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กลุ่มสารนิเทศการคลัง สำนักงานปลัดกระทรวงการคลัง โทร. 0-2273-9021 โทรสาร 0-2273-9763
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Thailand's Economic Projection for 2010

The Ministry of Finance made an upward revision on Thailand's Economic Projections for 2010 to 5.5 percent per year, from the previous forecast of 4.5 percent per year

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Mr. Satit Rungkasiri, the Director-General of the Fiscal Policy Office (FPO) announced the Thailand's economic projections as of June 2010 that **the Thai Economy in 2010 is expected to better expand at 5.5 percent per year or within the range of 5.0 – 6.0 percent per year, higher than previously forecasted rate as of March 2010 at 4.5 percent per year. The positive factors are attributed to the high economic growth of 12.0 percent per year during the first quarter of the year coupled with the faster-than-expected recovery of the global economy, especially those in the Asian region, which caused a projection of high export growth. Domestic spending, both private consumption and investment, also has a tendency to revive from the low base of last year.**

Mr. Ekniti Nitithanprapas, the Director of Macroeconomic Policy Bureau and the Spokesperson of the Ministry of Finance, added that **the export volume of goods and services in 2010 is forecasted to grow at a high rate of 11.9 percent per year, as the economies of Thailand's major trading partners recover faster than expected. Besides, domestic spending has an inclination towards a recovery from the low base last year. Despite the impact from the recent political predicament, private consumption is expected to grow at 3.6 percent per year, from the contraction of -1.1 percent per year in 2009. This improvement is due to the better employment situation, and higher farm income following higher agricultural price and the Government's Farm Income Guarantee Measure. Meanwhile, private investment is expected to grow at 10.2 percent per year, from the last year's contraction of -12.8 percent per year. Higher purchase orders that increase concurrently with high capital utilization rate is among the supporting factors. Public spending still has an important role of supporting the unceasing economic growth, with an acceleration of budget disbursement during the rest of the year, especially on public investment under the "Stronger Thailand 2012" project. Public investment and consumption in 2010 are thus forecasted to grow at 5.1 and 6.5 percent per year respectively.**

For internal economic stability, headline inflation is projected to rise to 3.5 percent per year (or within the range of 3.0 - 4.0 percent per year) given higher oil price in the global market. Nonetheless, the extension of the Government's measures to alleviate cost of living would help easing the inflation from the previous projection. On the external front, Thailand is projected to record a smaller current account surplus of 2.7 percent of GDP in 2010, as import growth is projected to expedite from the low base last year to the rate of 36.6 percent per year, compared to the growth rate of 22.5 percent per year of export value.

The Director-General of FPO concluded that **in spite of the bright prospect of full recovery, the Thai economy still faces risks from public debt crisis in Europe that could dampen down the global economic recovery. This could play a significant role to Thailand, given the high export dependent nature of Thailand. On the domestic side, political uncertainty and drought could hinder the revival of private spending. As a result, it is still necessary for the public sector to revive and strengthen domestic spending to mitigate external risks, and to create the balance of the engine for economic growth from both domestic and external forces.**

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

	2009	2010f (As of Mar 10)	2010f (As of Mar 10)	
			Average	Range
Major Assumptions				
Exogenous Variables				
1) Average Economic Growth Rate of Major Trading Partners (percent y-o-y)	-0.4	3.7	4.1	3.6 – 4.6
2) Dubai Crude Oil Price (U.S. dollar per Barrel)	61.3	80.0	78.5	73.5 – 83.5
3) Export price in U.S. dollar (percent y-o-y)	0.3	8.6	9.0	8.5 – 9.5
4) Import price in U.S. dollar (percent y-o-y)	-2.5	8.0	8.3	7.8 – 8.8
Policy Variables				
5) Exchange Rate (Baht per U.S. dollar)	34.3	32.5	32.5	31.5 – 33.5
6) Repurchase Rate (Policy Rate) at year-end (percent y-o-y)	1.25	1.50	1.50	1.25 – 1.75
7) Fiscal-Year Pubic Expenditure (Trillion Baht)	2.46	2.59	2.57	2.53 – 2.60
Projections				
1) Economic Growth Rate (percent y-o-y)	-2.2	4.5	5.5	5.0 – 6.0
2) Real Consumption Growth (percent y-o-y)	-0.1	4.3	4.0	3.4 - 4.6
- Real Private Consumption	-1.1	4.3	3.6	3.0 – 4.3
- Real Public Consumption	5.8	4.2	6.5	5.9 – 7.1
3) Real Investment Growth (percent y-o-y)	-9.0	7.8	8.8	7.4 – 10.2
- Real Private Investment	-12.8	8.2	10.2	8.3 – 12.1
- Real Public Investment	2.7	6.8	5.1	4.1 – 6.1
4) Export Volume of Goods and Services (percent y-o-y)	-12.7	9.7	11.9	11.4 – 12.4
5) Import Volume of Goods and Services (percent y-o-y)	-21.8	18.9	21.1	20.0 – 22.2
6) Trade Balance (billion U.S. dollar)	19.4	4.8	5.3	4.3 – 6.3
- Export Value of Goods in U.S. dollar (percent y-o-y)	-13.9	18.0	22.5	21.5 – 23.5
- Import Value of Goods in U.S. dollar (percent y-o-y)	-24.9	31.9	36.6	35.0 - 38.2
7) Current Account (billion U.S. dollar)	20.3	7.2	8.3	6.7 – 9.7
- Percentage of GDP	7.7	2.4	2.7	2.2 – 3.2
8) Headline Inflation (percent y-o-y)	-0.9	4.0	3.5	3.0 – 4.0
Core Inflation (percent y-o-y)	0.3	1.5	1.3	0.8 – 1.8
9) Unemployment Rate (percentage of total labor force)	1.5	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

1. Economic Growth

The Thai economy in 2010 is forecasted to grow at 5.5 percent per year (or within the range of 5.0 – 6.0 percent per year), an improvement from March 2010 projection of 4.5 percent per year. The main positive factors attributing to this growth is from the stellar recovery of the Thai economy during the first quarter of 2010 at 12.0 percent per year, combined with the faster-than-expected economic recovery of major trading partners, especially those in Asia. This leads to the rebound of growth of export volume of goods and services being projected at 11.9 percent per year (or within the range of 11.4 – 12.4 percent per year). Domestic spending, in addition, has a tendency of recovery. Private investment in particular is projected to grow at a positive rate of 10.2 percent per year (or within the range of 11.4 – 12.4 percent per year), with the supporting factors of the accelerated capital utilization rate following increasing orders from home and abroad, especially in export-oriented industry such as motor vehicles, electronic parts, and electrical appliances. The construction sector also starts to show the sign of improvement, as shown by higher sales of construction materials such as cement, iron, and steel. Private consumption, on the other hand, is expected to better expand, owing to the better employment situation, higher farm income following higher global agricultural prices, and Farm Income Guarantee Program. Furthermore, public spending plays an important role in supporting the Thai economy to unceasingly grow. To be more specific, public capital expenditure under the "Stronger Thailand 2012" project would help public investment grow at the increasing rate of 5.1 percent per year (or within the range of 4.1 – 6.1 percent per year). The acceleration of budget disbursement during the rest of the year would help catalyzing public consumption to grow at 6.5 percent per year (or within the range of 5.9-7.1 percent per year). Import volume of goods and services is expected to expedite its growth rate to 21.1 percent per year (or within the range of 20.0 – 22.2 percent per year) with the recovery of domestic spending and more manufacturing of export goods.

2. Economic Stability

Internal economic stability is expected to improve, with headline inflation in 2010 rises to 3.5 percent per year (or within the range of 3.0 – 4.0 percent per year). This is due to global oil and agriculture prices which are expected to rise following the global economic recovery. Unemployment rate is expected to revert to 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). As for external stability, current account in 2010 is projected to record a smaller surplus of 8.3 billion US Dollar, or approximately 2.7 percent of GDP (or within the range of 2.2 – 3.2 percent of GDP), due mainly to the higher growth of import value relative to export value. Import value is forecasted to grow at 36.6 percent per year (or within the range of 35.0 – 38.2 percent per year) from the fast domestic spending and import price in the global market. Meanwhile, export value is projected to expand at 22.5 percent per year (or within the range of 21.5 – 23.5 percent per year, due to the revival of export volume and major and higher export price.

In conclusion, the Thai economy in 2010 has a tendency for a better recovery, with the positive factors coming from the stellar growth during the first quarter of 2010 in tandem with the better-than-expected economic recovery of major trading partners that would help facilitate export. In addition, the acceleration of capital utilization rate, the improving construction sector, the better employment situation, along with higher farm income; all of these would enrich domestic spending. Nevertheless, major risk factor that comes into play is from the European public debt crisis that might obstruct the global economic recovery, which would in turn trouble the export-oriented Thai economy. Also, the domestic political situation coupled with the drought might slow down the recovery in private sector. Public sector therefore needs to accelerate the budget disbursement and "Stronger Thailand 2012" project to reach their respective goals while private sector is not yet fully recovered.