



<i>Population</i>	67.4 million
<i>Population growth</i>	0.6 percent
<i>Surface area</i>	513,120 sq. km.
<i>Capital</i>	Bangkok

Source: World Development Indicators.

After expanding by a strong 8.1 percent in the first quarter, Thailand's economy shrunk by 0.8 percent in the second quarter 2011.³³ For the first half of 2011, the economy expanded by 2.9 percent from the previous year. While the expansion in the first quarter was driven by strength in the agricultural sector, much of the contraction in the second quarter can be attributed to the impact of the Tohoku earthquake and tsunami in Japan on auto supply chains, but lower levels of government construction also weighed down the economy.

The impact of supply chain disruptions caused by the Tohoku earthquake can be noted in three areas: exports, household consumption and manufacturing output. Merchandise exports expanded 4 percent (impressive considering the headwinds during the quarter and following a 47 percent commodity-led surge in the previous quarter), but at the expense of inventory draw-downs and lower imports. Household consumption overall expanded by 1 percent, following a disappointing 2.4 percent in the first quarter, driven by lower auto sales. Excluding autos, consumption expanded nearly 9 percent, in fact accelerating from a

³³ All figures reflect changes from the previous quarter, adjusted for seasonal fluctuations, unless otherwise indicated.

contraction in the first quarter. Although some of the contraction in auto sales is likely due to rising interest rates and a cyclical decline following several quarters of rising sales, there were reports that supply chain disruptions disrupted deliveries. Finally, manufacturing output contracted 1.4 percent, reflecting the sharp reduction in domestic car sales and exports caused by the supply chain disruptions. The reduction in the energy-intensive auto manufacturing may also have contributed to the decline in output from the utilities sector.

The other key development was the sharp decline in government construction investment (down 30 percent), which dragged down the construction sector. Government construction registered its lowest overall levels for the April-June quarter since 1993. The contraction in construction investment more than offset a small increase in equipment investment and public investment overall registered a year-on-year contraction for the fifth consecutive quarter. Notwithstanding the election, government consumption contracted by 3 percent.

On the positive side, tourist receipts picked up and commodity-related exports remained robust, leading to a positive contribution of external demand to overall growth. Moreover, private investment was healthy and, notwithstanding the contraction in government construction, gross fixed capital formation was up by 2.8 percent overall, a solid outcome considering investment had expanded by 32 percent the previous quarter. Although it could not match the exceptional performance of the first quarter, the agriculture sector continued to perform well, along with firm agricultural prices that supported farm incomes and domestic consumption. Labor markets remain tight, with the unemployment rate in June below 0.5 percent and the rate of under-employment at 1.1 percent.

Consumer price inflation accelerated slightly to 4.2 percent in October, near a 35-month high, reversing the trend of stabilizing headline inflation. The difference between core and headline inflation moved higher between March and April, as a spike in

commodity prices (linked to the spike in oil prices in the first quarter) fed relatively quickly to headline inflation through fuel and raw food prices. Transmission of the spike to core inflation was partly ameliorated as the government negotiated with producers to delay passing along higher input costs of processed food items to consumer prices. Producers appear to have started passing on cost increases in earnest in May, when the acceleration in core inflation exceeded that of headline prices, which had started stabilizing by that time. The pattern of stable and slowly declining headline inflation with modestly increasing core inflation was reversed in August, when increases in food prices - both raw and processed - picked up pace. Domestic rice prices continued to decelerate through September for 13 consecutive months despite increasing producer and export prices.

The new Thai government installed in August has promised to implement a number of policies that will likely provide a boost to domestic demand going forward. The four most prominent are (1) increase the minimum wage to 300 baht (US\$10) per day; (2) increase the minimum wage for holders of bachelor degrees to 15,000 baht (US\$500) per month; (3) lower corporate income taxes from 30 to 23 percent; and (4) re-introduce a rice mortgage policy that effectively sets an intervention price between 40 and 60 percent above current market prices. In some instances, the government appears to be considering these policies as a part of broader reforms, for example in the case of taxes and civil service wages (as most civil servants have bachelors' degrees and would be eligible for the new minimum wage). Given the reconstruction needs, a deficit of around 4.5 percent of GDP is expected for FY2012 (which includes additional spending for recovery and rehabilitation programs post floods), compared to the projected 2 percent for fiscal year 2011.

Monetary policy has been on a normalization course since the beginning of the year. The Bank of Thailand has raised interest rates six times this year (by a total of 1.5 percentage points), but at 3.5 percent the real policy interest rate remains negative. The real effective exchange rate depreciated by less than 1 percent since

the beginning of the year, as inflows in the current account were offset by higher reserve accumulation (especially in the first quarter) and more balanced outflows in the financial account.

The economy is expected to slow down during the remainder of 2011 and into the first quarter of 2012 due to the slowdown in the global economy and the impact of the devastating floods. The impact of the floods will be most severely felt in the last quarter of 2011, coming mainly from the production losses of the industrial estates in the vicinity of Bangkok, which could reduce GDP growth by around 1 percent. Factors supporting growth include the reconstruction and rehabilitation by both the public and private sectors after the floods, dissipation of supply chain disruptions (which will lead to inventory restocking, higher domestic sales and exports of autos and electronics), a momentum in household consumption supported by the stability of commodity prices and expansionary fiscal policies (including for rehabilitation), and likely solid performance of private investment following the improved political stability. Moreover, inflation is likely to slow as commodity prices appear to have lost their upward momentum. The significantly worsened global outlook is likely to lead to a deceleration of both merchandise and service exports, and the dismal performance of public investment is likely to continue given delays in approving the FY 2012 budget although reconstruction efforts are likely to lead to a pick-up in 2012. Moreover, while weakness in commodity prices will support a decline in inflation, it could also dampen rural incomes. These factors weigh on the outlook, and GDP is now expected to expand by 2.4 percent in 2011 and 4.0 percent in 2012. Risks are clearly to the downside as a new major shock to the global economy would have a large impact on Thailand's export-oriented economy.

Thailand Key Indicators

	2008	2009	2010	2011f	2012f	2010		2011					2011		
	Year	Year	Year	Year	Year	Q3	Q4	Q1	Q2	Q3	May	Jun	Jul	Aug	Sep
Output, Employment and Prices															
Real GDP (% change y-y)	2.5	-2.3	7.8	2.4	4.0	6.6	3.8	3.2	2.6	..	..	..	..	..	..
Domestic demand (% change y-y)	4.3	-6.9	10.3	2.1	8.8	11.6	3.4	0.7	3.2	..	..	..	..	..	..
Industrial production index (2000=100)	178.9	166.1	190.0	..	..	191.8	190.0	187.7	181.7	195.1	178.1	201.6	188.9	196.1	200.4
(% change y-y)	3.9	-7.2	14.4	..	..	9.8	2.6	-2.1	-2.5	1.8	-3.7	3.8	-0.7	6.8	-0.5
Unemployment (%)	1.4	1.5	1.0	1.0	1.0	0.9	0.8	0.8	0.6	..	0.5	0.4	0.5	0.7	..
Real wages (% change y-y) 1/	4.8	-1.6	3.3	..	..	4.1	6.2	4.4	1.6	..	..	..	..	..	..
Consumer price index (% change y-y)	5.5	-0.8	3.3	3.5	3.0	3.3	2.9	3.0	4.1	4.1	4.2	4.1	4.1	4.3	4.0
Public Sector															
Government revenues (% GDP)	16.5	16.4	17.2	17.4	17.4	17.9	15.3	14.0	23.1	18.7	..	..	..	..	..
Government expenditures (% GDP)	17.6	20.9	20.3	20.5	20.8	19.2	23.8	21.3	21.2	17.9	..	..	..	..	..
Government balance (% GDP) 2/	-1.4	-3.0	-2.1	-3.0	-3.1	1.3	-7.2	-10.3	5.2	4.3	..	..	..	..	..
Domestic public sector debt (% GDP) 3/	33.7	39.4	38.8	40.0	40.1	39.0	38.8	37.9	37.4	..	36.4	36.6	33.0	32.9	..
Foreign Trade, BOP and External Debt															
Trade balance (billions US\$)	-0.4	19.4	14.1	8.4	-5.3	3.3	4.1	3.3	1.7	7.7	0.3	1.9	4.6	0.7	2.4
Exports of goods (billions US\$)	175.2	150.7	193.7	220.3	227.9	49.7	51.8	56.0	57.3	63.3	19.3	20.8	21.1	20.9	21.3
(% change y-y)	15.9	-14.0	28.5	13.7	3.5	22.2	21.1	27.3	19.2	27.3	17.3	16.4	36.4	28.4	18.4
Key export (% change y-y) 4/	7.6	-15.2	27.0	..	..	21.4	11.0	0.8	10.3	10.0	8.5	3.0	10.2	9.1	10.9
Imports of goods (billions US\$)	175.6	131.4	179.6	211.9	233.1	46.4	47.7	52.7	55.7	55.6	19.0	18.9	16.5	20.2	18.8
(% change y-y)	26.8	-25.2	36.7	18.0	10.0	30.6	18.7	25.6	28.0	19.9	36.4	35.8	29.7	35.7	44.6
Current account balance (billions US\$)	2.1	21.9	14.8	10.4	-3.7	2.1	5.5	6.8	1.8	7.8	-0.5	2.5	4.6	0.7	2.4
(% GDP)	0.8	8.3	4.7	2.9	-1.0	2.6	6.4	7.6	2.1	8.8	..	..	..	..	..
Foreign direct investment (billions US\$) 5/	7.5	4.5	4.4	6.2	7.9	1.5	1.0	0.2	1.3	..	0.3	0.6	..	..	..
External debt (billions US\$) 6/	76.1	75.3	100.6	..	..	92.8	100.6	108.2	..	..	..	..	..	..	..
(% GDP)	28.0	28.6	31.6	..	..	29.5	29.2	30.1	..	..	..	..	..	..	..
Short-term debt (billions US\$) 6/	33.6	33.1	50.7	..	..	45.2	50.7	55.7	..	..	..	..	..	..	..
Debt service ratio (% exports of g&s)	8.3	7.6	4.7	..	..	4.6	3.7	4.1	..	..	..	..	..	..	..
Foreign exchange reserves, gross (billions US\$)	111.0	138.4	172.1	182.2	184.0	163.2	172.1	181.6	184.9	180.1	185.5	184.9	187.6	188.3	180.1
(months of imports of g&s)	6.5	10.7	10.0	9.0	8.3	9.2	9.3	9.1	8.8	8.6	..	..	..	..	..
Financial Markets															
Domestic credit (% change y-y) 7/	9.3	3.1	12.6	..	..	10.8	12.6	14.9	16.1	17.3	15.6	16.1	16.3	17.2	17.3
Short-term interest rate (% p.a.) 8/	3.4	1.4	1.5	..	..	1.7	1.8	2.3	2.8	3.4	2.8	3.0	3.3	3.5	3.5
Exchange rate (Baht/US\$, ave)	33.4	34.3	31.7	30.0	30.0	31.6	30.0	30.5	30.3	30.1	30.2	30.5	30.1	29.9	30.5
Real effective exchange rate (2000=100) 9/	112.8	108.8	114.4	..	..	115.0	116.8	114.0	113.9	113.5	113.7	112.7	113.8	113.7	112.9
(% change y-y)	0.5	-3.6	5.2	..	..	6.1	8.3	2.6	-0.9	-1.3	-4.1	-5.5	-3.2	-3.6	-5.5
Stock market index (Dec. 1996=100) 10/	450	735	1,033	..	..	975	1,033	1,047	1,041	916	1,074	1,041	1,134	1,070	916.2
Memo: Nominal GDP (billions US\$)	272.2	263.4	318.7	356.8	384.3	78.7	86.2	89.9	87.5	88.9	..	..	..	..	..

Source: National data sources, World Bank staff estimates

f = forecast

1/ Average wage of employed person, using the National Statistical Office Labor Force Survey, deflated by CPI inflation

2/ Cash balance of central government

3/ Includes domestic central government (CG) debt, domestic debt of non-financial state enterprises, and the Financial Institutions Development Fund (FIDF) debt. Series was revised by adding the Village Fund (VF) and the Energy Fund Public Organization (EFPO).

4/ Machinery and mechanical appliances

5/ Non-bank FDI

6/ Bank of Thailand figures

7/ Private credits from domestically registered commercial banks, branches of foreign banks, international banking facilities, finance companies, specialized banks, thrift and credit cooperatives, and money market mutual funds

8/ One-day repurchase rate, average

9/ World Bank staff estimates

10/ Bangkok SET