is likely to continue improving. Headline inflation in 2009 is forecasted to slow down to 1.0 percent per year (in the range of 0.0-2.0 percent per year) as crude oil price is expected to continue declining trend from 2008. External stability, however, would face greater risks from current account balance, which is forecasted to record a deficit of -1.4 percent of GDP (or in the range of -2.4 to -0.4 percent of GDP) due to trade balance deficit. Export value would contract to -2.7 percent per year (or in the range of -3.7 to -1.7 percent per year), while import value is also forecasted to contract at -2.8 percent per year (or in the range of -3.8 to -1.8 percent per year). Service balance is expected to continue to be in deficit due to slowing tourism sector.

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



Major Assumptions and Economic Projections of 2008 and 2009 (As of December 2008)

	2007	2008f (As of Dec 08)	2009f (As of Dec 08)	
			Average	Range
Major Assumptions				
<u>Exogenous Variables</u>				
1) Average Economic Growth Rate of Major Trading Partners (percent y-o-y)	5.3	5.3	1.0	0.5-1.5
2) Dubai Crude Oil Price (U.S. dollar per Barrel)	67.8	95.0	55.0	50.0-60.0
<u>Policy Variables</u>				
3) Exchange Rate (Baht per U.S. dollar)	34.6	33.2	35.0	34.0-36.0
4) Repurchase Rate (Policy Rate) at year-end (percent y-o-y)	3.25	2.75	0.75	0.50-1.00
5) Fiscal-Year Public Expenditure (Trillion Baht)	2.14	2.17	2.42	2.36-2.48
Projections				
1) Economic Growth Rate (percent y-o-y)	4.9	3.0	1.0	0.0-2.0
2) Real Consumption Growth (percent y-o-y)	2.7	1.9	3.1	2.1-4.1
- Real Private Consumption	1.6	2.5	2.2	1.2-3.2
- Real Public Consumption	9.2	-1.3	8.3	7.3-9.3
3) Real Investment Growth (percent y-o-y)	1.3	2.8	3.7	2.7-4.7
- Real Private Investment	0.6	4.3	3.0	2.0-4.0
- Real Public Investment	3.4	-1.7	5.9	4.6-6.9
4) Export Volume of Goods and Services (percent y-o-y)	7.1	3.4	0.6	-0.6 to 1.6
5) Import Volume of Goods and Services (percent y-o-y)	3.4	7.3	1.2	0.2-2.2
6) Trade Balance (billion U.S. dollar)	11.6	-3.0	-2.7	-3.7 to -1.7
- Export Value of Goods in U.S. dollar (percent y-o-y)	17.3	17.0	-2.7	-3.7 to -1.7
- Import Value of Goods in U.S. dollar (percent y-o-y)	9.1	28.6	-2.8	-3.8 to -1.8
7) Current Account (billion U.S. dollar)	14.0	-4.0	-3.7	-4.7 to -2.7
- Percentage of GDP	5.7	-1.5	-1.4	-2.4 to -0.4
8) Headline Inflation (percent y-o-y)	2.3	5.6	1.0	0.0-2.0
Core Inflation (percent y-o-y)	1.1	2.3	0.8	0.0-2.0

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

