September 27, 2010

Thailand's Economic Projection for 2010

The Ministry of Finance made an upward revision on Thailand's Economic Projections for 2010 to7.5 percent per year, and a forecast of continual growth in 2011

Mr. Satit Rungkasiri, the Director-General of the Fiscal Policy Office (FPO) announced the Thailand's economic projections as of September 2010 that the Thai Economy in 2010 is expected to expand better at 7.5 percent per year (or within the range of 7.3 – 7.8 percent per year), higher than the previous forecast rate as of June 2010 at 5.5 percent per year. The positive factors are attributed to the high economic growth of 10.6 percent per year during the first half of the year coupled with the steady recovery of the global economy that caused a projection of higher growth of exports of goods and services. Domestic spending, both private consumption and investment, also has a tendency to revive from the low base of last year. For internal economic stability, headline inflation is projected to rise to 3.4 percent per year (or within the range of 3.2 – 3.7 percent per year) given higher oil price in the global market compared to last year's. On the external front, Thailand is projected to record a smaller current account surplus of 4.2 percent of GDP in 2010 (or within the range of 4.0 – 4.5 percent of GDP), as the projected revival in domestic spending would spur the growth of import of goods to 35.6 percent per year. Export, on the other hand, is projected to grow at the rate of 25.0 percent per year.

Going forward, the Thai economy in 2011 is projected to grow at the normal rate of 4.5 percent per year (or within the range of 4.0 – 5.0 percent per year). The main driver contributed to this growth is domestic spending, both private consumption and private investment, which are projected to continue to grow from 2010 as consumer confidence and investor sentiment would continue to pick up. The momentum from the persistent global economic growth would also help supporting the growth of export of goods, albeit at the lower rate due to high base in 2010. On the internal stability, headline inflation in 2011 is projected to stand at 3.5 percent per year (or within the range of 3.0 – 4.0 percent per year) given oil price is still expected to remain high. On the external front, Thailand is projected to record a smaller current account surplus of 3.4 percent of GDP in 2011 (or within the range of 2.9 – 3.9 percent of GDP), as import growth is expected to outweigh export growth.

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

	2009	2010 f		2011 f	
		Average	Range	Average	Range
Major Assumptions					
Exogenous Variables					
1) Average Economic Growth Rate of Major Trading Partners (percent y-o-y)	-0.4	4.3	4.1 - 4.6	3.2	2.7 – 3.7
2) Dubai Crude Oil Price (U.S. Dollars per Barrel)	61.4	76.5	74.0 – 79.0	80.0	75.0 – 85.0
3) Export price in U.S. Dollars (percent y-o-y)	0.3	8.5	8.0 - 9.0	4.0	3.0 – 5.0
4) Import price in U.S. Dollars (percent y-o-y)	-2.5	7.4	6.9 – 7.9	3.5	2.5 – 4.5
Policy Variables					
5) Exchange Rate (Baht per U.S. Dollars)	34.3	31.7	31.2 – 32.2	30.5	30.0 – 31.0
6) Repurchase Rate (Policy Rate) at year-end (percent y-o-y)	1.25	2.00	1.75 – 2.25	3.00	2.50 – 3.50
7) Fiscal-Year Pubic Expenditure (Trillion Baht)	2.46	2.51	2.51	2.68	2.67 – 2.70
Projections					
1) Economic Growth Rate (percent y-o-y)	-2.2	7.5	7.3 – 7.8	4.5	4.0 – 5.0
2) Real Consumption Growth (percent y-o-y)	-0.1	5.1	4.9 – 5.4	4.5	4.0 – 5.0
- Real Private Consumption	-1.1	5.2	5.0 – 5.5	4.2	3.7 – 4.7
- Real Public Consumption	5.8	4.4	4.2 – 4.7	6.4	5.9 – 6.9
3) Real Investment Growth (percent y-o-y)	-9.0	12.9	12.7 – 13.2	4.5	3.5 – 5.5
- Real Private Investment	-12.8	16.5	16.3 – 16.8	5.9	4.9 – 6.9
- Real Public Investment	2.7	3.4	3.2 – 3.7	1.7	0.7 – 2.7
4) Export Volume of Goods and Services (percent y-o-y)	-12.7	13.9	13.7 – 14.2	5.4	4.9 – 5.9
5) Import Volume of Goods and Services (percent y-o-y)	-21.8	20.8	20.6 – 21.1	8.3	7.3 – 9.3
6) Trade Balance (billion U.S. Dollars)	19.4	10.3	9.8 – 10.8	9.4	8.4 – 10.4
- Export Value of Goods in U.S. Dollars (percent y-o-y)	-13.9	25.0	24.8 – 25.3	12.0	11.0 – 13.0
- Import Value of Goods in U.S. Dollars (percent y-o-y)	-24.9	35.6	35.4 – 35.9	13.2	11.7 – 14.7
7) Current Account (billion U.S. Dollars)	20.3	13.5	12.6 – 14.2	11.9	10.2 – 13.7
- Percentage of GDP	7.7	4.2	4.0 – 4.5	3.4	2.9 – 3.9
8) Headline Inflation (percent y-o-y)	-0.9	3.4	3.2 – 3.7	3.5	3.0 – 4.0
Core Inflation (percent y-o-y)	0.3	1.3	1.1 – 1.6	2.5	2.0 – 3.0
9) Unemployment rate (percentage of total labor force)	1.5	1.2	1.1 – 1.3	1.2	1.1 -1.3

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

Attachment: Thailand's Economic Projections for 2010 and 2011

1. Thailand's Economic Projection for 2010

1.1 Economic Growth

Thai economy in 2010 is forecasted to grow better at 7.5 percent per year (or within the range of 7.3 – 7.8 percent per year), an improvement from June 2010 projection of 5.5 percent per year. The main positive factors attributing to this growth is from the stellar growth of the Thai economy during the first half of 2010 at 10.6 percent per year, combined with the steady economic recovery of major trading partners. This leads to the rebound of growth of export volume of goods and services being projected at 13.9 percent per year (or within the range of 13.7 – 14.2 percent per year). Domestic spending, in addition, continues to recover. Private investment in particular is projected to grow at a high rate of 16.5 percent per year (or within the range of 16.3 – 16.8 percent per year), supported by high capital utilization rate in the time of higher purchase orders from both domestic and abroad, especially in export-oriented industry such as motor vehicles, electronic parts, and electrical appliances. This serves as an incentive for entrepreneurs to further their investment. Private consumption, despites directly hit by the political turmoil that weakened consumer confidence during the second quarter of the year, is still expected to grow at 5.2 percent per year (or within the range of 5.0 – 5.5 percent per year). This is owing to the better employment situation, higher farm income following higher global agricultural prices, Farm Income Guarantee Program, and tourism income that is expected to revive towards the end of the year. Furthermore, public spending plays an important role in supporting the Thai economy to unceasingly grow. More specifically, public capital expenditure under the "Stronger Thailand 2012" project during the rest of the year would help public investment grow at the increasing rate of 3.4 percent per year (or within the range of 3.2 – 3.7 percent per year). The acceleration of budget disbursement during the rest of the year would help catalyzing public consumption to grow at 4.4 percent per year (or within the range of 4.2 – 4.7 percent per year). Import volume of goods and services is expected to expedite its growth rate to 20.8 percent per year (or within the range of 20.6 – 21.1 percent per year) with the recovery of domestic spending and more manufacturing of export goods.

1.2 Economic Stability

Internal economic stability is expected to improve, with headline inflation in 2010 rises to 3.4 percent per year (or within the range of 3.2 – 3.7 percent per year). This is due to global oil and agriculture prices which are expected to rise following the global economic recovery. Core inflation that excludes food and energy prices is projected to rise to 1.3 percent per year (or within the range of 1.1 – 1.6 percent per year). Unemployment rate is expected to improve to 1.2 percent of total labor force (or within the range of 1.1 – 1.3 percent of total labor force) as employment eases with the economic recovery. As for external stability, current account in 2010 is projected to record a smaller surplus of 13.5 billion US Dollars (or within the range of 12.6 – 14.2 billion US Dollars), due mainly to the higher growth of import value relative to export value. Import value is forecasted to grow at 35.6 percent per year (or within the range of 35.4 – 35.9 percent per year) from the fast domestic spending. Meanwhile, export value is projected to expand at 25.0 percent per year (or within the range of 24.8 – 25.3 percent per year, due to the revival of export volume.

2. Thailand's Economic Projection for 2011

2.1 Economic Growth

Thai economy in 2011 is forecasted to grow at the normal rate of 4.5 percent per year (or within the range of 4.0 – 5.0 percent per year). The main driver contributed to this growth is domestic spending, both consumption and investment, which are projected to continue to grow from 2010. 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 consumer confidence would pick up following an ease in political tension. Private investment on the other hand is projected to grow at 5.9 percent per year (or within the range of 4.9 – 6.9 percent per year), with improving investor confidence combined with higher capital utilization especially in export-oriented industry that has stood high since 2010. Furthermore, the momentum from the persistent global economic growth would also help supporting the growth of export of goods and services at the projected rate of 5.4 percent per year (or within the range of 4.9 – 5.9 percent per year). This high rate is however lower than in 2010 due to high base. Import volume of goods and services is expected to grow at 8.3 percent per year (or within the range of 7.3 – 9.3 percent per year). On the public spending side, public consumption is forecasted to grow at 6.4 percent per year (or within the range of 7.3 – 9.3), follows the constant budget disbursement in 2011. Public capital expenditure growth, on the other hand, is projected to slow down to 1.7 percent per year (or within the range of 0.7 – 2.7 percent per year) as the role of government in supporting the economy begins to subside in the time when private sector is fully functioning in driving the economy forward.

2.2 Economic Stability

On the internal stability, headline inflation in 2011 is projected to stand at 3.5 percent per year (or within the range of 3.0 – 4.0 percent per year), given oil price is still expected to remain steadily high. Unemployment is forecasted to stand at the normal rate of 1.2 percent of total labor force (or within the range of 1.1 – 1.3 percent of total labor force). On the external front, in 2011 Thailand is projected to record a smaller current account surplus of 11.9 billion US Dollars, equivalent to 3.4 percent of GDP (or within the range of 2.9 – 3.9 percent of GDP), as trade surplus is expected to drop to 9.4 billion US Dollars (or within the range of 8.4 – 10.4 billion US Dollars). This is due to import growth which is expected to outweigh export growth. More specifically, import value of goods is expected to grow at 13.2 percent per year (or within the range of 11.7 – 14.7 percent per year), while export value of goods is forecasted to grow at 12.0 percent per year (or within the range of 11.0 – 13.0 percent per year).

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