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## **Thailand's Economic Projection for 2010 and 2011**

### **Thailand's Economic growth for 2010 could be as high as 7.8 percent, and a continual growth would follow in 2011**

Mr. Naris Chaiyasoot, the Director-General of the Fiscal Policy Office (FPO) announced the Thailand's economic projection as of December 2010 that **the Thai Economy in 2010 is expected to expand at 7.8 percent, a big improvement from last year's contraction of -2.3 percent, and higher than the previous forecast rate as of September 2010 of 7.5 percent.** This reflects an outstanding performance of Thai economy in 2010. The positive factors are attributed to the high export in terms of US dollars following the economic recovery of major trading partners, combined with the revival in private domestic consumption and investment. Such revival is supported by increasing farm income from rising prices of major crops, as well as an expansion in production capacity in response to higher export-based economic activities. For internal economic stability, headline inflation is projected to stand close to the previous projection at 3.3 percent, while core inflation is expected to mark 0.9 percent. On the external front, Thailand is still resilient, with a projection of a current account surplus of 4.4 percent of GDP in 2010. The smaller surplus than last year owes to the recovery of private consumption and investment that causes higher import value growth of 37.5 percent, compared to 28.3 percent growth of export value.

Going forward, the Thai economy in 2011 is projected to continually grow at the rate of 4.5 percent (or within the range of 4.0 – 5.0 percent). 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. External demand, on the other hand, is expected to soften, as the risk from the fragile economic recovery of the major trading partners is still prominent. This could, in turn, hamper Thai export. On the internal stability, headline inflation in 2011 is projected to stand at 3.5 percent (or within the range of 3.0 – 4.0 percent), with the pressure from rising oil and domestic agricultural prices. On the external front, Thailand is projected to record a current account surplus of 3.6 percent of GDP (or within the range of 3.1 – 4.1 percent of GDP), as export value is expected to grow 13.2 percent (or within the range of 12.2 – 14.2 percent), while import value is expected to mark a 14.6 percent growth (or within the range of 13.6 – 15.6 percent).

### Major Assumptions and Economic Projections of 2010 and 2011 (As of Dec 2010)

	2009	2010 f		2011 f	
		Average	Average	Range	
<b>Major Assumptions</b>					
<u>Exogenous Variables</u>					
1) Average Economic Growth Rate of Major Trading Partners (percent y-o-y)	-0.2	4.5	3.3	3.1 – 3.6	
2) Dubai Crude Oil Price (U.S. Dollars per Barrel)	61.3	78.2	83.0	78.0 – 88.0	
3) Export price in U.S. Dollars (percent y-o-y)	0.3	9.1	6.0	5.0 – 7.0	
4) Import price in U.S. Dollars (percent y-o-y)	-2.5	8.0	5.8	4.8 – 6.8	
<u>Policy Variables</u>					
5) Exchange Rate (Baht per U.S. Dollars)	34.3	31.7	29.5	28.5 – 30.5	
6) Repurchase Rate (Policy Rate) at year-end (percent y-o-y)	1.25	2.00	3.00	2.50 – 3.50	
7) Fiscal-Year Public Expenditure (Trillion Baht)	2.47	2.52	2.64	2.63 – 2.66	
<b>Projections</b>					
1) Economic Growth Rate (percent y-o-y)	-2.3	7.8	4.5	4.0 – 5.0	
2) Real Consumption Growth (percent y-o-y)	0.1	4.9	4.7	4.2 – 5.2	
- Real Private Consumption	-1.1	4.8	4.9	4.4 – 5.4	
- Real Public Consumption	7.5	5.3	3.4	2.9 – 3.9	
3) Real Investment Growth (percent y-o-y)	-9.2	11.1	8.7	7.7 – 9.7	
- Real Private Investment	-13.1	15.1	11.3	10.3 – 12.3	
- Real Public Investment	2.7	0.5	4.2	3.2 – 5.2	
4) Export Volume of Goods and Services (percent y-o-y)	-12.5	15.1	6.4	5.4 – 7.4	
5) Import Volume of Goods and Services (percent y-o-y)	-21.5	22.1	8.1	7.1 – 9.1	
6) Trade Balance (billion U.S. Dollars)	19.3	12.7	11.7	10.7 – 12.7	
- Export Value of Goods in U.S. Dollars (percent y-o-y)	-14.3	28.3	13.2	12.2 – 14.2	
- Import Value of Goods in U.S. Dollars (percent y-o-y)	-24.0	37.5	14.6	13.6 – 15.6	
7) Current Account (billion U.S. Dollars)	20.2	14.0	13.1	12.7 – 16.2	
- Percentage of GDP	7.7	4.4	3.6	3.1 – 4.1	
8) Headline Inflation (percent y-o-y)	-0.9	3.3	3.5	3.0 – 4.5	
Core Inflation (percent y-o-y)	0.3	0.9	2.5	2.0 – 3.0	
9) Unemployment rate (percentage of total labor force)	1.5	1.1	1.1	1.0 -1.2	

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 7.8 percent, an improvement from September 2010 projection. The main positive factors attributing to this growth is from the export volume of goods and services projected to grow at 15.1 percent, following the steady economic recovery of major trading partners in Asia and new market economies in particular. Private sector also has a tendency to domestically spend more than last year, which would act as a main driver for Thai economy. Private consumption is expected to grow at 4.8 percent, owing to the better employment situation, higher farm income, and rising consumer confidence following the resolution of the political turmoil. Private investment growth, in addition, is projected to rebound at a high rate of 15.1 percent, consistent with the high and near-full level of capital utilization rate in many industries. The good prospect of consumption and export growths also calls for additional business investment to meet growing domestic and external demands. Furthermore, public spending still plays an important role in supporting the Thai economy's continual growth. More specifically, public consumption is expected to expand 5.3 percent as a result of the acceleration of budget disbursement to meet the set target. However, public capital expenditure is expected to soften due to delays in SOE's budget disbursement. Public capital expenditure is thus forecasted to show a weaker growth of 0.5 percent. Lastly, import volume of goods and services has a tendency to grow at a high rate of 22.1 percent, following an expansion of domestic demand and more manufacturing of export goods.

#### **1.2 Economic Stability**

Internal economic stability is expected to remain resilient, with headline inflation in 2010 expected to rise to 3.3 percent. This is due to the pressure from higher oil price in the global market along with higher agriculture price due to climate change. Core inflation that excludes food and energy prices is projected to rise to 0.9 percent. Unemployment rate is expected to improve to 1.1 percent of total labor force as employment expands with the economic recovery. As for external stability, current account in 2010 is projected to record a smaller surplus than last year of 14.0 billion US dollars, due mainly to the higher growth of import value relative to export value. Import value is forecasted to grow at 37.5 percent from the fast domestic spending, while export value is projected to expand at 28.3 percent due to the revival of export volume following the economic recovery of trading partners.

### **2. Thailand's Economic Projection for 2011**

#### **2.1 Economic Growth**

Thai economy in 2011 is forecasted to continue to grow at 4.5 percent (or within the range of 4.0 – 5.0 percent). The main driver behind this growth is private domestic spending, both consumption and investment, which is projected to continue to grow from 2010. Private consumption

is forecasted to grow at 4.9 percent (or within the range of 4.4 – 5.4 percent) as employment and income still remain promising. Specifically, farm income is expected to increase with the rise in agricultural price, while private-sector employees' minimum wage and government officials' pay are being raised, along with tourism income forecasted to revive after the political situation reverts to normal. Private investment, on the other hand, is projected to grow at 11.3 percent (or within the range of 10.3 – 12.3 percent), with improving investor confidence combined with higher capital utilization especially in export-oriented industry that has stood high since 2010. On the external side, external demand is expected to soften, due to the risk from the fragile and delayed economic recovery of the major trading partners that could hamper Thailand's export sector. Export volume of goods and services is thus projected to grow slower at 6.4 percent (or within the range of 5.4 – 7.4 percent), while import volume of goods and services is also expected to grow slower at 8.1 percent (or within the range of 7.1 – 9.1 percent). On the public spending in 2011, public consumption is forecasted to grow at 3.4 percent (or within the range of 2.9 – 3.9 percent) with the steady budget disbursement in 2011. Public capital expenditure, on the other hand, is projected to grow faster at 4.2 percent (or within the range of 3.2 – 5.2 percent).

## **2.2 Economic Stability**

On the internal stability, headline inflation in 2011 is projected to stand at 3.5 percent (or within the range of 3.0 – 4.0 percent), given oil price is still expected to remain high, and minimum wage is being raised. Both factors put more inflationary pressure on the economy through cost of factor inputs. Unemployment is forecasted to stand at 1.1 percent of total labor force (or within the range of 1.0 – 1.2 percent of total labor force). On the external front, in 2011 Thailand is projected to record a slightly smaller current account surplus of 13.1 billion US dollars, equivalent to 3.6 percent of GDP (or within the range of 3.1 – 4.1 percent of GDP), as trade surplus is expected to fall to 11.7 billion US dollars (or within the range of 10.7 – 12.7 billion US dollars). More specifically, import value of goods is expected to grow at 14.6 percent (or within the range of 13.6 – 15.6 percent), while export value of goods is forecasted to grow at 13.2 percent (or within the range of 12.2 – 14.2 percent).