Thailand's Economic Projections for 2009 and 2010

The Ministry of Finance made an upward revision of Thailand's Economic Projections for 2009 and 2010, with higher-than-expected growth and an expansion in 2010

The Ministry of Finance of Thailand announced that **the Thai Economy in 2009 and 2010 is expected to improve from previous forecast at -2.8 percent in 2009 and 3.5 percent per year in 2010, due to government stimulus measures, revivals in private spending as well as the global economy.**

Mr. Satit Rungkasiri, Director-General of the Fiscal Policy Office (FPO), gave details on Thailand's economic projections as of December 2009 that **the Thai Economy in 2009 is projected to contract at -2.8 percent per year, improving from the previous September projection of -3.5 percent per year. Despite the sharp contraction during the first 3 quarters of the year, an acceleration of public spending coupled with faster-than-expected recovery of Thailand's trading partners' economy would contribute to a positive expansion of the Thai economy during the last quarter of the year from the low base of the last quarter of 2008. As for the year 2010, the Thai economy is forecasted to expand at 3.5 percent per year (or within the range of 3.0 - 4.0 percent per year), upwardly revised from the previous September projection of 3.3 percent per year. The major drivers are the stronger economic recovery towards the end of the year 2009 and the continued expansionary fiscal policy in 2010 particularly from public expenditures under the "Strong Thailand 2012", which would help to revive private spending in 2010.**

Mr. Ekniti Nitithanprapas, Director of Bureau of Macroeconomic Policy, as the Spokesperson of the Ministry of Finance added that **private spending in 2010 is expected to show an improving trend from the low base in 2009. Private consumption and investment are projected to expand at 3.3 and 8.0 percent per year, respectively, from the contraction of -1.3 and -12.7 percent per year respectively in 2009. Export of goods and services in 2010 is forecasted to grow at 8.0 percent per year, from the contraction of -13.0 percent per year in 2009, as the economies of Thailand's major trading partners continue to recover. As for internal economic stability, inflation is projected to rise to 3.4 percent per year (or within the range of 3.0 - 4.0 percent per year), following increasing oil and goods and service prices compared to 2009. For external stability, current account in 2010 is projected to record a smaller surplus of 3.2 percent of GDP (or within the range of 2.7 – 3.7 percent of GDP), as the revival in domestic demand is expected to lead to faster expansion of import value than export value.**

Director-General of FPO concluded that **these economic projections have already taken into account the impact from the suspension of investment projects in Map Ta Phut Industrial Estate area. If the government could quickly resolve this problem and accelerate the disbursement under the "Stronger Thailand 2012" program to achieve at least 80 percent of approval budget framework, along with achieving the economic and political stability, the Thai economy would likely to grow at the high case of projection range at 4.0 percent per year in 2010.**

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

	2008	2009f (As of Dec 09)	2010f (As of Dec 09)	
			Average	Range
Major Assumptions				
Exogenous Variables				
1) Average Economic Growth Rate of Major Trading Partners (percent y-o-y)	2.7	-1.2	3.0	2.5 – 3.5
2) Dubai Crude Oil Price (U.S. dollar per Barrel)	95.0	61.4	80.0	75.0 – 85.0
3) Export price in U.S. dollar (percent y-o-y)	10.5	0.3	7.0	6.0 – 8.0
4) Import price in U.S. dollar (percent y-o-y)	12.6	-3.4	6.8	6.0 – 8.0
Policy Variables				
5) Exchange Rate (Baht per U.S. dollar)	33.2	34.3	33.0	32.0 – 34.0
6) Repurchase Rate (Policy Rate) at year-end (percent y-o-y)	2.75	1.25	1.50	1.25 – 1.75
7) Fiscal-Year Pubic Expenditure (Trillion Baht)	2.17	2.45	2.55	2.5 – 2.6
Projections				
1) Economic Growth Rate (percent y-o-y)	2.5	-2.8	3.5	3.0 – 4.0
2) Real Consumption Growth (percent y-o-y)	3.0	0.0	3.4	2.9 – 3.9
- Real Private Consumption	2.7	-1.3	3.3	2.8 – 3.8
- Real Public Consumption	4.6	7.6	3.9	3.4 – 4.4
3) Real Investment Growth (percent y-o-y)	1.2	-9.0	7.8	6.8 – 8.8
- Real Private Investment	3.2	-12.7	8.0	7.0 – 9.0
- Real Public Investment	-4.6	2.6	7.4	6.4 – 8.4
4) Export Volume of Goods and Services (percent y-o-y)	5.1	-13.0	8.0	7.5 – 8.5
5) Import Volume of Goods and Services (percent y-o-y)	8.5	-21.5	17.4	16.9 – 17.9
6) Trade Balance (billion U.S. dollar)	0.1	20.4	7.8	6.8 – 8.8
- Export Value of Goods in U.S. dollar (percent y-o-y)	15.9	-14.8	15.5	14.5 – 16.5
- Import Value of Goods in U.S. dollar (percent y-o-y)	26.5	-25.9	27.7	26.7 – 28.7
7) Current Account (billion U.S. dollar)	1.6	21.3	9.6	8.6 – 10.6
- Percentage of GDP	0.5	8.1	3.3	2.8 – 3.8
8) Headline Inflation (percent y-o-y)	5.5	-0.9	3.4	3.0 – 4.0
Core Inflation (percent y-o-y)	2.4	0.3	1.5	1.0 – 2.0
9) Unemployment Rate (percentage of total labor force)	1.4	1.6	1.3	1.0 – 1.5

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

Attachment: Thailand's Economic Projections for 2009 and 2010

1. The Thai economy in 2009

1.1 Economic Growth

The Thai economy in 2009 is forecasted to contract by -2.8 percent per year, improve from earlier September projection of -3.0 percent per year. Despite the sharp contraction during the first three quarters of the year as a result of the global economic crisis, the Thai economy in the last quarter is expected to grow positively compared to the low base of last year, with contributing factor from increasing public spending, as reflected by public consumption growth in 2009 projected to accelerate to 7.6 percent per year compared to 4.6 percent per year in 2008, and public investment growth projected to increase to 2.6 percent per year, from the contraction of -4.6 percent per year in 2008. Furthermore, the faster-than-expected of Thailand's trading partners' economy would help boost export volume of goods and services in the last quarter to grow, making the annual export volume contract less than previously forecasted to -13.0 percent per year. Import volume of goods and services, on the other hand, is forecasted to decline by -21.5 percent per year, following slow recovery in private demand as well as political uncertainty, and the suspension of investment projects in Map Ta Phut Industrial Estate area, private investment is projected to decline by -12.7 percent per year, while private consumption is projected to slightly contract at -1.3 percent per year.

1.2 Economic Stability

Internal economic stability is expected to improve, with headline inflation in 2009 declined to -0.9 percent per year. This is due to the declined oil price from 2008 level as well as the 5-Measure-6-Month program that helps alleviate high cost of living. Core inflation, which excludes energy and raw food prices, stood at the low rate of 0.3 percent per year. Unemployment rate is expected to revert to the normal rate of 1.6 percent of total labor force, as employment conditions improve following economic recovery in the latter half of the year. As for external stability, current account in 2009 is projected to record a large surplus of 8.1 percent of GDP due mainly to expected large trade balance surplus of 20.4 billion US dollar from greater decline in import value relative to export value. Import value is forecasted to contract from the high base of last year to -25.9 percent per year, while export value is projected to decline at -14.8 percent per year.

2. The Thai economy in 2010

2.1 Economic Growth

The Thai economy for 2010 is forecasted to expand at 3.5 percent per year (or within the range of 3.0 - 4.0 percent per year), upwardly revised from the September 2009 projection at 3.3 percent per year. The major drivers are expected to come from the stronger economic recovery towards the end of the year 2009 and the continued expansionary fiscal and monetary policies from late 2009 particularly from public sector capital expenditures under the "Stronger Thailand 2012" program. Public investment is thus forecasted to accelerate to 7.4 percent per year (or within the range of 6.4 – 8.4 percent per year), while public consumption in 2010 is projected to expand at the rate of 3.9 percent per year (or within the range of 3.4 – 4.4 percent per year). In addition, the major factors that would drive the Thai economic growth include increasing household income in tandem with domestic economic recovery, a decline in unemployment rate to its normal level, increasing farm income following rising global agricultural prices that helps to support private consumption. In this connection, private consumption is forecasted to grow at 3.3 percent per year (or within the range of 2.8 – 3.8 percent per year). Private investment in 2010 is projected to expand as the public investment under the “Stronger Thailand 2012” program would cause a crowding-in effect to private investment. This, combined with expected low interest rate environment, would help support private investment to grow from the low base in 2009 to 8.0 percent per year (or within the range of 7.0 – 9.0 percent per year.) Meanwhile, export volume of goods and services in 2010 is forecasted to grow at 8.0 percent per year (or within the range of 7.5 – 8.5 percent per year), as the economies of Thailand major trading partners continue recover, especially among Asian markets relative to other markets. The growth of import volume of goods and services is projected to accelerate to 17.4 percent per year (or within the range of 16.9 – 17.9 percent per year), as a result of the recovery of domestic spending and increasing manufacturing of export goods.

2.2 Economic Stability

On internal economic stability, headline inflation in 2010 is projected to rise to 3.4 percent per year (or within the range of 3.0 – 4.0 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 3.3 percent of GDP (or within the range of 2.7 – 3.7 percent of GDP). This is due to lower trade surplus to 7.8 billion USD (or within the range of 6.8 – 8.8 billion USD), as the value of import grows at the faster pace than export value. Export value is projected to grow at 15.5 percent per year (or within the range of 14.5 – 16.5 percent per year) following the revival of the global economy and the rise in export price. Import value is forecasted to grow at 27.7 percent per year (or within the range of 26.7 – 28.7 percent per year), as domestic demand picks up and import price rises.

In conclusion, the Thai economy in 2010 is expected to show an improving trend, with the positive factors coming from revival among Thailand’s trading partners that would support higher export, and an acceleration of public investment under the “Stronger Thailand 2012” program. Furthermore, domestic spending is also expected to improve from higher farm income following the rise in global agricultural price and back-to-normal employment situation. Nevertheless, risk factors associated with the recovery of the Thai economy come from the fragility of global economic recovery, higher commodities price as a result of higher global oil price, and political situation that might delay the recovery in private sector. Consequently, public sector still has to continue accelerating budget disbursement in line with the target at the time when private sector does not yet fully recover, and promote the

role of the private sector to be the main engine of Thailand's economic growth in the near future.