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Thailand’s Economic Outlook Projection 2013 and 2014

The Thai economy in 2013 is projected to grow at 3.5-4.0 percent,

Dr. Somchai Sajjapongse, the Director-General of the Fiscal Policy Office (FPO) announced Thailand’s economic projections as of September 2013 stating that “**the Thai economy in 2013 is projected to grow not less than an annualized rate of 3.5 percent and will expand at an annualized rate of 4.0 percent if the budget disbursement in the first quarter of fiscal year 2014 (October - December 2013) follows the economic plan of measures for the promotion of sustainable economic growth. The slowdown in economic growth partly comes from lower-than-expected economic growth in the first half of the year, especially private consumption and investment that grew more slowly after having sharply accelerated in the previous year. Public investment is expected to be the main driver for continuing growth of the Thai economy this year, according to the budget disbursement of the central government and state enterprises’ on-going investment. Exports of goods and services are anticipated to grow at a faster pace compared to last year, mainly from exports of services that expand with an increase in the number of foreign tourists visiting Thailand. With regard to internal stability, headline inflation in 2013 is anticipated to be 2.3 percent (or within a range of 2.0 - 2.5 percent), lower than that of the previous year, due to lower private demand and declining prices of world crude oil and commodity products as a result of lower global demand.**

For 2014, the Fiscal Policy Office anticipates that the economic growth is likely to continuously expand at the rate of 5.1 percent (or within a range of 4.6-5.6 percent), benefiting from the economic recovery of Thailand’s major trading counterparts which will help supporting the growth of exports of goods and services. Moreover, the positive employment situation together with low interest rates from the supportive monetary policy will help support private consumption and investment to continue to expand. Government expenditure will play an important role in driving the economy, especially from the higher disbursements of the water resource management plan and the disbursements of the infrastructure investment plan, which will begin from 2014 onwards. With regard to internal stability, headline inflation in 2014 is anticipated to be 2.8 percent (or within a range of 2.3 - 3.3 percent), due to higher private demand and increasing prices of world crude oil from the global economic recovery.

The Director-General of the FPO also added that **“in composing the economic outlook projections, it is necessary to closely analyze the following risk factors: uncertainties of the global economy which could also lead to volatility in capital flows, natural disasters, labor shortage in some industrial sectors, and whether the budget disbursement will be in line with the target.”**

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

	2012	2013f (As of Mar 13)		2013f (As of Sep 13)	
		Average	Range	Average	Range
Major Assumptions					
Exogenous Variables					
1) Average Economic Growth Rate of Major Trading Partners (percent y-o-y)	3.4	3.3	3.0 – 3.5	3.8	3.3-4.3
2) Dubai Crude Oil Price (U.S. dollar per Barrel)	109.1	106.0	103.5 – 108.5	107.0	102.0-112.0
3) Export prices in U.S. dollar (percent y-o-y)	0.6	0.0	(-0.5) – (0.5)	0.5	(-0.5) – (1.5)
4) Import prices in U.S. dollar (percent y-o-y)	5.9	-2.0	(-2.5) – (-1.5)	0.5	(-0.5) – (1.5)
Policy Variables					
5) Exchange Rate (Baht per U.S. dollar)	31.1	30.6	30.1 – 31.1	31.0	30.0-32.0
6) Repurchase Rate (Policy Rate) at year-end (percent)	2.75	2.50	2.25 – 2.75	2.50	2.00-3.00
7) Fiscal-Year Public Expenditure (Trillion Baht)	2.89	3.15	3.14 – 3.16	3.47	3.46 – 3.48
Projections					
1) Economic Growth Rate (percent y-o-y)	6.5	3.7	3.5 – 4.0	5.1	4.6-5.6
2) Real Consumption Growth (percent y-o-y)	6.8	2.3	2.1 – 2.6	3.6	3.1-4.1
- Real Private Consumption	6.7	2.1	1.9 – 2.4	3.4	2.9-3.9
- Real Public Consumption	7.5	2.7	2.5 – 3.0	4.8	4.3-5.3
3) Real Investment Growth (percent y-o-y)	13.2	4.4	3.9 – 4.9	10.3	9.3-11.3
- Real Private Investment	14.4	2.3	1.8 – 2.8	9.5	8.5-10.5
- Real Public Investment	8.9	12.3	11.8 – 12.8	13.4	12.4-14.4
4) Export Volume of Goods and Services (percent y-o-y)	3.1	5.6	5.1 – 6.1	8.6	7.6-9.6
5) Import Volume of Goods and Services (percent y-o-y)	6.2	4.7	4.2 – 5.2	7.6	6.6-8.6
6) Trade Balance (billion U.S. dollar)	6.0	4.9	4.4 – 5.4	1.5	0.5-2.5
- Export Value of Goods in U.S. dollar (percent y-o-y)	3.1	1.8	1.3 – 2.3	7.5	6.5-8.5
- Import Value of Goods in U.S. dollar (percent y-o-y)	8.8	2.2	1.7 - 2.7	9.3	8.3-10.3
7) Current Account (billion U.S. dollar)	0.2	1.3	0.3 – 2.3	0.1	(-1.9) - (2.1)
- Percentage of GDP	0.0	0.3	0.1 – 0.6	0.0	(-0.5) – (1.5)
8) Headline Inflation (percent y-o-y)	3.0	2.3	2.0 – 2.5	2.8	2.3-3.3
Core Inflation (percent y-o-y)	2.1	1.1	0.9 – 1.4	1.5	1.0-2.0
9) Unemployment Rate (percentage of total labor force)	0.7	0.7	0.6 -0.8	0.7	0.6-0.8

f = forecast by Fiscal Policy Office, Ministry of Finance, Thailand, Tel: 0-2273-9020

Attachment: Thailand's Economic Projections 2013 and 2014

1. Thai Economy in 2013

1.1. Economic Growth

The Thai economy in 2013 is projected to expand not less than an annualized rate of 3.5 percent and will grow at an annualized rate of 4.0 percent if the budget disbursement in the first quarter of fiscal year 2014 (October - December 2013) follows the economic plan of measures for the promotion of sustainable economic growth. The slowdown in economic growth partly comes from lower-than-expected economic growth in the first half of the year (even though such a growth rate is greater than that of the first half of the previous year). Growth in private consumption is expected to slow to a rate of 2.1 percent (or within a range of 1.9 - 2.4 percent) while growth in private investment is also anticipated to slow to a rate of 2.3 percent (or within a range of 2.0 - 2.5 percent). This partly comes off of sharply accelerated investment for flooding damages during last year. Investment for construction is expected to continuously expand, as reflected in the recent increase in cement sales. Public expenditure is expected to be the main driver for the continuing growth of the Thai economy this year. Public consumption is expected to increase at a rate of 2.7 percent (or within the range of 2.5 - 3.0 percent) while public investment will rise at a high rate of 12.3 percent (or within the range of 11.8 - 12.8 percent) following the budget disbursement of the central government and state enterprises' on-going investment, although the water resource management investment plan is delayed for public hearings according to the order of the administrative court. For external demand, the quantity of exports of goods and services are anticipated to grow at a faster pace compared to last year at a rate of 5.6 percent (or within a range of 5.1 - 6.1 percent), mainly from exports of services that expand with an increase in the number of foreign tourists visiting Thailand, especially from China and Russia. Nevertheless, the value of exports of goods is expected to decelerate from the slow global economic recovery which affects the demand for Thai exports. In addition, a shortage in shrimp due to Early Mortality Syndrome or EMS has led to much lower exports of frozen seafood. The quantity of imports of goods and services is expected to grow at a rate of 4.7 percent (or within a range 4.2 - 5.2), a bit lower than that in the previous year, in line with the decelerated expansion of domestic demand, both consumption and investment.

1.2. Economic Stability

With regard to internal stability, headline inflation in 2013 is anticipated to be 2.3 percent (or within a range of 2.0 – 2.5 percent), lower than that of the previous year, due to lower private demand and declining prices of world crude oil and commodity products according to slow global economic recovery and the public control of retail petroleum prices. Unemployment is expected to be 0.7 percent of the total labor force (or within a range of 0.6 - 0.8 percent). On external stability, the current account in 2013 is projected to record a small surplus of USD 1.3 billion, accounting for 0.3 percent of GDP (or within a range of 0.0 - 0.5 percent of GDP) as the estimated trade balance surplus is expected to drop slightly to USD 4.9 billion (or within a range of USD 4.4 - 5.4 billion). This is partially explained by accelerated import growth which is higher than export growth. Nevertheless, the services balance is expected to gain more surpluses following the continuously increasing number of foreign tourists.

2. Thai Economy in 2014

2.1. Economic Growth

The Thai economy in 2014 is projected to continue to expand at an annualized rate of 5.1 percent (or within a range of 4.6 - 5.6 percent). The acceleration of economic growth in 2014 will mainly be driven by private consumption expansion, export revival, and substantial investment by the government sector. It is anticipated that the disbursement rate for the water resource management investment plan will be augmented, while the disbursement of the infrastructure investment plan will begin in 2014. Private consumption is projected to expand faster at a rate of 3.4 percent (or within a range of 2.9 – 3.9 percent), because of higher household non-farm income, partly due to the higher 300 baht minimum wage and positive employment situation and very low unemployment rate. Furthermore, the low interest rate from the supportive monetary policy will help support private consumption and investment to continue to expand. Private investment is forecasted to rebound and expand at a rate of 9.5 percent (or within a range of 8.5 - 10.5 percent). Other factors that could support the expansion of private investment include the necessity to invest in production restructuring in order to cope with the labor mismatch problem as well as more investment privilege schemes offered by the Board of Investment that will continue to create incentives for foreign investors to invest in Thailand. In 2014, government spending will continue to be the key growth driver for the Thai economy. Government consumption is forecasted to grow at a rate of 4.8 percent (or within a range of 4.3 - 5.3 percent), while government investment is projected to expand at 13.4 percent (or within a range of 12.4 - 14.4 percent). The disbursement rate of the water management investment plan is anticipated to be expedited and it is highly likely that the disbursement of the infrastructure investment plan will be able to begin in 2014. In terms of international trade, it is anticipated that exports of goods and services will recover and grow faster than those in 2013, from the global economic recovery, especially Thailand's main trading partners, including the US from its higher employment and Japan from its government's recent economic policies, although there is a slowdown in the Chinese economy. Moreover, the outlook for the tourism sector remains particularly positive. Therefore, the quantity of exports of goods and services is projected to expand at a rate of 8.6 (or within a range of 7.6 - 9.6 percent). The quantity of import of goods and services is projected to expand at an accelerated rate of 7.6 percent (or within a range of 6.6 - 8.6 percent) as a result of private consumption expansion, revival of the export sector, and the large government investment projects.

2.2 Economic Stability

With regard to internal stability, headline inflation in 2014 is anticipated to be 2.8 percent (or within a range of 2.3 - 3.3 percent), higher than that of the previous year, due to higher private demand and increasing prices of world crude oil and commodity products from higher external demand from the global economic recovery, especially from the US and Japan. Unemployment is expected to be 0.7 percent of the total labor force (or within a range of 0.6 - 0.8 percent). On external stability, the current account in 2014 is projected to record a small surplus of USD 0.1 billion, accounting for 0.0 percent of GDP (or within a range of -0.5 - 0.5 percent of GDP) as the estimated trade balance surplus drops slightly to USD 1.5 billion (or within a range of USD 0.5 - 2.5 billion). This is partially explained by accelerated import growth being higher than export growth.

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