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## Thailand's Economic Outlook Projection 2012 and 2013

### The Thai economy in 2012 quickly recovers from the flood last year and it is expected to grow further in 2013.

Dr. Somchai Sajjapongse, the Director-General of the Fiscal Policy Office (FPO) announced Thailand's economic projections as of September 2012. **The Thai economy is forecasted to rebound at a rate of 5.5 percent (within a range of 5.3 - 5.8 percent), accelerating from the previous year as production constraints have been relieved. Consumption spending and private investment have returned to their normal conditions. Moreover, the stimulus measures e.g. the higher minimum wage policy for low-income workers and government officials, the first-time car buyer program, the first-time house buyer program, the reduction of corporate income taxes, and the rice mortgage scheme have proved to be supportive of domestic spending. Public consumption and public investment still play important roles in boosting economic recovery. Nonetheless, external demand is anticipated to grow at a decreasing rate due to risks from the global economic slowdown, especially from the European sovereign debt crisis. For internal stability, headline inflation in 2012 is anticipated to be 3.3 percent (or within a range of 3.0 - 3.5 percent), which is lower than the previous year. The decline is attributed to the slowdown in the growth of fuel prices due to the lower growth of fuel demand following the fragile global economic recovery and the government's fuel retail price controls.**

**The Thai economy in 2013 is projected to grow at a rate of 5.2 percent (within a range of 4.7 - 5.7 percent). The main drivers will be the expansion of demand from public and external sectors, with the supportive factors such as the 350-billion-baht long-term water management investment scheme, to be gradually invested in 2013, and an improvement in the global economy. The strength of the global economic recovery, however, faces some uncertainty. Domestic private demand is expected to slow down to normal levels after showing a high rate of expansion in 2012, from the reconstruction following the flood. For internal stability, headline inflation in 2013 is expected to be 3.5 percent (or within a range of 3.0 - 4.0 percent) following higher demand for energy driven by the increasing growth of Asian economies.**

**The Director-General of the Fiscal Policy Office (FPO) also added that "In composing the economic outlook projections, it is necessary to closely analyze the following risk factors: the speed of the economic recovery of Thailand's major trading partners, the budget disbursement rate, the impact of capital movements, and the political situations of other countries which may affect the Thai economy."**

## Major Assumptions and Economic Projections of 2012 and 2013 (As of Sep 2012)

	2011	2012 f (As of Sep 12)		2013 f (As of Sep 12)	
		Average	Range	Average	Range
<b>Major Assumptions</b>					
<u>Exogenous Variables</u>					
1) Average Economic Growth Rate of Major Trading Partners (percent y-o-y)	4.0	3.6	3.4-3.9	4.1	3.6-4.6
2) Dubai Crude Oil Price (U.S. dollar per Barrel)	105.6	113.0	110.5-115.5	118.0	113.0-123.0
3) Export price in U.S. dollar (percent y-o-y)	5.6	1.0	0.5-1.5	3.0	2.0-4.0
4) Import price in U.S. dollar (percent y-o-y)	10.1	2.6	2.1-3.1	4.5	3.5-5.5
<u>Policy Variables</u>					
5) Exchange Rate (Baht per U.S. dollar)	30.5	31.25	30.75-31.75	31.00	30.00-32.00
6) Repurchase Rate (Policy Rate) at year-end (percent y-o-y)	3.25	3.00	2.75-3.25	3.00	2.50-3.50
7) Fiscal-Year Pubic Expenditure (Trillion Baht)	2.77	2.90	2.89-2.91	3.10	3.09-3.11
<b>Projections</b>					
1) Economic Growth Rate (percent y-o-y)	0.1	5.5	5.3-5.8	5.2	4.7-5.7
2) Real Consumption Growth (percent y-o-y)	1.3	4.9	4.7-5.2	3.9	3.4-4.4
- Real Private Consumption	1.3	5.2	5.0-5.5	4.0	3.5-4.5
- Real Public Consumption	1.4	3.0	2.8-3.3	3.2	2.7-3.7
3) Real Investment Growth (percent y-o-y)	3.3	12.8	12.3-13.3	11.4	10.4-12.4
- Real Private Investment	7.2	14.1	13.6-14.6	10.0	9.0-11.0
- Real Public Investment	-8.7	8.1	7.6-8.6	16.9	15.9-17.9
4) Export Volume of Goods and Services (percent y-o-y)	9.5	3.7	3.2-4.2	7.3	6.3-8.3
5) Import Volume of Goods and Services (percent y-o-y)	13.6	6.6	6.1-7.1	5.4	4.4-6.4
6) Trade Balance (billion U.S. dollar)	23.5	5.6	5.1-6.1	5.0	4.0-6.0
- Export Value of Goods in U.S. dollar (percent y-o-y)	16.4	4.5	4.0-5.0	10.5	9.5-11.5
- Import Value of Goods in U.S. dollar (percent y-o-y)	24.7	10.5	10.0-11.0	11.0	10.0-12.0
7) Current Account (billion U.S. dollar)	5.3	-2.0	-2.9 to -1.0	-2.1	-4.0 to -0.1
- Percentage of GDP	3.4	-0.5	-0.8 to -0.3	-0.5	-1.0 to 0.0
8) Headline Inflation (percent y-o-y)	3.8	3.3	3.0-3.5	3.5	3.0-4.0
Core Inflation (percent y-o-y)	2.4	2.0	1.7-2.2	2.1	1.6-2.6
9) Unemployment Rate (percentage of total labor force)	0.7	0.6	0.5-0.7	0.6	0.5-0.7

## **Attachment: Thailand's Economic Projections 2012 and 2013**

### **1. Thai Economy in 2012**

#### **1.1 Economic Growth**

The Thai economy in 2012 is projected to grow at an annual rate of 5.5 percent (or within a range of 5.3 - 5.8 percent), returning to normal levels, following its sharp decline in 2011 to 0.1 percent due to the flooding. The manufacturing sector has increased production in response to continuously increasing demand. Private investment has also returned to past levels, with an expected annual rate of 14.1 percent (or within a range of 13.6 - 14.6 percent) in response to the growing demand. This is in line with higher imports of the machinery. Private consumption is projected to grow at 5.2 percent (or within a range of 5.0 - 5.5 percent) supported by higher income in the agricultural sector especially in the latter half of 2012 following the growth of agricultural products and higher agriculture prices which have benefited from the government's pricing measures. Income in non-agricultural sectors has also grown, partly from government measures to increase the minimum wages and salaries. Public spending plays an important role in supporting the economic recovery. It is expected that public consumption will grow at a rate of 3.0 percent (or within a range of 2.8 - 3.3 percent). Public investment is expected to grow 8.1 percent (or within a range of 7.6 - 8.6 percent), following an increase in salary rates for government officials and the 350-billion-baht long-term water management investment scheme, to be gradually invested after mid-2012. Nonetheless, export demand is anticipated to grow at a lower rate of 3.7 percent (or within a range of 3.2 - 4.2 percent) mainly from the lower external demand due to risks from the global economic slowdown and the European sovereign debt crisis that expands to the real and financial sector of the EU member countries. Furthermore, the recovery of the US and Asian economies still remain fragile. Export of services is expected to grow from the recovery of the tourism sector whereas the import volume of goods and services is expected to grow at a faster rate of 6.6 percent (or within a range of 6.1 - 7.1 percent) due to the demand for raw materials and capital goods to refurbish property damaged in the flood of 2011.

#### **1.2 Economic Stability**

For internal stability, headline inflation in 2012 is expected to be 3.3 percent (or within a range of 3.0 - 3.5 percent), lower than that of the previous year due to the slower growth of world fuel and commodity prices, contributed mainly by lower global demand. Government measures, especially the diesel excise tax cut, and government controls on fuel retail prices have also supported the lower growth of fuel prices. Unemployment is expected to stay at its current low level of 0.6 percent (or within a range of 0.5 - 0.7 percent of the total labor force). On external stability, the current account in 2012 is projected to record a small deficit of USD 2.0 billion, accounting for 0.5 percent of GDP (or within a range of 0.3 - 0.8 percent of GDP) as the service balances, remittances, and transfers are expected to face a deficit with respect to freight payments following the higher imports. In 2012, Thailand is expected to achieve a lower trade surplus at USD 5.6 billion (or within a range of USD 5.1 - 6.1 billion), as import growth is expected to be higher than export growth. Import growth in 2012 is

expected to increase at 10.5 percent per year (or within a range of 10.0 - 11.0 percent) whereas the export value is predicted to grow by 4.5 percent (or within a range of 4.0 – 5.0 percent).

## **2. Thai Economy in 2013**

### **2.1 Economic Growth**

The Thai economy in 2013 is projected to grow at an annual rate of 5.2 percent (or within a range of 4.7 - 5.7 percent). The main driver will be the continuous expansion of demand from public and external sectors. Public investment will grow at a high expected annual rate of 16.9 percent (or within a range of 15.9 - 17.9 percent) supported by the annual budget disbursement and the 350-billion-baht long-term water management investment scheme which will be continuously invested in 2013. Public consumption is expected to grow at a rate of 3.2 percent (or within a range of 2.7 - 3.7 percent). Furthermore, the global economy is expected to show an improvement in 2013, resulting in the expansion of exports of goods and services at a rate of 7.3 percent (or within a range of 6.3 - 8.3 percent). This is in line with expected higher imports, projected to grow at 5.4 percent (or within a range of 4.4 - 6.4 percent). Nevertheless, domestic private demand is expected to slow down to past levels following the completion of recovery efforts associated with last year's flood. Private consumption is expected to grow slower from 2012 to a rate of 4.0 percent (or within a range of 3.5 - 4.5 percent) whereas private investment will grow at a rate of 10.0 percent (or within a range of 9.0 - 11.0 percent).

### **2.2 Economic Stability**

For internal stability, headline inflation in 2013 is expected to be 3.5 percent (or within a range of 3.0 - 4.0 percent), due to the higher global demand for fuel, especially from Asian markets. Unemployment is expected to stay at its current low level of 0.6 percent (or within a range of 0.5 - 0.7 percent of the total labor force). On external stability, the current account in 2013 is projected to record a deficit of USD 2.1 billion, accounting for 0.5 percent of GDP (or within a range of 0.0 - 1.0 percent of GDP). Thailand's trade balance is expected to record a smaller surplus at USD 5.0 billion (or within a range of USD 4.0 - 6.0 billion) following the higher imports. The import growth is expected to increase at 11.0 percent per year (or within a range of 10.0 - 12.0 percent) whereas the value of exports is predicted to grow by 10.5 percent (or within a range of 9.5 - 11.5 percent).