

**Launch of**  
**Thailand**  
**Economic Monitor**  
**November 2007**

**15 November 2007**  
**The World Bank Office, Bangkok**

# Real GDP Growth in 2007 will be around 4.3%, lowest since 2002

...as domestic demand remained slumped

- Lower consumer confidence, real wages, & farm income growth support **household consumption growth** less than last year, though lower inflation & int. rate
- **Private investment** growth slows down as investors' sentiments fall, supply side constraints remains, oil price remains high, slow domestic demand growth, & lower export growth
- **Public investments** disbursed below target and government's investment budget only grew 4.5%
- **Export growth** affected by slow down of key trading partners' GDP growth, lower agriculture price increase & real ER appreciation. Services growth affected by lower growth in tourism receipts
- **Imports** speed up slightly esp. from raw materials for stock building

## Real GDP Growth (1988 Prices)

(Percent)

	2006	2007		2007p	2007p
	Year	H1	Proj H2p	Nov 07 Year	April 07 Year
<b>Total Consumption</b>	3.2	2.2	3.3	2.7	4.1
Private C	3.1	1.1	1.8	1.4	3.5
Gov C	3.4	9.2	12.0	10.6	8.0
<b>Gross fixed capital formation</b>	4.0	-0.6	2.6	1.0	4.1
Private Investment	3.9	-1.5	1.2	-0.2	4.0
Public Investment	4.5	2.2	6.5	4.5	4.2
<b>Change in Inventories</b>	-155.1	-64.3	-50.0	-55.0	60.0
<b>Total Domestic Demand</b>	0.3	0.9	2.4	1.7	4.8
<b>Exports</b>	8.5	6.8	6.2	6.5	5.9
Goods	9.0	8.2	6.0	7.0	6.0
Services	6.7	1.1	7.0	4.0	5.5
<b>Imports</b>	1.6	2.0	3.1	2.5	5.9
Goods	-0.8	1.6	3.3	2.4	5.0
Services	14.3	3.8	2.0	2.9	10.0
<b>Net Foreign Demand</b>	46.7	28.4	16.4	21.5	6.0
<b>GDP</b>	5.0	4.3	4.3	4.3	4.3

# Real GDP Growth in 2008 will be ~ 4.6%, but many uncertainties remain

External and domestic environment not quite supportive to growth

## Global Economic Forecasts

(yearly percent change except for interest rates  
and oil price in \$/bbl)

- **Oil price rises**
- **Deceleration in trade volume growth and key trading partners' GDP growth**
- **Real exchange rate remains appreciated**
- **Export prices, esp. agriculture, not as robust as this year**
- **Inflation will be around 3% (~2.2% in 2007)**
- **Real interest rate similar or slightly lower than this year's**
- **Machinery import price (MUV) rise much slower than this year**
- **Elections take place & new govt formed by February 2008 → Policy uncertainties clear up**

	2005	2006e	2007f	2008f
GDP Growth				
World	3.4	3.9	3.5	3.4
World (PPP Weights)	4.8	5.3	5.2	5.0
<b>High Income</b>	<b>2.6</b>	<b>2.9</b>	<b>2.4</b>	<b>2.3</b>
OECD countries	2.4	2.8	2.3	2.1
Euro Area	1.5	2.8	2.5	2.1
Japan	1.9	2.2	2.0	1.8
United States	3.1	2.9	1.9	2.0
Non-OECD countries	5.8	5.6	5.1	4.8
<b>Developing countries</b>	<b>6.8</b>	<b>7.5</b>	<b>7.4</b>	<b>7.1</b>
World Trade Volume	7.8	10.1	9.1	7.6
CPI Inflation				
G-7 countries a/ b/	2.0	2.0	1.7	1.7
Non-oil Commodity Prices	13.4	24.7	13.0	-3.1
Oil Price (US\$ per barrel) c/	53.4	64.3	68.0	72.4
- % change	41.5	20.4	5.7	6.6
Manufactures unit export value d/	0.0	1.6	2.3	0.8

Source: World Bank

# Growth in 2008 could be fragile

- Lower int. rate help and higher consumer confidence improve **household consumption** growth, **BUT** lower farm income growth (as crop prices projected to decline) and incomes from labor intensive industries may decline
- Public investments** speed up with higher investment budget, **BUT** new gov't may delay decisions
- Private investment** growth speeds up from very low base as investors' sentiments pick up & real interest rate low, **BUT** supply side constraints remains, oil price remains high and domestic consumption & export growths are uncertain
- Export growth** slows as world trade volume growth slows while exchange rate remains appreciated & export prices in US\$ not as robust as this year. Services growth benefit from higher tourism receipts.
- Imports** of capital goods and raw materials speed up after a contraction last year to respond to private investment growth and for stock building

## Real GDP Growth (1988 Prices)

(Percent)

	Share of 2006 GDP	2005	2006	2007p	2008p
<b>Total Consumption</b>	<b>62.6</b>	<b>5.5</b>	<b>3.2</b>	<b>2.7</b>	<b>3.8</b>
Private C	53.6	4.3	3.1	1.4	4.0
Gov C	9.0	13.7	3.4	10.6	3.0
<b>Gross fixed capital formation</b>	<b>23.3</b>	<b>11.1</b>	<b>4.0</b>	<b>1.0</b>	<b>9.5</b>
Private Investment	17.4	10.9	3.9	-0.2	10.0
Public Investment	5.9	11.3	4.5	4.5	8.0
<b>Change in Inventories</b>	<b>-0.9</b>	<b>29.4</b>	<b>-155.1</b>	<b>-55.0</b>	<b>77.0</b>
<b>Total Domestic Demand</b>	<b>85.0</b>	<b>7.3</b>	<b>0.3</b>	<b>1.7</b>	<b>6.7</b>
<b>Exports</b>	<b>68.7</b>	<b>4.3</b>	<b>8.5</b>	<b>6.5</b>	<b>7.2</b>
Goods	56.0	4.3	9.0	7.0	6.6
Services	12.7	4.3	6.7	4.0	10.0
<b>Imports</b>	<b>54.3</b>	<b>9.3</b>	<b>1.6</b>	<b>2.5</b>	<b>10.5</b>
Goods	44.6	8.8	-0.8	2.4	10.5
Services	9.7	12.1	14.3	2.9	10.5
<b>Net Foreign Demand</b>	<b>14.4</b>	<b>-16.5</b>	<b>46.7</b>	<b>21.5</b>	<b>-3.3</b>
<b>GDP</b>	<b>100.0</b>	<b>4.5</b>	<b>5.0</b>	<b>4.3</b>	<b>4.6</b>

# The baht appreciation has so far affected a limited number of exporting industries

...as it affected low-import content exports more than high-tech exports

**Change in Annual Real Effective Exchange Rate (REER)**  
**In Selected East Asia Countries**  
(Percent)

	2005 to 2006	2006H1 to 2007H1	2005 to 2007H1
Thailand	8.9	8.6	17.5
Philippines	11.1	8.4	19.5
Indonesia	17.1	2.3	19.4
Malaysia	4	4.5	8.5
China	2.1	3.9	6.0
Singapore	2.4	1.2	3.6
India	-1.3	4.8	3.5
Hong Kong	-0.9	-4.8	-5.7

**Exports of selected low-import content products**  
(Percent)

	Share of Exports 9M2007	2005 9M	2006 9M	2007 9M
<b>Total exports</b>	<b>100.0</b>	<b>16.27</b>	<b>16.01</b>	<b>16.07</b>
<i>of which</i>				
Garment	2.0	2.74	2.45	-6.47
Canned fruits	0.3	6.46	16.75	-21.11
Furniture and Furnishing Items	0.8	5.63	-1.98	-7.90

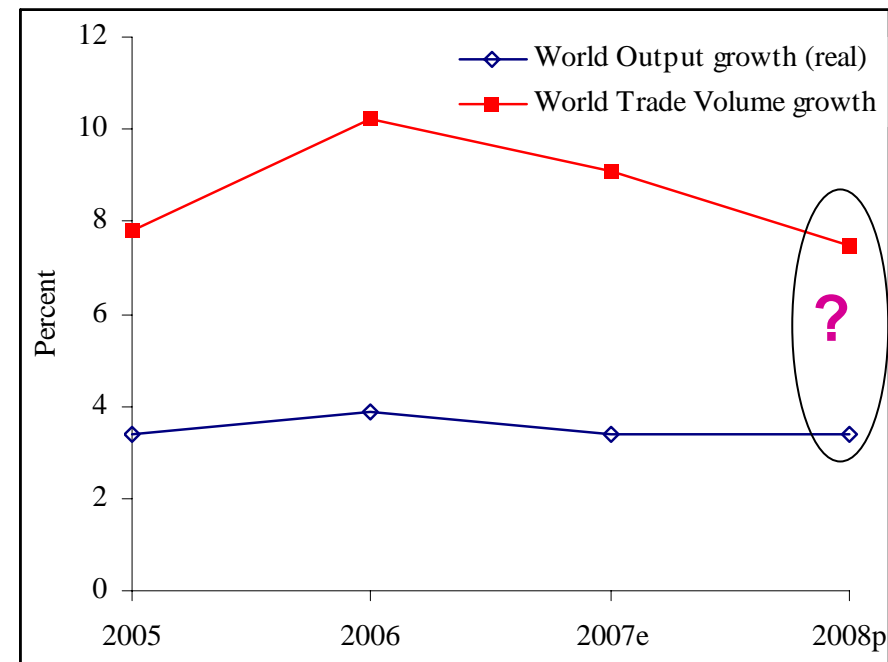
Source: IFS

Note: Positive numbers indicate appreciation

# But export growth next year is expected to be slower than this year's as key trading partners' GDP growth slow down

- Trading partners' growths, especially the US, which is Thailand's major market is still uncertain
- Baht will remain appreciated as dollar weakens and balance of payments surplus remains high
- Exporters will not benefit from back orders as they did this year & may prefer to sell locally if domestic demand rises

World Output and Trade Volume Growth



Source: World Bank

# Current account will continue to be in surplus next year, although declining

## Current Account Balance

(Millions of USD)

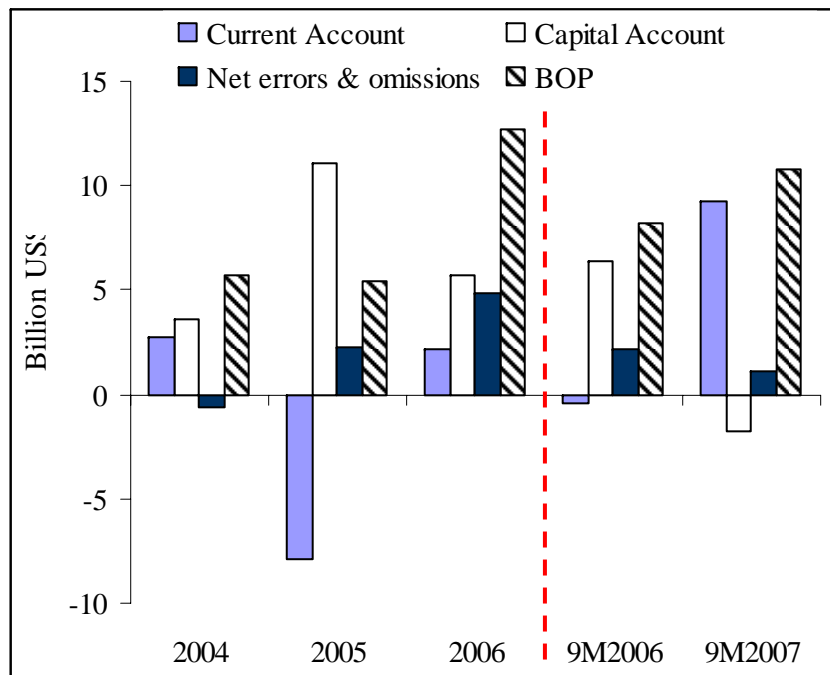
	2006p	2007p	2008p
<b>Exports of Goods</b>	<b>128,220</b>	<b>146,812</b>	<b>161,493</b>
(% change)	17.4	14.5	10.0
<b>Imports of Goods</b>	<b>-125,975</b>	<b>-136,053</b>	<b>-156,461</b>
(% change)	7.0	8.0	15.0
<b>Trade Account</b>	<b>2,245</b>	<b>10,759</b>	<b>5,032</b>
as % GDP	1.1	4.5	2.0
<b>Net services income &amp; transfers</b>	<b>996</b>	<b>1,046</b>	<b>676</b>
(% change)	47.0	5.0	-35.3
Receipts	32,073	33,676	37,549
(% change)	19.6	5.0	11.5
Payments	-31,077	-32,631	-36,873
(% change)	18.9	5.0	13.0
<b>Current Account</b>	<b>3,240</b>	<b>11,804</b>	<b>5,708</b>
as % GDP	1.6	4.9	2.2

Source: BOT for 2006 and WB projections for 2007 & 2008

# BOP surplus last year came mainly from FDI but this year from current account surplus

...adding pressure to the Baht to appreciate

**Balance of Payments**



Source: BOT

**Net Flows of Capital**

(Million US\$)

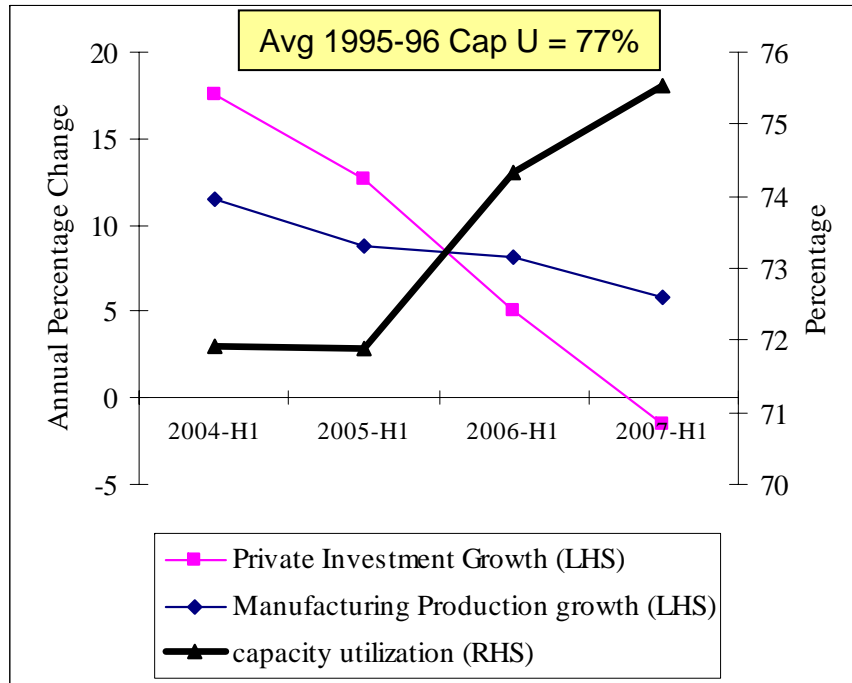
	2005	2006	8M2007
<b>Monetary authorities</b>	225	416	-661
<b>Government</b>	-952	-567	-2,006
<b>Bank</b>	222	-7,409	-6,886
<b>Other sectors</b>	11,591	13,279	6,998
Non-bank	9,340	13,616	7,374
FDI	6,503	10,031	5,433
Portfolio	1,876	1,642	3,072
<i>of which</i>			
Equities	1,614	2,353	3,288
Debt securities	262	-711	-216
Foreign Loans	-1,308	2,867	-91
Others	2,269	-925	-1,039
State enterprises	2,251	-337	-376
<b>Total capital flow</b>	<b>11,085</b>	<b>5,719</b>	<b>-2,554</b>

Source: BOT

# The need to increase private investment and its *quality* is urgent!

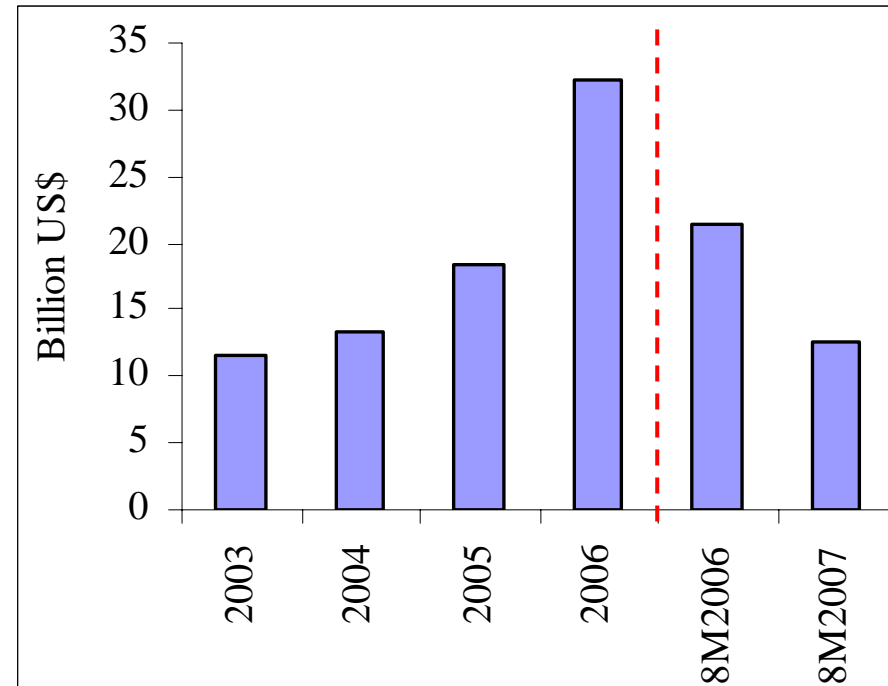
Productive private investments helps alleviate supply constraints and increase competitiveness (especially needed as the baht appreciates)

**Private Investment Growth, Manufacturing Production Growth and Capacity Utilization**



Source: BOT and NESDB

**Gross FDI Inflows 2002-2007**

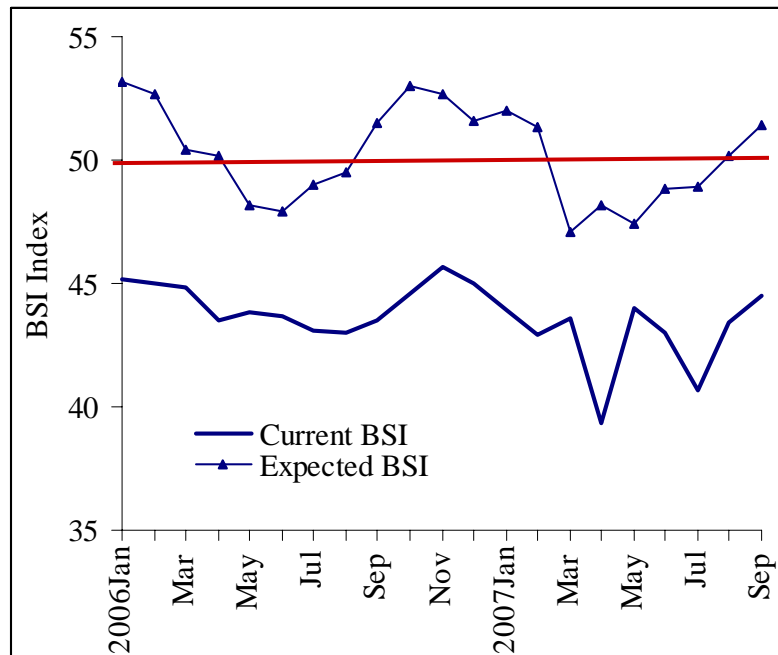


Source: BOT

**Private investment contracted for the first time since crisis**

# Investor sentiments have started to recover, and investments could increase next year **IF** policy uncertainty eases

**Business Sentiment Index (BSI)**



Index = 50 indicates that business sentiment remains stable  
 Index > 50 indicates that business sentiment has improved.  
 Index < 50 indicates that business sentiment has worsened.

Source: BOT

**BOI Approvals by Sectors**

(Billion Bt)

	9M2004	9M2005	9M2006	9M2007
<b>Total</b>	<b>322.4</b>	<b>427.9</b>	<b>269.0</b>	<b>536.6</b>
Agriculture	41.3	23.2	22.6	48.6
Mining, ceramics and base metal	8.2	103.1	2.6	42.9
Light industry	12.4	9.7	9.3	13.8
Metal products, machinery and transport equipment	53.5	121.8	35.8	50.8
Electronics and electrical appliance	75.7	58.3	48.0	93.5
Chemical, paper and plastic	71.9	28.9	106.9	142.8
Services and infrastructure	59.4	83.0	43.7	144.2
<b>Applications approved for foreign firms and joint ventures</b>	<b>220.4</b>	<b>245.3</b>	<b>212.6</b>	<b>346.1</b>

Source: BOI

## **Actions that have helped raised investor confidence and will help promote future growth**

- ✓ **Signing of Japan-Thailand FTA**
- ✓ **Announcement of election date**
- ✓ **Promote reforms to the energy sector e.g. renewable energy, price structure, independent regulatory body**
- ✓ **Cabinet approvals for amendments financial sector laws – BOT Act, Currency Act, Securitization Act, Deposit Insurance Act, Insurance Act, Privatization and Corporatization Act**
- ✓ **Continue governance reforms e.g. on procurement**
- ✓ **Initiate productivity improvements in manufacturing (National Productivity Master Plan)**
- ✓ **Higher Education Development Plan (2007-2021) aimed at reforming the higher education so as to increase access and skills needed for Thailand to move towards a knowledge economy**

# **Next Government should build upon the foundation laid by the current government**

- Invest in mega-projects**
- Reduce policy uncertainties**
- Clarification of Foreign Business Act amendment**
- Further relaxations of 30% URR**
- Mitigate the impact of the baht appreciation on affected industries**
- Improve investment climate by reducing regulatory burden – can be done quickly but will yield large gains**
- Liberalize some services industries to raise their productivity**
- Develop people's skills that would help move Thailand towards a knowledge economy**

# These actions cannot wait as other countries are quickly making progress

## Knowledge Economy Index\* (1-10)

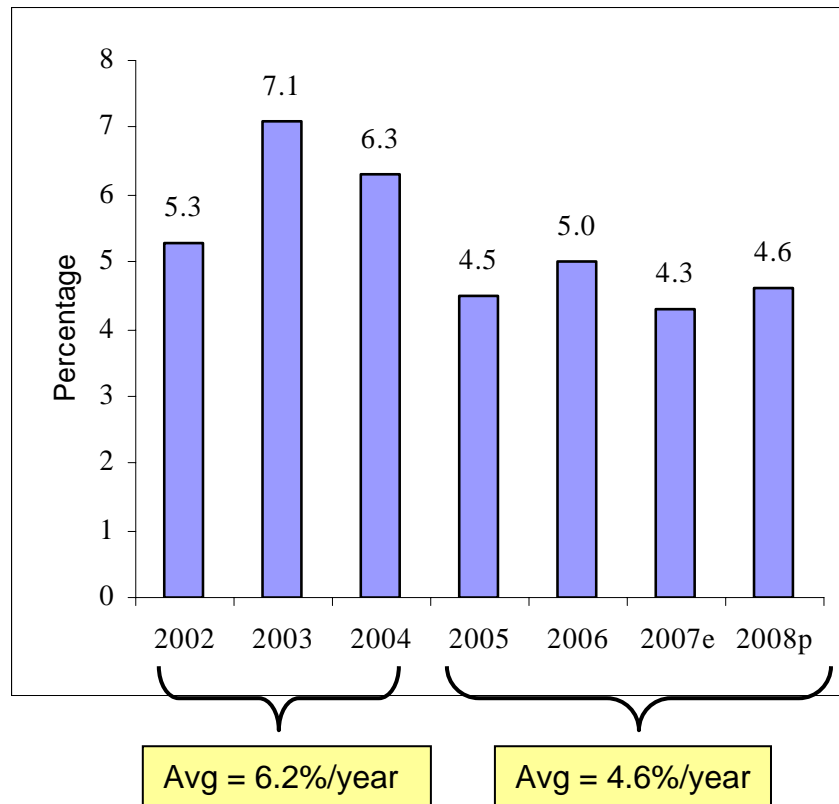
Rank	Change in Rank from 1995	Country	Knowledge Economy Index
<b>2007</b>			
1	+ 8	Sweden	9.3
40	+ 13	Malaysia	6.2
<b>56</b>	<b>- 8</b>	<b>Thailand</b>	<b>5.4</b>
75	+ 29	China	4.4
97	+ 12	Vietnam	3.1
<b>1995</b>			
9		Sweden	9.2
<b>48</b>		<b>Thailand</b>	<b>5.7</b>
53		Malaysia	4.9
104		China	2.6
109		Vietnam	2.2

Source: World Bank

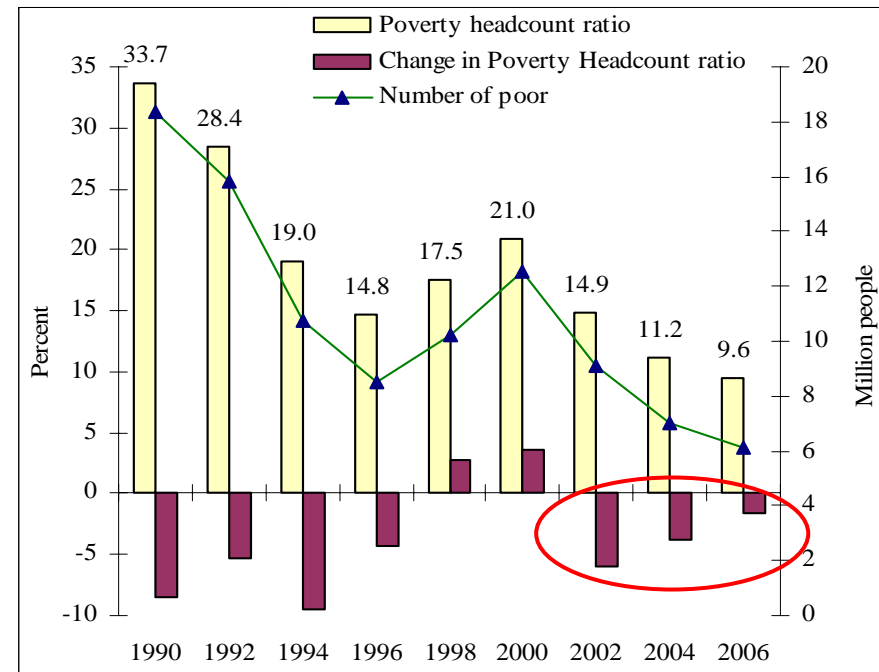
\* KEI is a simple average of 4 sub-indexes which represents the 4 pillars of the knowledge economy: (1) economic incentive and institutional regime, (2) education and training, (3) innovation and technological adoption, and (4) information and communications technologies (ICT) infrastructure.

# Slower growth affects poverty reduction

**Real GDP Growth,  
2002-2008**



**Poverty Headcount Ratio and  
Number of poor people, 1990-2006**



Note: 2006 National Poverty Line is 1,386 Baht/head/month

Source: NESDB

# Key Messages

- **Real GDP growth this year (4.3%) and next (4.6%)**
- **But growth next year has its downside risk because of domestic and global uncertainties**
- **The baht will continue to strengthen as large BOP surplus is expected**
- **Productivity improvements are needed for Thailand to remain competitive, grow and reduce poverty**
- **Private investment prospects are good but next Government must revive investor confidence by reducing policy uncertainty, investing in infrastructure, and improving the investment environment**

# Thank You

**Thailand Economic Monitor  
and EAP Update Report  
can be down loaded at**

**[www.worldbank.or.th](http://www.worldbank.or.th)**