

25 March 2009

Thailand's Economic Projection for 2009 (As of March 2009)

The Fiscal Policy Office (FPO), Ministry of Finance, announced that the Thai economy for 2009 is forecasted to contract at -2.5 percent per year (or within the range of -3.0 to -2.0 percent per year), lower than 2.6 percent growth in the previous year. This is due to the severe contraction of major trading partners' economies. In addition, domestic spending, private investment in particular, is expected to tauten, as export orders from abroad and domestic purchase orders dwindle. Private consumption would still show slow recovery as household income has a tendency to decline, following falling farm income as global agricultural prices plunge as well as uncertainty in employment situation. Nevertheless, the major factor that would lessen the contraction of the Thai economy is the accelerated disbursement of public consumption and investment expenditures, which would support domestic demand not to sharply deteriorate. On the other hand, internal economic stability is expected to improve, given that inflation is projected to decline to 0.7 percent per year (or within the range of 0.2-1.2 percent per year) following oil price which decreases significantly compared to last year. The risk factor for internal economic stability is unemployment rate, which is projected to rise as the economy contracts. As for external stability, current account in 2009 is projected to record a large surplus of 9.8 percent of GDP (or within the range of 9.5 to 10.0 percent of GDP), as import value shrinks more than export value. Details of the economic forecasts are as follows:

1. Economic Growth

The Thai economy in 2009 is forecasted to contract by -2.5 percent per year, (or within the range of -3.0 to -2.0 percent per year). This is attributed to the sharp fall in export of goods and services as a result of the severe contraction of Thailand's trading partners' economies. Export volume of goods and services in 2009 is forecasted to considerably shrink at a high rate of -14.8 percent per year (or within the range of -15.3 to -14.3 percent per year.) Import volume of goods and services in 2008, on the other hand, is forecasted to decline by -25.2 percent per year (or within the range of -25.7 to -24.7 percent per year) as export subsidies and domestic spending decelerates. In particular, private investment is projected to contract by -6.1 percent per year (or in the range of -6.5 to -5.5 percent per year), as investors delay their

investment decision following the drop in foreign and domestic purchase orders. Meanwhile, private consumption is projected to grow at the slower pace of 1.2 percent per year (or in the range of 1.0 to 1.5 percent per year), since household income has a tendency to decline, as a result of falling farm income as global agricultural prices plunge as well as uncertainty in employment situation. Uncertain employment situation can be seen from decreasing average work hours of workers and growing trend of unemployment rate. Nonetheless, positive factors that would support private consumption are mid-year supplementary budget that allows more household consumption, and the lower cost of living following declining inflation.

The major factor that would alleviate the contraction of the Thai economy is the accelerated disbursement of government expenditures through government consumption and investment. This would support domestic demand not to sharply decline. Government consumption growth in 2009 is projected to accelerate to 13.0 percent per year (or within the range of 12.0 to 14.0 percent per year), while public investment growth is projected to pick up from the low base of last year to 7.0 percent per year (or within the range of 6.0 to 8.0 percent per year.)

2. Economic Stability

Internal economic stability is expected to improve, with headline inflation in 2009 forecasted to fall to 0.7 percent per year (or within the range of 0.2 to 1.2 percent per year.) This is due to the falling crude oil price, which is expected to deeply drop from 2008 level. Core inflation, which excludes energy and food prices, is projected to fall to 1.2 percent per year (or within the range of 0.7 to 1.7 percent per year.) The risk factor for internal economic stability, however, is unemployment rate, which is projected to rise to 3.8 percent of labor force (or within the range of 3.3 to 4.3 percent of total labor force), as the economy contracts. As for external stability, current account in 2009 is projected to record a large surplus of 9.8 percent of GDP (or within the range of 9.5 to 10.0 percent of GDP), as trade balance reaches the historic high surplus of 22.3 billion USD (or within the range of 21.8 to 22.8 billion USD). This large current account surplus is due to the greater fall in import value relative to export value. Export value is forecasted to contract at -20.5 percent per year (or within the range of -21.0 to -20.0 percent per year), while import value is projected to significantly decline from the high base last year to -33.2 percent per year (or within the range of -33.7 to -32.7 percent per year.)

Summary table of 2009 economic forecasts is attached herewith.

Major Assumptions and Economic Projections of 2009 (As of March 2009)

	2008	2009f (As of Dec 08)	2009f (As of Mar 09)	
			Average	Range
Major Assumptions				
<u>Exogenous Variables</u>				
1) Average Economic Growth Rate of Major Trading Partners (percent y-o-y)	2.8	1.0	-2.0	(-2.2) – (-1.7)
2) Dubai Crude Oil Price (U.S. dollar per Barrel)	95.0	55.0	50.0	45.0–55.0
<u>Policy Variables</u>				
3) Exchange Rate (Baht per U.S. dollar)	33.2	35.0	36.2	35.5–36.5
4) Repurchase Rate (Policy Rate) at year-end (percent y-o-y)	2.75	0.75	0.75	0.50–1.00
5) Fiscal-Year Public Expenditure (Trillion Baht)	2.17	2.42	2.50	2.49–2.51
Projections				
1) Economic Growth Rate (percent y-o-y)	2.6	1.0	-2.5	(-3.0) – (-2.0)
2) Real Consumption Growth (percent y-o-y)	2.2	3.1	3.0	2.5–3.5
- Real Private Consumption	2.5	2.2	1.2	1.0–1.5
- Real Public Consumption	0.4	8.3	13.0	12.0–14.0
3) Real Investment Growth (percent y-o-y)	1.1	3.7	-2.9	(-3.5)–(-2.5)
- Real Private Investment	3.2	3.0	-6.1	(-6.5)–(-5.5)
- Real Public Investment	-4.8	5.9	7.0	6.0–8.0
4) Export Volume of Goods and Services (percent y-o-y)	5.5	0.6	-14.8	(-15.3) – (-14.3)
5) Import Volume of Goods and Services (percent y-o-y)	7.5	1.2	-25.2	(-25.7) – (-24.7)
6) Trade Balance (billion U.S. dollar)	0.2	-2.7	22.3	21.8 – 22.8
- Export Value of Goods in U.S. dollar (percent y-o-y)	16.8	-2.7	-20.5	(-21.0) – (-20.0)
- Import Value of Goods in U.S. dollar (percent y-o-y)	26.4	-2.8	-33.2	(-33.7) – (-32.7)
7) Current Account (billion U.S. dollar)	-0.2	-3.7	24.7	24.2–25.2
- Percentage of GDP	-0.1	-1.4	9.8	9.5–10.0
8) Headline Inflation (percent y-o-y)	5.5	1.0	0.7	0.2–1.2
Core Inflation (percent y-o-y)	2.3	0.8	1.2	0.7–1.7
9) Unemployment Rate (percentage of total labor force)	1.4	2.5	3.8	3.3–4.3

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