

## Thailand's Economic Projection for 2009 (As of June 2009)

The Fiscal Policy Office (FPO) of the Ministry of Finance announced that the Thai economy is forecasted to contract by -3.0 percent per year (or within the range of -3.5 and -2.5 percent per year) in 2009. However, the Thai economy is projected to start to gradually recover from the trough experienced during the first quarter of the year. The main factor attributing to this improvement is the accelerated disbursement of public consumption and investment expenditures through Stimulus Package 1 and 2, which has and will continue to support the recuperation of domestic demand. Nevertheless, the Thai economy is still facing risks associated with the severe contraction of major trading partners' economies and the slow recovery of private spending. Private investment, in particular, would continue to tighten while private consumption would still slow down as unemployment rises with the contraction of the economy. On the other hand, internal economic stability is expected to improve, given that inflation is projected to decline to 0 percent per year (or within the range of -0.5 to 0.5 percent per year), because of the decrease in oil prices compared to last year and the strengthening of the Baht. The risk factor for internal economic stability is, however, unemployment rate, which is projected to rise as the economy contracts. As for external stability, the current account in 2009 is projected to record a large surplus of 9.0 percent of GDP (or within the range of 8.5 to 9.5 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 -3.0 percent per year, (or within the range of -3.5 to -2.5 percent per year). This is attributed to the marked fall in export of goods and services that resulted from the severe contraction of Thailand's trading partners' economies as well as shrinking tourism revenues stemming from political problems and risk associated with the epidemic of Influenza A/H1N1. Export volume of goods and services in 2009 is thus forecasted to considerably shrink at a rate of -16.9 percent per year (or within the range of -17.4 to -16.4 percent per year.) Import volume of goods and services, on the other hand, is forecasted to decline by -25.4 percent per year (or within the range of -25.9 to -24.9 percent per year) as export subsidies and domestic spending decelerates. In particular, private investment is projected to contract by -12.4 percent per year (or in the range of -12.9 to -11.9 percent per year), as investors delay their investment decision following the drop in foreign and domestic purchase orders. Meanwhile, private consumption is projected to decline at the rate of -0.3 percent per year (or in the range of -0.8 to 0.2 percent per year), because of the decline of household income and the uncertain employment situation. Household income is declining as a result of falling farm income which, in turn, is falling because of plunging global agricultural prices. The uncertain employment situation is depicted by the decreasing average work hours of laborers and the growing trend of unemployment rate. Nonetheless, the mid-year supplementary budget and declining inflation, which lowers the cost of living, will support private consumption.

The main factor that will alleviate the contraction of the Thai economy is the accelerated disbursement of government expenditures through government consumption and investment, made possible by both Stimulus Package 1 and 2. This is expected to help domestic demand recuperate from the trough experienced during the first quarter of the year. Government consumption growth in 2009 is projected to accelerate to 9.6 percent per year (or within the range of 9.1 to 10.1 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 6.5 to 7.5 percent per year.)

## **2. Economic Stability**

Internal economic stability is expected to improve, with headline inflation in 2009 forecasted to fall to 0.0 percent per year (or within the range of -0.5 to 0.5 percent per year.) This is due to the falling crude oil price, which is expected to deeply drop from its 2008 level, along with the constantly appreciating Baht. Core inflation, which excludes energy and food prices, is projected to fall to 0.5 percent per year (or within the range of 0.0 to 1.0 percent per year.) The main risk for internal economic stability, however, is unemployment rate, which is projected to rise to 2.5 percent of labor force (or within the range of 2.0 to 3.0 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 9.0 percent of GDP (or within the range of 8.5 to 9.5 percent of GDP), as the trade balance reaches the historic high surplus of 20.4 billion USD (or within the range of 19.4 to 21.4 billion USD). This large surplus is due to the greater fall in import value relative to export value. Export value is forecasted to contract at -20.2 percent per year (or within the range of -21.2 to -19.2 percent per year), while import value is projected to significantly decline from the high base last year to -31.7 percent per year (or within the range of -32.7 to -30.7 percent per year.)

Summary table of 2009 economic forecasts is attached herewith.

## Major Assumptions and Economic Projections of 2009 (As of June 2009)

	2008	2009f (As of Mar 09)	2009f (As of June 09)	
			Average	Range
<b>Major Assumptions</b>				
<u>Exogenous Variables</u>				
1) Average Economic Growth Rate of Major Trading Partners (percent y-o-y)	2.8	-2.0	<b>-2.1</b>	(-2.3) – (-1.8)
2) Dubai Crude Oil Price (U.S. dollar per Barrel)	95.0	50.0	<b>61.2</b>	55.0–65.0
<u>Policy Variables</u>				
3) Exchange Rate (Baht per U.S. dollar)	33.2	36.2	<b>34.7</b>	34.2–35.2
4) Repurchase Rate (Policy Rate) at year-end (percent y-o-y)	2.75	0.75	<b>1.25</b>	1.00–1.50
5) Fiscal-Year Public Expenditure (Trillion Baht)	2.17	2.50	<b>2.51</b>	2.50–2.52
<b>Projections</b>				
1) Economic Growth Rate (percent y-o-y)	2.6	-2.5	<b>-3.0</b>	(-3.5) – (-2.5)
2) Real Consumption Growth (percent y-o-y)	2.2	3.0	<b>1.1</b>	0.6–1.6
- Real Private Consumption	2.5	1.2	<b>-0.3</b>	(-0.8)–0.2
- Real Public Consumption	0.4	13.0	<b>9.6</b>	9.1–10.1
3) Real Investment Growth (percent y-o-y)	1.1	-2.9	<b>-7.7</b>	(-8.2)–(-7.2)
- Real Private Investment	3.2	-6.1	<b>-12.4</b>	(-12.9)–(-11.9)
- Real Public Investment	-4.8	7.0	<b>7.0</b>	6.5–7.5
4) Export Volume of Goods and Services (percent y-o-y)	5.5	-14.8	<b>-16.9</b>	(-17.4) – (-16.4)
5) Import Volume of Goods and Services (percent y-o-y)	7.5	-25.2	<b>-25.4</b>	(-25.9) – (-24.9)
6) Trade Balance (billion U.S. dollar)	0.2	22.3	<b>20.4</b>	19.4 – 21.4
- Export Value of Goods in U.S. dollar (percent y-o-y)	16.8	-20.5	<b>-20.2</b>	(-21.2) – (-19.2)
- Import Value of Goods in U.S. dollar (percent y-o-y)	26.4	-33.2	<b>-31.7</b>	(-32.7) – (-30.7)
7) Current Account (billion U.S. dollar)	-0.2	24.7	<b>23.6</b>	22.6–24.6
- Percentage of GDP	-0.1	9.8	<b>9.0</b>	8.5–9.5
8) Headline Inflation (percent y-o-y)	5.5	0.7	<b>0.0</b>	(-0.5)–0.5
Core Inflation (percent y-o-y)	2.3	1.2	<b>0.5</b>	0.0–1.0
9) Unemployment Rate (percentage of total labor force)	1.4	3.8	<b>2.5</b>	2.0–3.0

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