

Development in Partnership

the World Bank's activities in Thailand and other news related to development

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World Bank Says Thai Economy to Grow 5% in 2008, But Warns that Significant Risks Remain

BANGKOK (April 2008) – The World Bank predicted that the Thai economy will grow 5% in 2008, slightly higher than the 4.6% growth it previously forecasted. However, the Bank also warned that the uncertain global environment stemming from the ongoing financial crisis in the U.S., coupled with rising oil and food prices, could still present a threat to Thailand's growth this year.

In the latest **Thailand Economic Monitor**, the World Bank's bi-annual review of the country's economic outlook, the Bank attributed its 5% growth projection to the expected recovery of domestic consumption and private investment. The economic stimulus measures recently introduced by the new government, which included tax cuts for business and individuals, as well as cheap loans or grants for the villages, and the revival of the large-scale mass transit projects are also expected to boost the economy this year.

But this does not mean that there are no risks for Thailand, said **Kirida Bhaopichitr**, the Bank's Country Economist in Bangkok. Export growth, which was the main driver of the Thai economy last year, may slow down in 2008, Kirida said. She predicted that export will grow 6.3% this year from 7.1% in 2007.

"The world economy is expected to slow down this year due to the continued increase in fuel and food prices, as well as the impact from the ongoing financial crisis in the U.S., which has led to a slowdown in demand for imports," she said. *"Because of that, we don't think Thai export is going to grow as fast as it did last year."*

Higher inflation also presents a major risk to economic growth in Thailand because it could dampen domestic



Public and private transportation services are hurt by high fuel prices

consumption, which otherwise is expected to recover from last year. As in many developing countries, food prices in Thailand have been on the rise. Meanwhile, private operators of public transport services have been seeking permission to increase fares, citing the high price of fuel. Recently, the government has also allowed sugar producers to increase retail prices, signaling that more price increases may soon follow.

The World Bank has warned developing countries in East Asia and Pacific Region that inflation will hurt their economies more than the U.S. financial crisis. In its latest **East Asia and Pacific Update**, the Bank said rising food prices is going to affect the poor of these countries disproportionately.

"So given the fact that the poor spend two-third of their income on food, many of the improvements on poverty we've seen in these (East Asian) countries (over the past decade) may be stalled or set back as a result of rising food prices," said **Vikram Nehru**, who directs the Poverty Reduction and Economic Management work of the World Bank in the East Asia and Pacific Region.

"It's very important that the authorities of these countries ensure that there are enough resources targeted to the poor....to help them get over this problem and make sure that there is no hunger or deprivation," he said.



Kirida Bhaopichitr, the World Bank Country Economist

As the Thai government addresses the short-term challenges stemming from higher food and oil prices, it should also look at long-term policies to promote greater productivity and competitiveness, Kirida suggested.

“To ensure that Thailand will be able to maintain strong growth in the face of intensifying global competition, Thailand needs to improve productivity especially in the services sector. Improving the investment climate and moving towards a knowledge economy would also ensure that both the quantity and quality of Thailand’s products are competitive in the world market.” she said.

The twice-yearly **Thailand Economic Monitor** reviews the state of the Thai economy. It contains information on the economic outlook, progress on key reforms, changes in the country's debt situation, progress on financial sector reforms, including banking sector reforms, and developments in corporate reforms and corporate restructuring.

To download the full report of the **Thailand Economic Monitor** and the **East Asia Pacific Update**, visit www.worldbank.or.th and www.worldbank.org/eap

Rising Food Prices: Policy Options and World Bank Response

The global food crisis has been dominating headline news for a few months now. Here are some quick explanation of policy options and the World Bank’s response to the crisis:

- The World Bank has been urging countries not to impose export bans as they drive up prices and hurt the poor. The Bank welcomes Ukraine’s decision to lift its export ban on grain and Thailand’s decision to maintain its rice exports.
- The World Bank is exploring the creation of a rapid financing facility for especially fragile, poor countries, those with little margin for survival and little access to finance.
- We are working with the UN to identify countries most in need so that, with others, we can provide concessional financing and other support where appropriate. We are working with the IMF and regional development banks to integrate our work.
- We will also double our lending for agriculture in Africa over roughly the next year to \$800 million to make sure that we address the need to boost supply.
- The World Bank estimates that high food prices may have already pushed some 100 million people into poverty over the last two years and that the doubling of food prices over three years could set back the fight against poverty by seven years.
- For more than 2 billion people, high food prices are now a matter of daily struggle, sacrifice, and even survival, with no apparent relief in sight.
- Rising food prices risk derailing recent gains in reducing malnutrition. Malnutrition threatens to sap not only this generation but the generation to come. Already hunger and malnutrition are the underlying causes of death of over 3.5 million children every year.
- In the past year, wheat has gone up by 120% and the cost of a loaf of bread has almost doubled. Rice has skyrocketed to near historic levels – rising about 75% globally ... so in Bangladesh, a 2kg bag of rice now costs about half the daily income of a poor family.
- This is not a temporary phenomenon – high food prices are expected to stay high in the medium term (stay above 2004 levels through to 2015).



Increasing food prices always hurt the poor disproportionately. The World Bank President Robert B. Zoellick has proposed the New Deal on Global Food Policy to help developing countries deal with the ongoing food crisis.

Action Is Being Taken in the Wake of the Spring Meetings

- Finance Ministers at the April 2008 World Bank-IMF Spring Meetings endorsed the plan to pursue a new deal on global food policy, proposed by World Bank President Robert B. Zoellick. The new deal will embrace a short, medium and long-term response: support for safety nets such as school feeding, food for work, and conditional cash transfer programs; increased agricultural production; a better understanding of the impact of biofuels; and action on the trade front to reduce distorting subsidies and trade barriers.
- As of April 29, the US has responded with \$200 million in emergency food aid to help deal with food shortages in developing countries in Africa and elsewhere. The UK has announced a \$910 million aid package including \$60 million for World Food Programme (WFP), \$50 million to boost incomes in the poorest countries and the balance for agricultural research and to help countries grow more food. The EU will give an additional \$185 million in food aid. Germany has increased its WFP contribution by \$15 million.
- The food crisis will be on the agenda of the G8 summit in Japan in July. Prime Minister Yasuo Fukuda has requested that the World Bank, the United Nations, and other international institutions coordinate closely to prepare joint action. The Bank fully supports Japan as chair of the G8.

Other Action Being Taken by the World Bank

- **In Africa**, making \$100 million available in Burundi, Burkina Faso, Madagascar, Ghana, Mali, Niger, and Cote-d'Ivoire through additional financing and restructuring of existing operations, while countries survey their needs for further support.
- **In Haiti**, providing \$10 million to cover the provision of food for poor children and other vulnerable groups in Haiti. Working with the government and its partners to put the emergency assistance in place.
- **In Bangladesh**, preparing assistance of \$320 million from our fund for the world's poorest countries – IDA – to fill the fiscal gap created by high food and oil prices.
- Some governments are providing emergency food aid distribution or expanding targeted safety nets such as cash transfer programs to vulnerable groups (countries like Brazil, China, Ethiopia, Indonesia, Mexico and South Africa already have them in place).

For more information, visit www.worldbank.org

Thai Companies Receive Montreal Protocol Awards for Ozone Protection

Thai companies have won an award under the Montreal Protocol for the contribution they have made to the protection of the ozone layer, which has in turn helped Thailand save on energy bills and reduce carbon emissions.

These companies are the **Erawan Group; Venus Thread Co. Ltd.; Vibhavadee Rangsit Hotel Co. Ltd.**, which manages the Rama Gardens Hotel; **Toshiba Semiconductor (Thailand) Co. Ltd.; Thai CRT Co. Ltd.; Jong Stit Co. Ltd.; Euromill Hotel Co. Ltd.**, which manages the Novotel Bangna Hotel; and **Kulthorn Kirby Compressor PCL.**

The first seven companies have won the Montreal Protocol Exemplary Project Recognition by their participation in the Thai Building Chiller Replacement Project, in which they replaced their old building chillers using Chlorofluorocarbons (CFCs) with energy-efficient, non-CFC chillers. Kulthorn Kirby has won the award for taking the bold step to convert its production of compressors

to use non-ozone depleting technology, which has transformed the compressor industry in Thailand.

CFCs were the original chemicals used in refrigerators, cooling systems, and bottled foam spray, among other things. CFCs were found to be ozone-depleting substances and became regulated by the Montreal Protocol, the international agreement established in 1987 to phase out the consumption of substances that cause the ozone, earth's protective shield, to deplete. More than 180 countries have ratified the Protocol, including Thailand, which joined in 1989.

The Montreal Protocol Exemplary Project Recognition was given to 31 projects in Africa, Latin America, East and South Asia, and Europe to mark the Protocol's 20th anniversary. All of these projects were funded by the Multilateral Fund, the financing facility set up to help developing countries acquire the needed capital to meet their obligations under the Montreal Protocol.

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Permanent-Secretary of the Ministry of Natural Resources and Environment, Dr. Saksit Trideth (3rd from right), and the Director of the Treaty and International Strategies Bureau, Khun Soodsakorn Puttho (center), in a photograph with the Montreal Protocol Recognition winners. They are Khun Thawatchai Chongsuphong (far left) of the Erawan Group PCL, Khun Sumeth Simakulthorn (2nd left) of Kulthorn Kirby PCL, Khun Thana Hattakijkosol (3rd left), of the Rama Gardens Hotel, and Mr. Noboru Yamamoto (2nd right) of Toshiba Semi-Conductor (Thailand) Co. Ltd. At far right is the World Bank Country Director for Thailand, Mr. Ian Porter.

The Thai Building Chiller Replacement Project , implemented during 2001-2005, received \$2.5 million in interest-free loans from the Multilateral Fund and a \$2.5 million grant from the Global Environment Facility (GEF). The money was channeled through the Industrial Finance Corporation of Thailand (IFCT), which has since merged with the Thai Military Bank PCL. The Department of Industrial Works was the main government agency supervising this project.

A second project supported the conversion of compressor manufacture at Kulthorn Kirby. Under this project, the company received \$1.3 million support from the Multilateral Fund and benefited from technical cooperation of several agencies, including United Nations Environment Program and the Japan Electrical Manufacturers Association.

Since 1997, Kulthorn Kirby has manufactured more than a million non-CFC compressors for domestic consumption and export. Because the company commands more than 50% of the Thai market share and 35% of the total production for export, the conversion of its production line has opened up the Thai compressor market to non-CFC technology, thus transforming the industry completely. This also made Thailand the first developing country to have phased out the manufacture of CFC-using refrigerators.

Without the Montreal Protocol, levels of ozone depleting substances in the atmosphere would have increased tenfold by 2050, which could have led to up to 20 million

more cases of skin cancer and 130 million more cases of eye cataracts relative to 1980.

Under the Montreal Protocol, which went into force in 1987, ozone depleting chemicals are being successfully phased out worldwide with assistance from the Montreal Protocol's Multilateral Fund. Ozone chemicals like CFCs and halon have been phased out in developed countries by 1996 except for small essential uses. According to the United Nations Environment Program, production of ozone depleting substances will be – by 2010 – banned in developing countries, including countries in Asia and the Pacific, a region that accounts for 70 per cent of global consumption of CFC.

To date, the Multilateral Fund has provided financial support to more than 5,500 ozone-protecting projects in 144 countries. The implementation of these projects will result in the phase-out of the consumption of more than 235,546 ODP tons and the production of about 173,616 tons of ozone depleting substances. Of this total, about 215,462 ODP tons of consumption and 158,737 of production have already been phased out from projects approved as of December 2006, according to UNEP.

For more information on the Montreal Protocol, visit <http://ozone.unep.org>

For information about the Thai Building Chiller Replacement Project, visit www.worldbank.or.th and click "Projects and Operations"



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