



Thailand Economic Monitor April 2009

Press Launch

7 April 2009

World Bank, Bangkok Office





Presentation Today

- 1. Impact of global economic crisis on Thailand in 2009**
- 2. Analysis of Government measures to mitigate impact of economic slowdown**
- 3. Can Thailand cope with a changed global economic landscape after this crisis?**



1. Impact of global economic crisis on Thailand



Economic growth will fall across the world this year & rebound slightly next year

World Bank's Forecast, 31 March 2009

	2007	2008e	2009f	2010f
Real GDP growth (%) a/				
World	3.7	1.9	-1.7	2.3
High-income economies	2.6	0.8	-2.9	1.6
US	2.0	1.1	-2.4	2.0
Euro Area	2.6	0.7	-2.7	0.9
Japan	2.1	-0.7	-5.3	1.5
Developing economies	7.9	5.8	2.1	4.4
East Asia and Pacific	10.5	8.0	5.3	6.6
China	11.9	9.0	6.5	7.5
World Trade volume (%)	7.5	4.0	-6.1	4.2
Oil price (USD/barrel) b/	71.1	97.0	47.8	52.7
Non-oil commodity price (%)	17.0	21.1	-30.4	-1.6
Manufactures unit export value c/	5.5	7.5	1.9	1.0
Consumer prices				
G-7 countries	1.7	3.3	1.6	2.1
US	2.6	4.5	2.5	3.0
Interest rates				
\$, 6-month (%)	5.3	3.3	2.5	3.0
€, 6-month (%)	4.3	4.9	4.0	4.5

Source: World Bank (DECPG, March 2009)

Note: a/ GDP in 2000 constant dollars; 2000 prices and market exchange rates

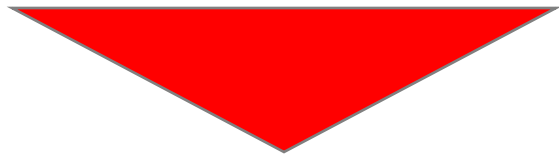
b/ Simple average of Dubai, Brent and West Texas Intermediate

c/ Unit value index of manufactured exports from major economies in US dollars

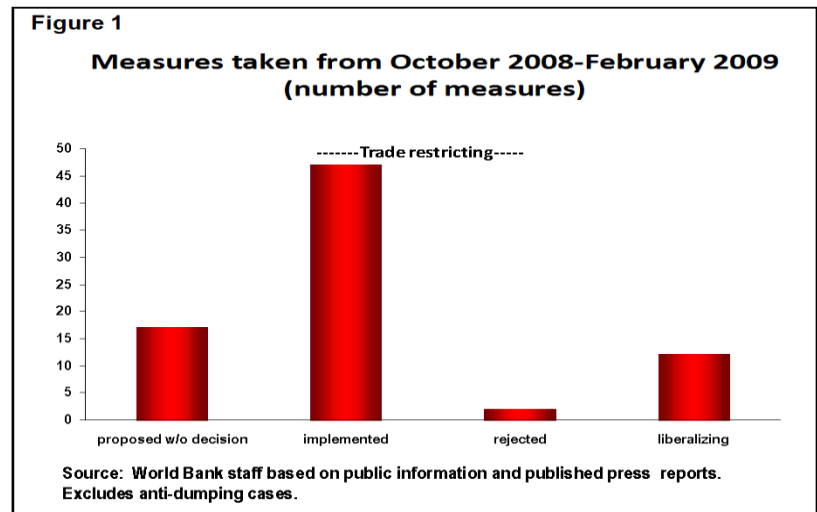
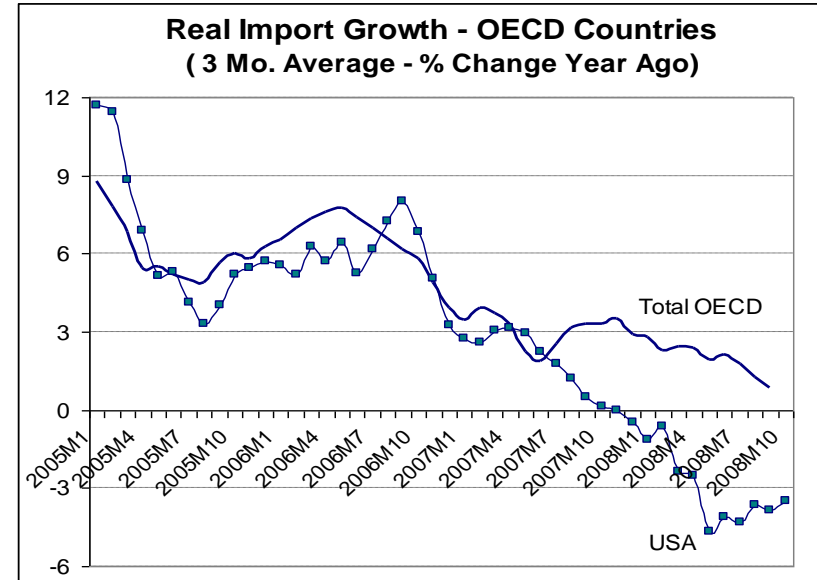


Global economic crisis has severely affected world trade

- ▼ **Contraction world demand**
- ▼ **Decline in trade finance**
- ▼ **Growing protectionist measures (a growing concern)**



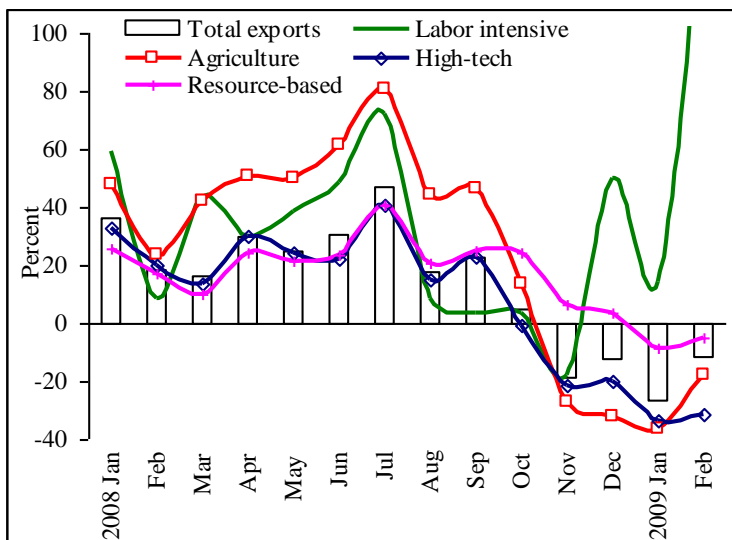
**Forecast sharp fall
in world trade volume
(particularly of manufactures)
by 6% in 2009**





Thailand's exports of goods have been severely affected

Monthly export growth rates (%) (YoY).
January 2008 – February 2009



- Exports grew by 27% yoy in the first 3 quarters of 2008, but **contracted by 17.2%** between November 2008 and February 2009
- Exports of key products and to major markets have fallen sharply
- Contraction in global export demand to worsen in Q2, no pick-up until at least 2009Q4

Major products and markets with negative export growth in 2008Q3-Feb2009(%) (YoY)

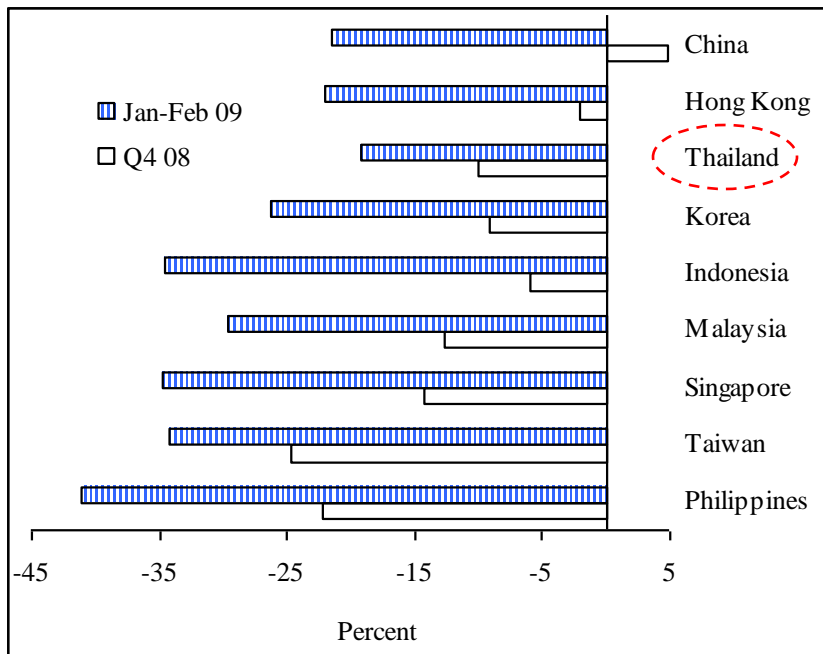
		Share in 2008 (%)	Q3 08	Q4 08	Jan-Feb 09
Products	Computers	7.5	14.2	-20.7	-36.5
	Plastics products	4.6	15.6	-24.5	-33.8
	Integrated circuits	3.7	0.6	-31.0	-43.4
	Textile products	3.2	4.1	-7.6	-13.6
	Passenger cars parts	2.3	34.8	-7.6	-29.5
	Chemical products	2.1	21.7	-16.8	-14.0
	Air conditioners	1.8	-4.4	-20.1	-41.7
	Computer parts	1.8	-7.3	-20.9	-39.9
Markets	United States	11.4	15.7	-10.2	-26.3
	Japan	11.3	25.0	-4.7	-23.9
	China	9.1	14.7	-24.2	-34.7
	Singapore	5.7	25.3	-34.7	-30.3
	Hong Kong	5.6	12.5	-16.7	-5.4
	Malaysia	5.6	40.6	-8.7	-31.3
	Vietnam	2.8	51.8	-17.1	-39.7
	Netherlands	2.3	12.3	-13.8	-32.6
	Philippines	2.0	37.8	-19.0	-20.8

Source: Bank of Thailand

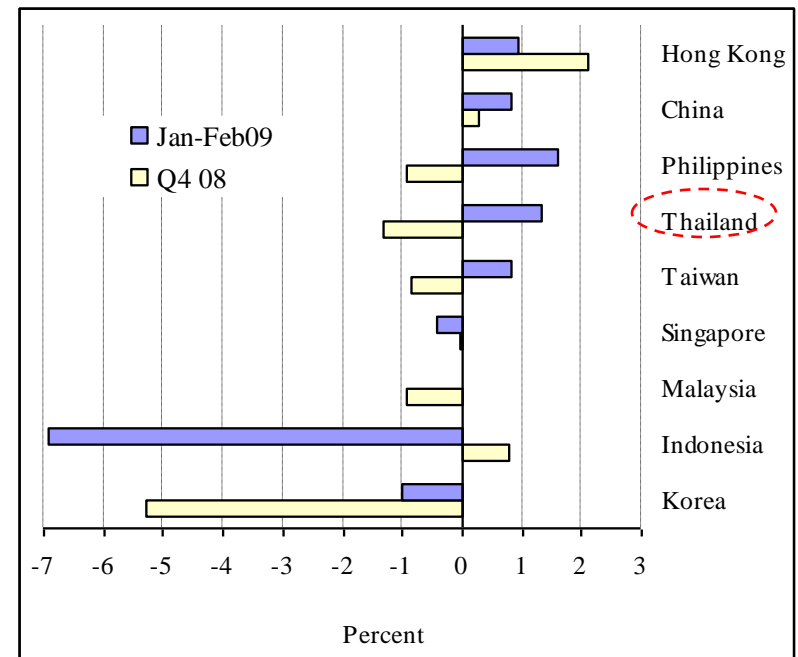


Thai exports declined by less than those of other East Asian economies, despite REER appreciation

Export growth rates in selected East Asian economies (% YoY)



Real Effective Exchange Rate (REER) in selected East Asian economies (+ = appreciation)

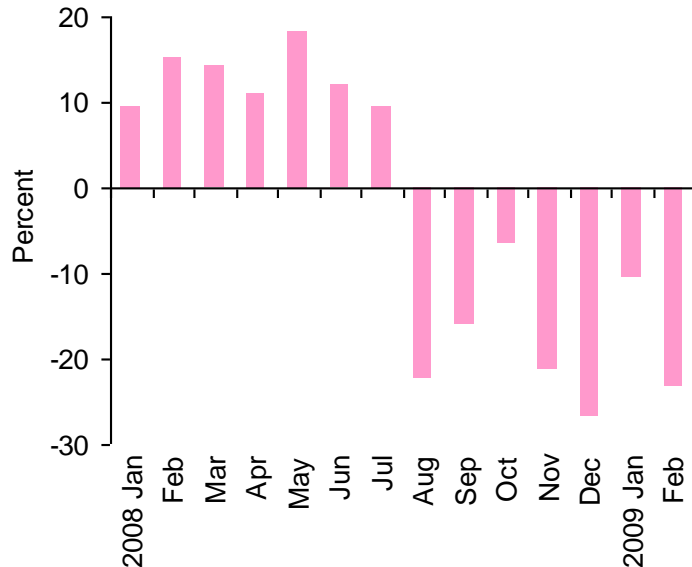


Thailand's exports (in US\$ terms) forecast to fall by **-17%** this year

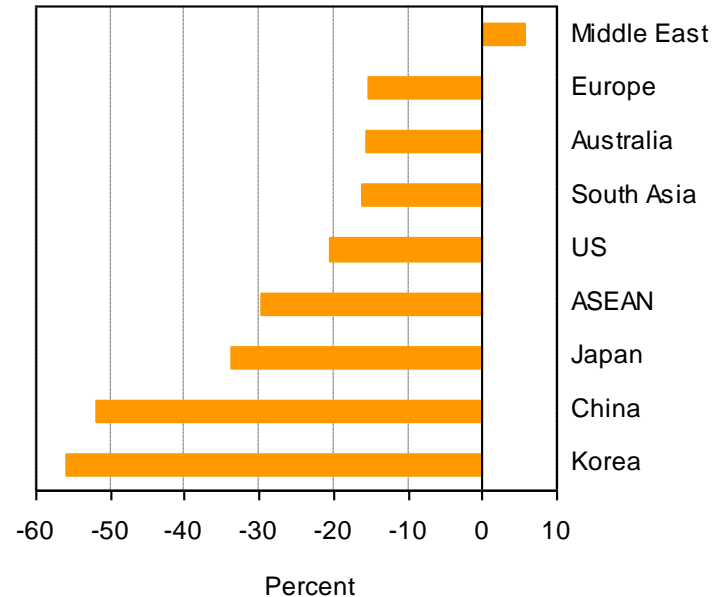


Tourism receipts affected by global economic slowdown and political unrest

Monthly tourist arrival growth (%) (YoY),
Jan 2008 - Feb 2009



Tourist arrival growth at Suvarnabhumi Airport
Oct08-Jan09 (%YOY)



- **World Tourism Organization: 3% decline in tourism in last 6 months of 2008 in Asia and forecast to decline further in 2009**
- **Airport closure caused sharp drop in November and December**
- **Sharpest contraction in Asian tourists – possible recovery if China improves**
- **Forecast contraction in service receipts smaller than goods exports**

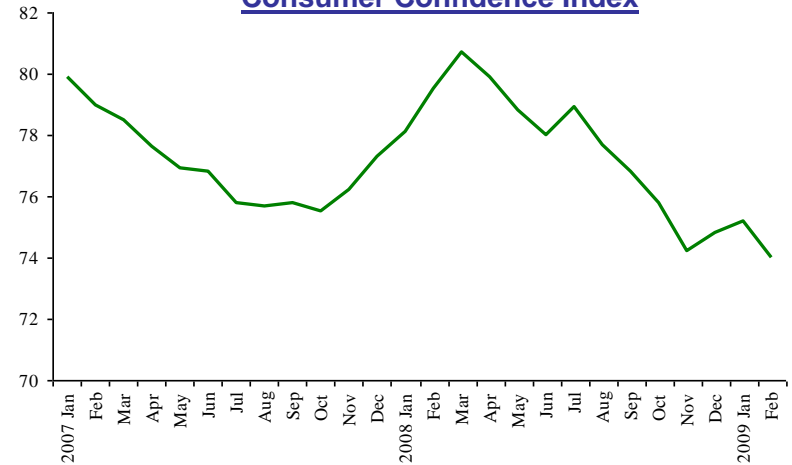


Household consumption impacted by exports decline

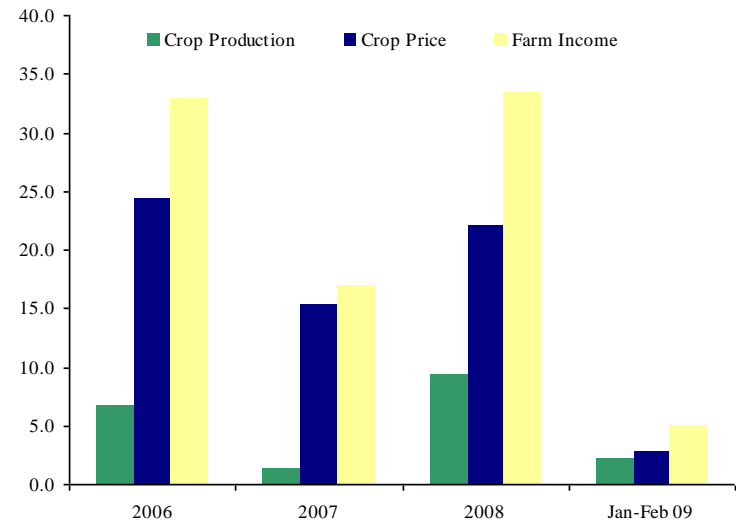
- ▼ **Consumer confidence declining**
- ▼ **Deterioration of employment prospects (unemployment or reduced work hours)**
- ▼ **Decline in real income growth (income falls by more than inflation)**
- ▼ **Possible negative wealth effects**

- ▲ **Lower inflation (especially food and fuel) supports higher consumption**
- ▲ **Stimulus package: many measures directed at consumption**

Consumer Confidence Index



Farm Incomes (y-o-y growth rates, %)





Unemployment & under-employment will rise this year, mainly from manufacturing sector...

...and **Agriculture** sector's limited capacity to absorb higher unemployment from other sectors

Unemployment and Hours Worked

	2008				2009
	Jan	Oct	Nov	Dec	Jan
Unemployment rate (%)	1.7	1.2	1.4	1.4	2.4
Unemployed persons ('000)	631.2	451.4	522.3	538.5	880.0
Millions of persons					
0 hour per week	0.72	0.39	0.42	0.78	1.25
1-34 hours	9.09	6.25	6.12	4.92	10.54
35 hours and above	26.11	30.52	30.82	32.27	24.41

Source: National Statistics Office

Employment by Sub-sectors (‘000 persons)

	Change from same period in previous year				Employment in Jan 09
	2008			2009	
	Jan-Oct	Nov	Dec	Jan	
Total	7,614	272	548	281	36,200
1. Agricultural	2,979	-90	400	12	12,480
2. Non-Agricultural	4,634	362	147	269	23,720
2.1 Manufacturing	-1,745	-188	-309	-542	5,860
2.2 Construction	863	265	180	-46	2,410
2.3 Wholesale and retail trade, repair of motor vehicles motorcycles and personal and household goods	1,799	65	457	176	6,080
2.4 Hotel and restaurants	304	58	39	217	2,620
2.5 Transport, storage and communication	740	145	39	38	1,280
2.6 Real estate, renting and business activities	260	58	-32	-4	760
2.7 Public administration and defence, compulsory social security	536	-7	11	141	1,300
2.8 Education	204	59	-112	105	1,090
2.9 Others	1,673	-94	-127	183	2,320

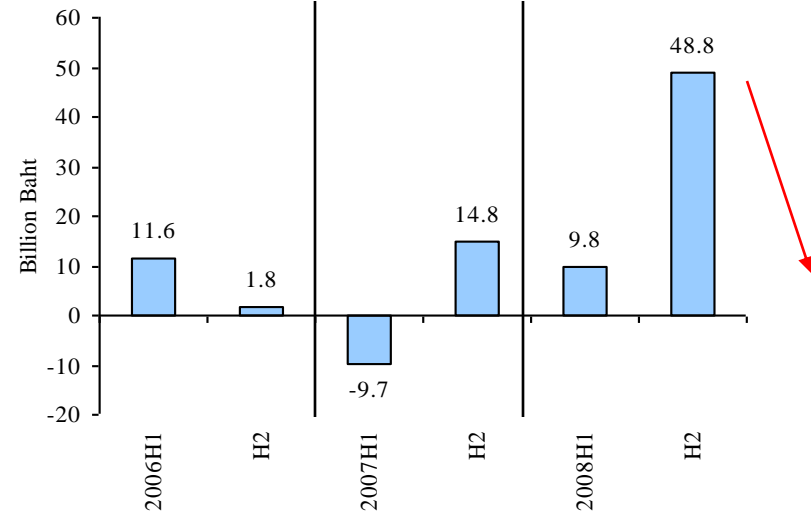
Source: National Statistics Office



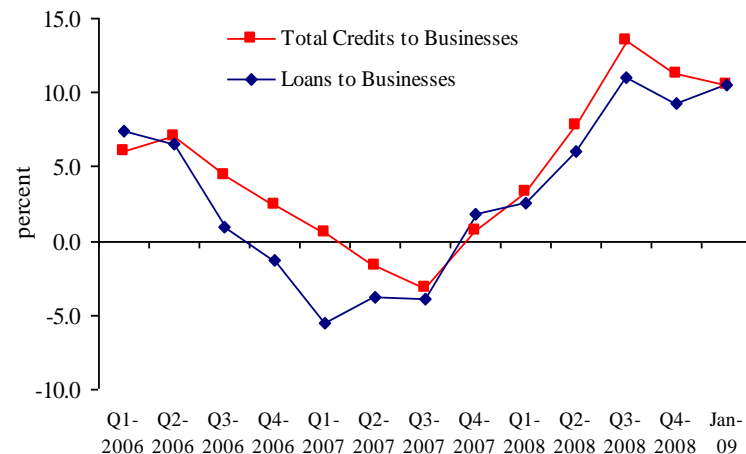
Private investment continues to slump as exports and household consumption declines

- ▼ Private investment index fell sharply by 11.3% in Jan-Feb, affected by negative outlook for overall economy, especially exports
- ▼ Inventories likely to contract sharply following large build-up in the 2nd half of 2008
- ▼ Very low capacity utilization of 55.4%, esp. in electronics, electrical appliance & vehicles in line with their export decline
- ▼ Credits growth to businesses are slowing down

Change in Inventories



Credit growth from commercial banks to businesses



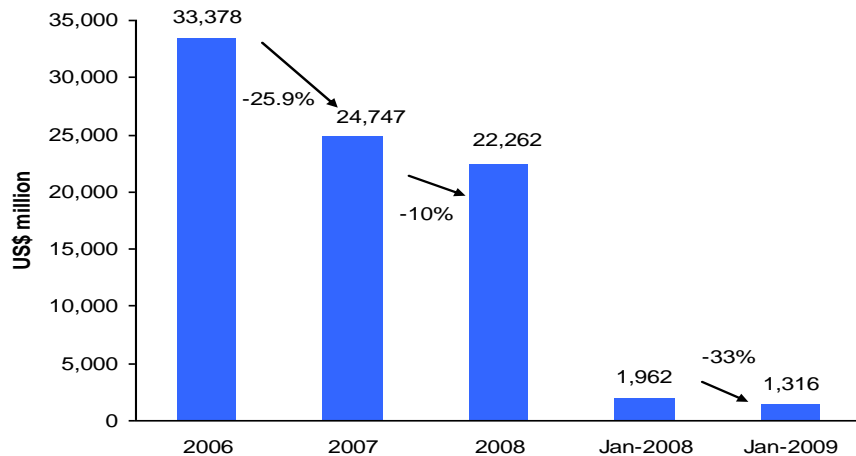


Private investment continues to slump as exports and household consumption declines

▼ Limited prospects for large FDI inflows, but no exodus either

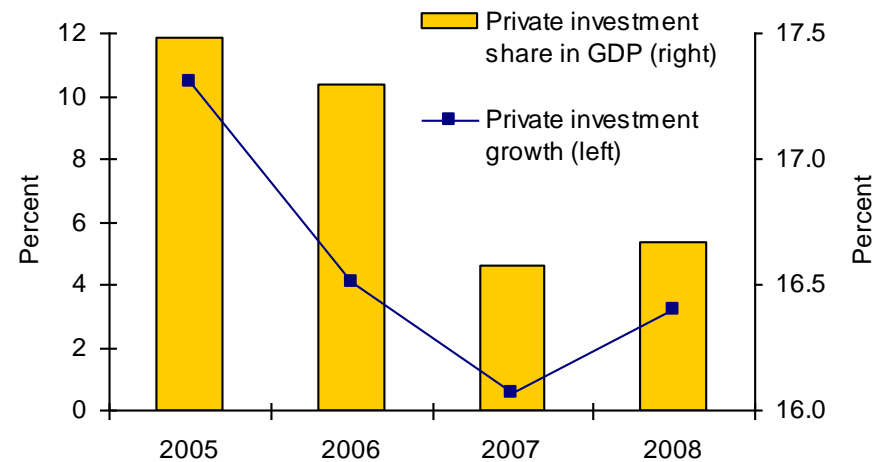
▲ Private investment level has been low since 2007, so further decline will not be sharp

Non-bank Gross Foreign Direct Investment Inflows



Source: Bank of Thailand

Private Investment



Source: NESDB



Imports will also decline leading to current account surplus and adding to high reserves...

... as exports, household consumption, and private investment falls

Current Account (US\$) 2007 – 2009p

	2007	2008	2009p
Trade account	11,571	237	8,502
<i>% of GDP</i>	4.7	0.1	3.5
Exports of goods	150,048	175,297	146,017
<i>y-o-y % change</i>	17.3	16.8	-16.7
Imports of goods	-138,477	-175,060	-137,515
<i>y-o-y % change</i>	9.1	26.4	-21.4
Services account	5,921	4,752	5,402
Services receipts	30,362	33,773	30,911
<i>y-o-y % change</i>	22.3	11.2	-8.5
Services payments	-24,441	-29,021	-25,509
<i>y-o-y % change</i>	21.2	18.7	-12.1
Income and transfers	-3,444	-5,168	-4,027
Current account	14,048	-179	9,877
<i>% of GDP</i>	5.7	-0.1	4.0

Source: BOT & WB projections



Impact on financial sector appears to be limited

- ▲ The Thai banking system is very sound: average capital adequacy ratios are over 15%, and asset quality was on an improving trend through December, with net NPLs declining to about 2.9% of total assets**
- ▲ This trend is expected to reverse in 2009, but banks appear to have enough room, at least in the short-term, to cope with higher NPLs**
- ▲ There is liquidity in the banking system: credit extension as of end-Feb was 85% of total deposits (or Bt1.5 trillion less than deposits)**



Real GDP growth forecasted at -2.7% for 2009, with growth turning positive in Q4

Thailand's Real GDP Growth, 2008-2009

	2008					Year	2009					2009
	Q1	Q2	Q3	Q4	Q1		Q2	Q3	Q4	Year(p)	Forecast in Dec08	
Consumption	2.3	1.6	1.7	3.2	2.2	1.3	1.7	1.2	1.6	1.4	2.9	
Private	2.7	2.5	2.7	2.2	2.5	-0.5	-0.5	0.0	1.0	0.0	2.0	
Public	-0.4	-3.7	-2.9	10.4	0.4	12.5	15.0	7.0	5.5	9.8	8.0	
Gross Fixed Capital Formation	5.4	1.9	0.6	-3.3	1.1	-4.7	-3.7	-1.4	1.6	-2.1	2.6	
Private	6.5	4.3	3.5	-1.3	3.2	-8.0	-7.0	-5.0	0.0	-5.0	2.2	
Public	1.9	-5.2	-5.5	-10.2	-4.8	6.5	7.0	7.0	7.5	7.0	4.0	
Change in Inventories	377.0	-123.0	241.4	65.4	1,063.6	-275.0	-200.0	-105.0	-55.0	-163.5	-30.0	
memo: nominal chg in inventories	17,464	-7,668	11,219	37,570	58,585	-30,562	-23,004	-561	16,907	-37,220	43,663	
Total Domestic Demand	5.9	1.2	3.6	3.1	3.4	-5.6	-1.5	-0.8	-0.7	-2.1	2.2	
Exports	8.9	11.9	11.2	-8.6	5.5	-19.5	-20.0	-16.0	0.2	-14.1	2.0	
Goods	8.3	13.2	12.6	-8.9	6.0	-21.5	-22.0	-18.0	-0.2	-15.9	3.2	
Services	11.1	5.6	4.9	-7.5	3.2	-12.0	-10.0	-6.0	2.0	-6.6	-3.0	
Imports	9.3	6.7	13.1	1.0	7.5	-25.1	-20.1	-16.5	-4.0	-16.4	2.3	
Goods	10.0	5.2	12.5	0.1	6.9	-30.0	-24.0	-20.0	-5.0	-19.8	2.8	
Services	6.9	13.7	16.2	4.5	10.0	-5.0	-3.0	-1.0	-0.5	-2.3	0.0	
Net Foreign Demand	7.4	33.6	4.5	-38.2	-1.1	-2.1	-19.5	-14.2	21.7	-5.7	1.2	
GDP	6.0	5.3	3.9	-4.3	2.6	-5.0	-4.5	-3.0	1.9	-2.7	2.0	

Source: NESDB & projections by World Bank



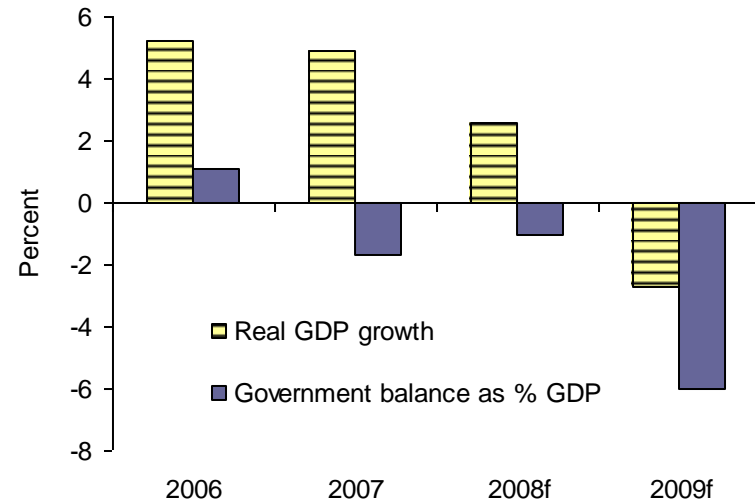
2. Analysis of Government measures to mitigate impact of economic slowdown



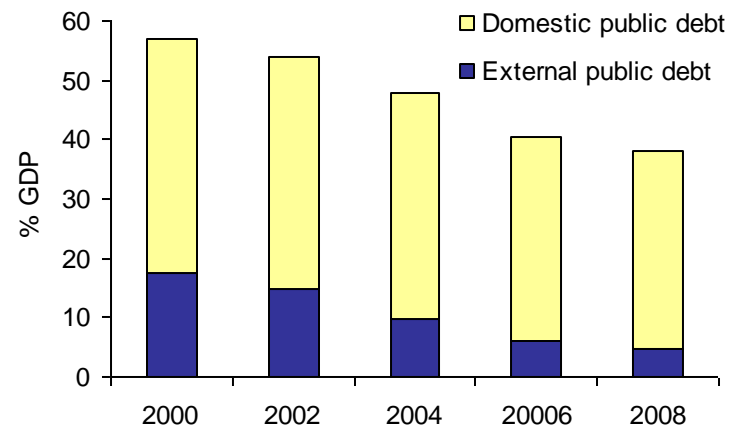
Fiscal policy has been countercyclical, and public debt level has been low

- ▲ **Fiscal policy has been countercyclical: expansionary over past couple of years**
- ▲ **Public debt has been managed prudently – there is fiscal space for fiscal stimulus (but not unlimited!)**
- ▼ **Weakening revenue streams will increase level of deficit: Revenue shortfall this year expect to be > Bt130 billion**
- ▼ **As a result, deficit rises to 6% of GDP in 2009**

Real GDP Growth & Government Fiscal Balance







Public Debt (% GDP)





Government has issued measures to stimulate consumption & assist low income households in short-run

- ▲ 1st stimulus package (Bt93billion or 1% GDP) and tax cut package (Bt40billion or 0.4% GDP) **are timely**
- ▲ If implemented by 2009Q2, potential boost of GDP by **0.5-1.7 percent** of GDP
- ▼ Transfers and tax cut measures have lower multiplier effect than infrastructure investment e.g. small public works programs
- ▼ Targeting to the poor and those in urban informal sector can be improved

4T's of Stimulus Package 1	
T imely	
T ransparent	
T emporary	
T argeted	

 = meets objective fully



A medium term investment plan is being proposed to stimulate growth & raise competitiveness

- ▲ Bt1.56 trillion from 2010-2012
- ▲ If fully disbursed, could increase public investment (from FY2008 levels) by
 - ▲ 0.2% of GDP in 2010 (= 5% increase from FY2008 levels)
 - ▲ 0.5% of GDP in 2011 (= 10% increase)
 - ▲ 1% of GDP in 2012 (= 20% increase!)
- ▲ If fully implemented, will stimulate growth and raise Thailand's competitiveness
- ▼ Ambitious plan with high risk of implementation delays → impact will be delayed
- ▼ Could also include job creation programs and community involvement

Public* Investment Plan (2010-2012)

Investment Plan	2010	2011	2012	Total
				2010-2012
Total (Billion Bt)	486.1	510.5	570.2	1,566.9
% of GDP	5.3	5.2	5.4	5.3
% of Total				
Budget	37.1	42.0	38.5	39.2
Loans	41.9	43.4	46.9	44.2
Income and others	21.0	14.7	14.7	16.6

Source: Economic Cabinet Meeting, 25 March 2009

* Central government and state-owned enterprises



Thailand's fiscal stimulus is not aggressive compared to those of other East Asian countries

Fiscal Stimulus in East Asian Countries

	Size		Tax and spending measures over time (percent of GDP)					
	Billions US\$	%2009 GDP	Q4 2008	2009	2010	2011	2012	2013
Singapore	13.6	8.0		5.2	2.6	0.1	0.1	0.1
Korea	53.1	6.8	1.1	4.0	1.3	0.4	0.0	
Malaysia	8.9	4.5		3.3	1.2			
China	173	3.5	0.4	1.4	1.8			
Thailand	5.8	3.4	0.3	1.4	0.2	0.5	1.0	
Indonesia	6.3	1.3		1.3				
Vietnam	1.0	1.0		1.0				
Philippines	1.5	0.8		0.8				

Source: EAP Update report (April 2009) & national sources

Government Fiscal Balance
in East Asian Countries (%)

	2006	2007	2008	2009f	GDP growth difference 2007 to 2009
China	-0.7	0.6	-0.4	-3.2	-6.5
Indonesia	-0.9	-1.3	-0.1	-2.5	-2.9
Malaysia	-3.3	-3.2	-5.2	-7.6	-7.3
Philippines	-1.4	-1.7	-1.2	-2.5	-4.7
Thailand	1.1	-1.7	-1.1	-5.9	-7.6
Korea	-1.3	3.8	1.2	-2.4	-9.0
Vietnam	2.1	-2.2	-1.6	-4.0	-3.0

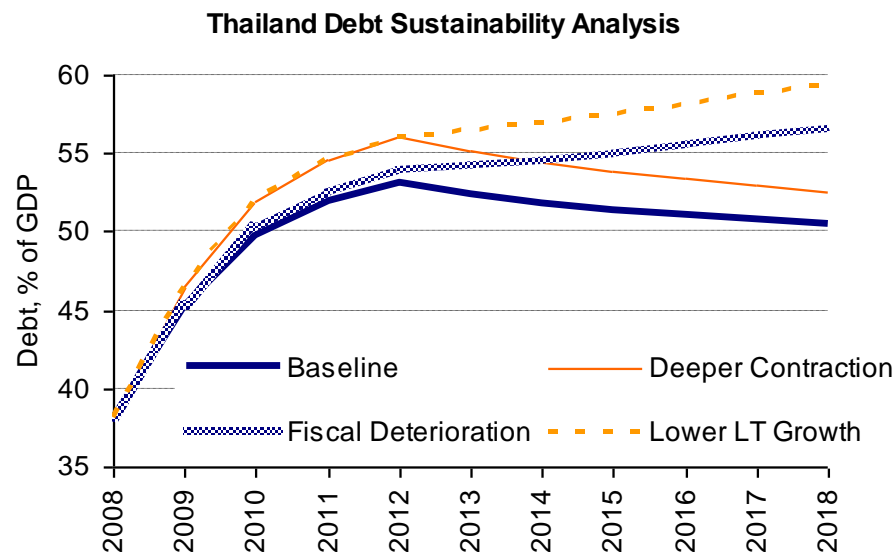
Source: EAP Update report (April 2009) & national sources

- The size of Thailand's fiscal stimulus is middling among East Asian peers.
- Government's deficit is appropriately counter-cyclical.



Thailand has fiscal space for stimulus

- **Greater fiscal stimulus (higher budget deficit) can be undertaken for a few years**
- **But for public debt to be manageable**
 - ✓ **Deficit must decline after a few years**
 - ✓ **GDP growth must recover**



Debt Sustainability Analysis Base Line Assumptions (% GDP)

	2008	2009	2010	2011	2012	2013	2014	2015
Revenues	16.4	15.5	15.5	16.5	17.2	17.2	17.2	17.2
Primary Expenditures	16.4	20.3	19.8	19.5	20.3	18.5	17.1	17.1
Primary balance	0.1	-4.8	-4.3	-3.0	-3.1	-1.3	0.1	0.1
Budget Balance	-1.1	-5.9	-5.5	-4.3	-4.3	-2.5	-1.0	-1.0
Gross Financing Needs	1.6	6.8	6.4	5.9	8.0	5.7	4.9	5.3
Total Public Debt	38.1	45.3	49.8	51.9	53.1	52.4	51.8	51.4
Nominal GDP (Billion Bt)	9,103	8,859	9,238	9,816	10,571	11,433	12,365	13,372
Real GDP Growth Rate (%)		-2.7	2.2	3.2	4.6	5.0	5.0	5.0



3. Can Thailand cope with a changed global economic landscape after this crisis?



The global economic landscape will be different after the crisis

- ▼ Consumption level in the world, formerly led by US, will decline
- ▼ Demand for Thai exports from developed countries will be lower
- ▼ Export competition will intensify
- ▲ Pressure for large developing countries e.g. China and India to increase domestic consumption
- ▲ Pressure for intra-regional trade to strengthen
- ▲▼ Liquidity to sharply rise with capital inflows – Baht appreciate
- ▼ Oil prices and inflation rise
- ▼ Interest rate rise



Thailand (all sectors) needs to

- Penetrate new markets (including intra-regional trade) -> need new products & services
- Increase competitiveness by upgrading to higher value-added products and services
- Improve investment climate
 - Skills and innovation
 - Infrastructure
 - Regulations
- Develop social protection system to mitigate impact of economic slowdown & promote consumption



SUMMARY

- **Real GDP growth will be -2.7% in 2009**, a sharper fall than forecasted in December 2008 mainly as the result of the trade impact of the global economic crisis
- **Financial impacts remain limited** given solid macroeconomic fundamentals (high reserves, reasonable fiscal stance), low external vulnerability (low external debt to reserves), and a sound financial sector
- **Government stimulus package and investment plan will help stimulate economy** in short and medium term, but targeting and timely disbursement can be improved
- **Government has the fiscal space** to accommodate the stimulus package and investment plan, but there will need to be fiscal consolidation in the medium term for debt to be sustainable
- Both government and private sector in **Thailand must prepare for a changed global economic landscape** which could be as soon as the next 2 years



THANK YOU

Full report of Thailand Economic Monitor
will be available at www.worldbank.or.th

****BACK-UP SLIDES****



Preliminary budget SP2

Unit : million baht

Program	2010	2011	2012	Total 2010-2012
1. Improve efficiency of water distribution system, small water reservoirs	70,068	77,192	83,385	230,645
2. Improve basic public services	355,722	365,107	419,188	1,140,016
2.1 Improve transportation system and logistics	179,756	227,963	268,532	676,251
2.2 Improve energy security and alternative energy	86,352	52,186	74,212	212,893
2.3 Modernize telecommunication network	15,952	8,422	3,880	28,254
2.4 Improve infrastructure to support tourist industry	1,836	4,703	3,698	10,237
2.5 Improve educational infrastructure	24,295	28,541	30,433	83,269
2.6 Improve public health infrastructure	31,139	31,113	27,362	89,614
2.7 Improve basic infrastructure to enhance people's welfare	2,762	6,604	5,788	15,154
2.8 Improve science and technological infrastructure	4,000	3,950	3,950	11,900
2.9 Improve natural resources and environmental infrastructure	9,686	1,680	1,245	12,611
3. Generate more income from tourism sector	4,368	1,751	517	6,637
4. Improve capacity building for creative economy	5,798	7,751	6,585	20,134
5. Enhance quality of education	19,056	19,832	21,257	60,145
6. Enhance quality of public health	1,130	3,930	4,230	9,290
7. Generate more income and increase standard of living for community and develop the southern bordering provinces	30,000	35,000	35,000	100,000
Total	486,142	510,562	570,163	1,566,867
Budget	180,259	214,337	219,259	613,855
loans	203,721	221,399	267,123	692,244
Income and others	102,162	74,826	83,781	260,768