

Thailand's Economic Projections for 2009 and 2010

The Fiscal Policy Office (FPO), Ministry of Finance, announced that the Thai economy for 2009 is forecasted to contract at -3.0 percent per year. Despite the sharp contraction during the first half of the year, it is projected that the Thai economy would start to recover in the second half of 2009, and show positive growth in the last quarter of the year. Major contributing factors to Thailand's economic recovery are expanding public expenditures, especially from investment expenditures under the "Strong Thailand 2012" program, along with the revival of major trading partners' economies, particularly for Asian economies. Nonetheless, Thai economy still faces some risks from slow recovery of private expenditures in both consumption and investment. For economic stability, inflation is projected to contract by -0.8 percent per year, following declining oil prices compared to last year as well as appreciating trend of Thai Baht. Unemployment rate is projected to be 1.8 percent of total labor force, as employment situation improves following overall economic recovery in the second half of the year. Current account in 2009 is projected to record a large surplus of 8.0 percent of GDP, as import value shrinks more than export value.

The Thai economy for 2010 is forecasted to expand at 3.3 percent per year (or within the range of 2.5 - 4.1 percent per year), given continued expansionary fiscal policy from late 2009 particularly from public expenditures under the "Strong Thailand 2012" program as well as the revival of private expenditures from the low base in 2009. Meanwhile, export of goods and services in 2010 is forecasted to expand as the economies of Thailand's major trading partners recover. As for internal economic stability, inflation is projected to rise to 2.5 percent per year (or within the range of 2.0 - 3.0 percent per year), following increasing oil price compared to 2009. For external stability, current account in 2010 is projected to record a smaller surplus of 4.0 percent of GDP (or within the range of 3.7 - 4.6 percent of GDP), as the revival in domestic demand would lead to faster expansion of import value than export value. Details of the economic forecasts are as follows:

1. The Thai economy in 2009

1.1 Economic Growth

The Thai economy in 2009 is forecasted to contract by -3.0 percent per year. This is attributed to the sharp contraction of the economy in the first half of the year as a result of global economic crisis that adversely affected export volume of goods and services. Although the recovery trend of the global economy would have a positive impact on the export of goods and services in the second half of the year, export volume of goods and services in 2009 is still forecasted to contract considerably at -14.8 percent per year. Import volume of goods and services, on the other hand, is forecasted to decline by -22.2 percent per year following decline in import demand for export-oriented production and contraction in domestic demand. In particular, private investment is projected to contract by -13.7

percent per year, as investors delay their investment plan following lowered foreign and domestic purchase orders. Despite improving private consumption resulting from higher private income following improving employment conditions and positive impact from the Government's Stimulus Package 1 that helps to support income and reduce household expenses, the sharp contraction in private spending particularly during the first half of the year would cause average private consumption in the year 2009 to shrink at the rate of -1.0 percent per year.

The major factor that would alleviate the contraction of the Thai economy when private spending does not yet fully recover is the accelerated disbursement of public expenditures in accordance with the target. In particular, the timely and effective implementation of the "Strong Thailand 2012" program is crucial in supporting the Thai economy during the remaining period of the year. In this connection, public consumption growth in 2009 is projected to accelerate to 6.4 percent per year, while public investment growth is projected to increase to 5.3 percent per year.

1.2 Economic Stability

Internal economic stability is expected to improve, with headline inflation in 2009 forecasted to decline to -0.8 percent per year. This is due to the lowered crude oil price from 2008 level, along with the appreciating Thai Baht. Core inflation, which excludes energy and raw food prices, is projected to be 0.4 percent per year, partly due to the extension of the Government's measures that help lowering cost of living. Unemployment rate is expected to be 1.8 percent of total labor force as employment conditions is expected to improve given better expansion of the Thai economy in the second half of the year. As for external stability, current account in 2009 is projected to record a large surplus of 8.0 percent of GDP due mainly to expected large trade balance surplus of 20.5 billion USD from greater decline in import value relative to export value. Import value is forecasted to contract from the high base of last year at -28.8 percent per year, while export value is projected to decline at -17.2 percent per year.

2. The Thai economy in 2010

2.1 Economic Growth

The Thai economy for 2010 is forecasted to expand at 3.3 percent per year (or within the range of 2.5 - 4.1 percent per year) supported by continued public spending under the fiscal deficit framework at 3.5 percent of GDP along with the public investment expenditures under the "Strong Thailand 2012" program. Public investment is thus forecasted to accelerate to 8.2 percent per year (or within the range of 5.2 – 11.3 percent per year), while public consumption in 2010 is projected to expand at the rate of 4.8 percent per year (or within the range of 4.0 – 5.7 percent per year.) In addition, recovery of private expenditures from the low base in 2009 would support Thailand's economic expansion. In this connection, private consumption is forecasted to grow at 4.2 percent per year (or within the range of 3.7 – 4.7 percent per year), as household incomes increase following the economic revival with employment conditions and work hours returning to normal level. Private investment in 2010 is projected to expand from the low base in 2009 to grow at 6.6 percent per year (or within the range of 2.7 – 9.0 percent per year), partly due to the public investment under the "Strong Thailand 2012" program that would lead to crowding-in effect for private investment. Meanwhile, export of goods and services in 2010 is forecasted to grow at 5.6 percent per year (or within the range of 4.8 – 6.7 percent per year), as the economies of major trading partners recover as well as improving from the low base of last year. The growth of import volume of goods and services is projected to accelerate to 12.4 percent per year (or within the range of 10.6 – 14.2 percent per year), as a result of the recovery of domestic spending and export recovery.

2.2 Economic Stability

On internal economic stability, headline inflation in 2010 is projected to increase to 2.5 percent per year (or within the range of 2.0 – 3.0 percent per year) as global oil and agricultural prices are expected to rise in line with the recovery of the global economy. Unemployment rate is expected to further decline to its normal level at 1.3 percent of total labor force (or within the range of 1.0 – 1.5 percent of total labor force). As for external stability, current account is projected to decline from previous year, but still record a surplus of 4.0 percent of GDP (or within the range of 3.7 – 4.6 percent of GDP). This is due to lower trade surplus to 9.7 billion USD (or within the range of 8.7 – 11.1 billion USD), as the value of import grows at the faster pace than export value. Export value is projected to grow at 10.0 percent per year (or within the range of 9.0 – 11.4 percent per year) following the revival of the global economy. Import value is forecasted to grow at 19.5 percent per year (or within the range of 17.0 – 21.9 percent per year), as domestic demand picks up and import order for export-oriented manufacturing rises.

Summary table is attached herewith.

Major Assumptions and Economic Projections of 2009 and 2010 (As of Sep 2009)

	2008	2009f (As of Sep 09)	2010f (As of Sep 09)	
			Average	Range
Major Assumptions				
<u>Exogenous Variables</u>				
1) Average Economic Growth Rate of Major Trading Partners (percent y-o-y)	2.7	-1.5	2.8	1.8 – 3.8
2) Dubai Crude Oil Price (U.S. dollar per Barrel)	95.0	61.2	80.0	75.0 – 85.0
<u>Policy Variables</u>				
3) Exchange Rate (Baht per U.S. dollar)	33.2	34.5	34.0	33.5 – 34.5
4) Repurchase Rate (Policy Rate) at year-end (percent y-o-y)	2.75	1.25	1.50	1.25 – 1.75
5) Fiscal-Year Pubic Expenditure (Trillion Baht)	2.17	2.41	2.47	2.40 – 2.53
Projections				
1) Economic Growth Rate (percent y-o-y)	2.6	-3.0	3.3	2.5 – 4.1
2) Real Consumption Growth (percent y-o-y)	2.2	-0.2	4.3	3.7 – 4.9
- Real Private Consumption	2.5	-1.3	4.2	3.7 – 4.7
- Real Public Consumption	0.4	6.4	4.8	4.0 – 5.7
3) Real Investment Growth (percent y-o-y)	1.1	-9.1	7.0	3.4 – 9.6
- Real Private Investment	3.2	-13.7	6.6	2.7 – 9.0
- Real Public Investment	-4.8	5.3	8.2	5.2 – 11.3
4) Export Volume of Goods and Services (percent y-o-y)	5.4	-14.8	5.6	4.8 – 6.7
5) Import Volume of Goods and Services (percent y-o-y)	7.5	-22.2	12.4	10.6 – 14.2
6) Trade Balance (billion U.S. dollar)	0.2	20.5	9.7	8.7 – 11.1
- Export Value of Goods in U.S. dollar (percent y-o-y)				
- Import Value of Goods in U.S. dollar (percent y-o-y)	16.8	-17.2	10.0	9.0 – 11.4
	26.4	-28.8	19.5	17.0 – 21.9
7) Current Account (billion U.S. dollar)	-0.2	22.7	11.5	10.5 – 13.0
- Percentage of GDP	-0.1	8.7	4.0	3.7 – 4.6
8) Headline Inflation (percent y-o-y)	5.5	-0.8	2.5	2.0 – 3.0
Core Inflation (percent y-o-y)	2.3	0.4	1.5	1.0 – 2.0
9) Unemployment Rate (percentage of total labor force)	1.4	1.8	1.3	1.0 – 1.5

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