



World Bank

## Thailand Economic Monitor November 2009

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**Press Launch**

November 4, 2009



### The Thai economy is rebounding from a rocky first half of 2009, but the medium-term outlook is uncertain.

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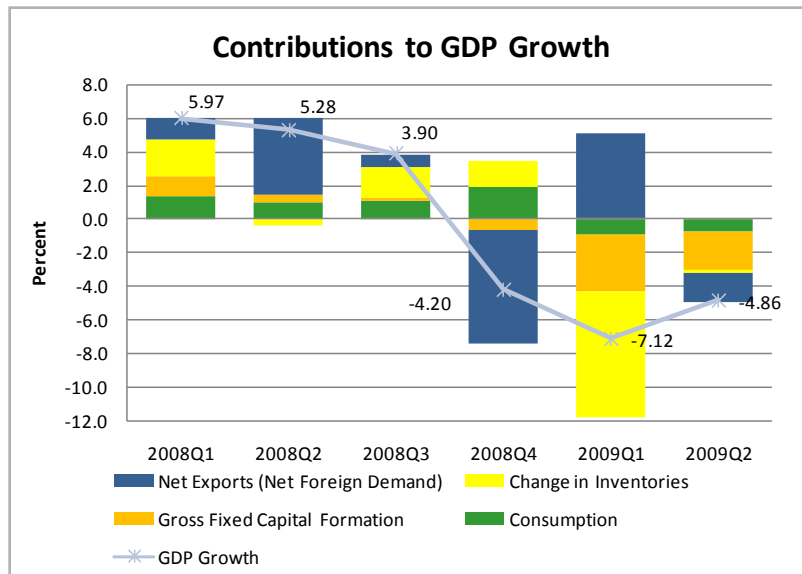
- **The Thai economy is doing better than most people feared...**
  - We maintain our forecast of a 2.7 percent contraction – implying a quick rebound in the second half
- **... but that doesn't mean it is out of the woods yet.**
  - It will take at least another 2-3 years for Thailand to return to its potential growth
- **So what does Thailand need to do to find its way back into sustainable growth?**
  - Increase returns to private investment by building human capital and maintaining political stability
  - Rebalance the economy by removing constraints from domestic demand and promote greater equity



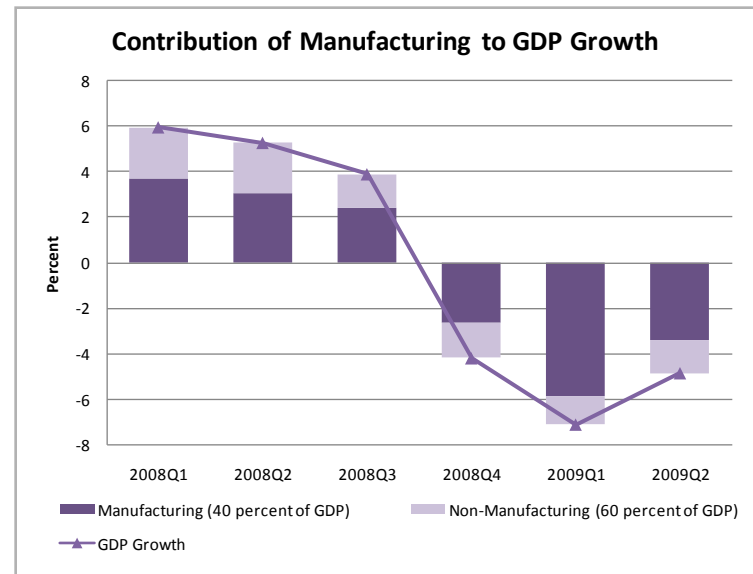
# 1. near term – economy is doing better than what most people feared earlier this year

## Manufacturing production has led the Thai economy in 2009 – first down and now up.

- **A contraction in manufacturing-for-exports drove the large headline GDP contractions**
  - Q4 2008: Orders cut in G3 → export orders decline → supply chains in manufacturing switch off → but not quickly enough to avoid accumulating unsold goods and unused inputs in inventories
  - Q1 2009: Fiscal/monetary stimulus in G3 and China begins to be felt → export orders higher → inventories depleted → supply chains start to be switched back on
  - Pick-up in production slower than contraction in line with the slow recovery in demand and some difficulties of firms in expanding production



Source: NESDB and World Bank calculations



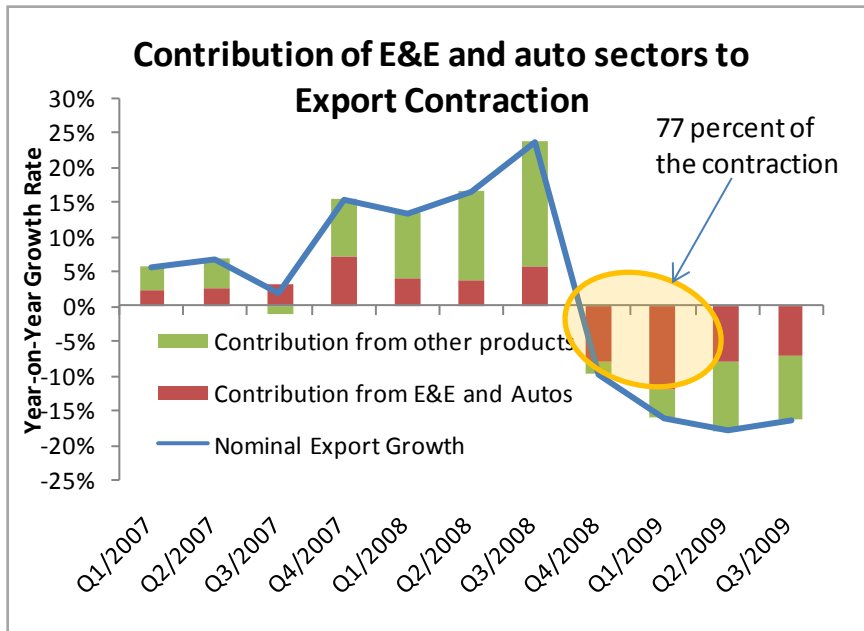
Source: NESDB and World Bank calculations



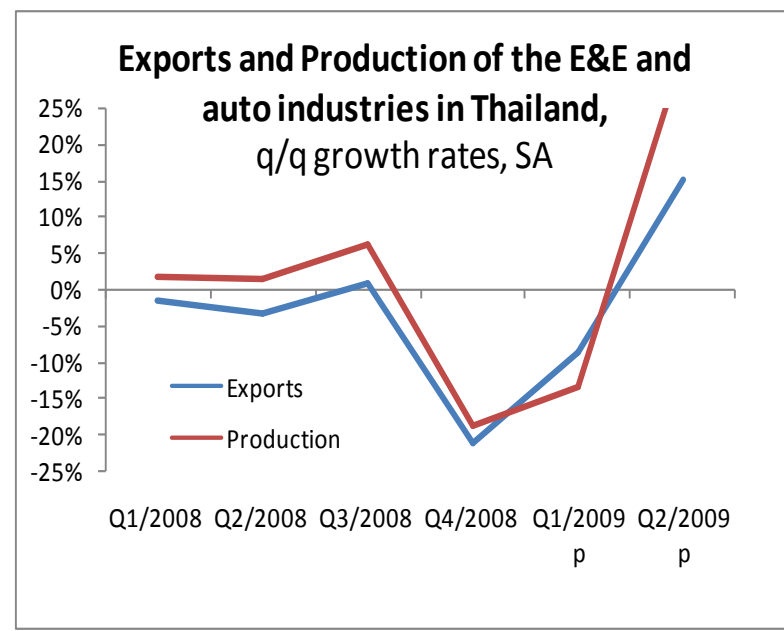
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## Supply chains played an important role in the crisis and rebound.

- **Why are supply chains important to understand the crisis?**
  - **E&E and auto sectors** are two of the largest manufacturing sub-sectors in Thailand
    - characterized by both regional and domestic supply chains in Thailand
    - responsible for 83% of export decline in 2008Q4
    - able to switch on and off quickly: short lead times in production thanks to increased use of IT and local suppliers



Source: Bank of Thailand and World Bank calculations



Source: Bank of Thailand and World Bank calculations



1. near term – economy is doing better than what most people feared earlier this year

The number of tourists has picked up from its lows, but room prices had been declining until recently.



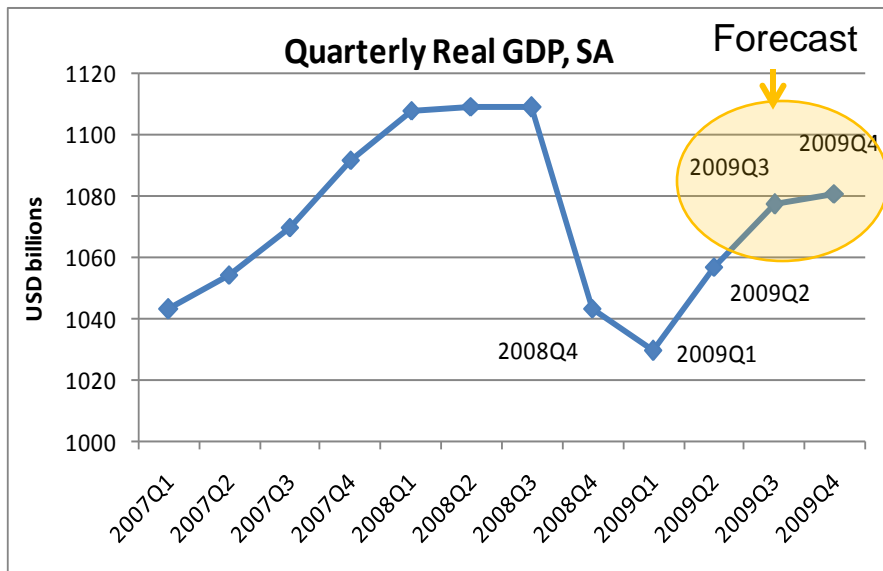
Source: Bank of Thailand and World Bank calculations



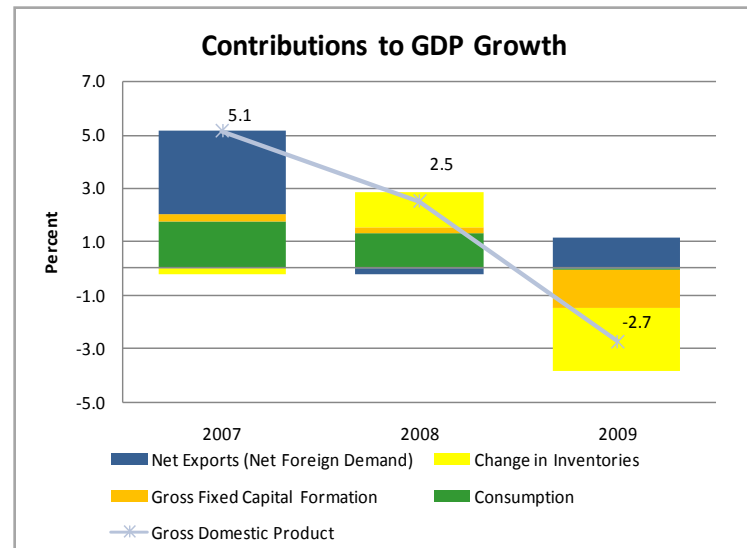
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**Result of all the bouncing: steep decline in the first half, strong rebound in the second half – overall GDP growth forecast remains at -2.7%.**

- **Negative growth in 2009 is driven by the adjustment in manufacturing output to a lower level of global demand**
  - This translates into a reduction in inventories, exports and imports
  - Negative multiplier effect on household consumption and private investment
  - Because private investment and inventories are reduced, imports decline by more than exports and external demand has a positive contribution to growth
  - Public consumption and investment contribute about 1-percentage point to growth (1.4 percentage points in Q3&Q4)



Source: NESDB and World Bank



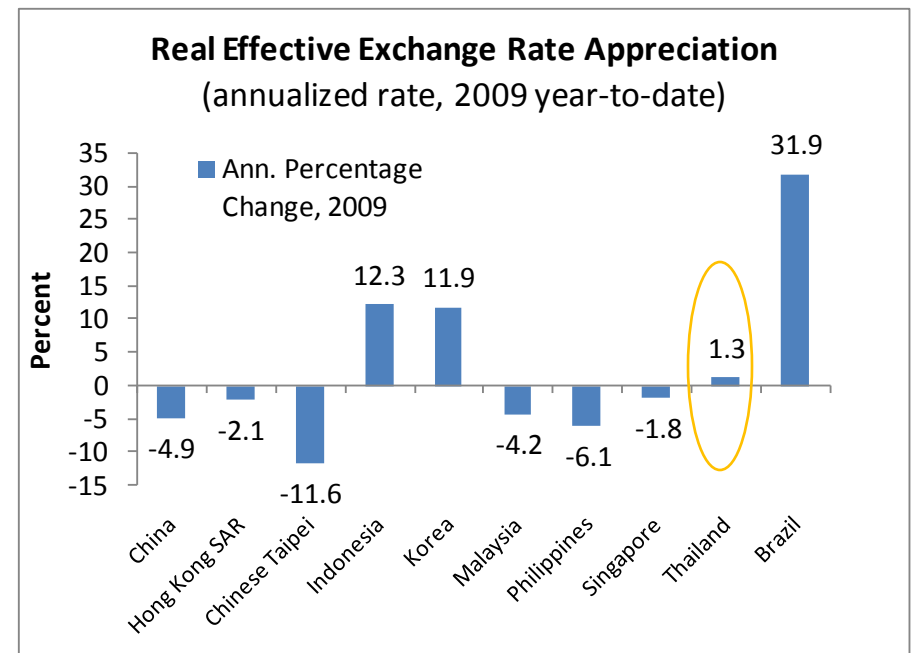
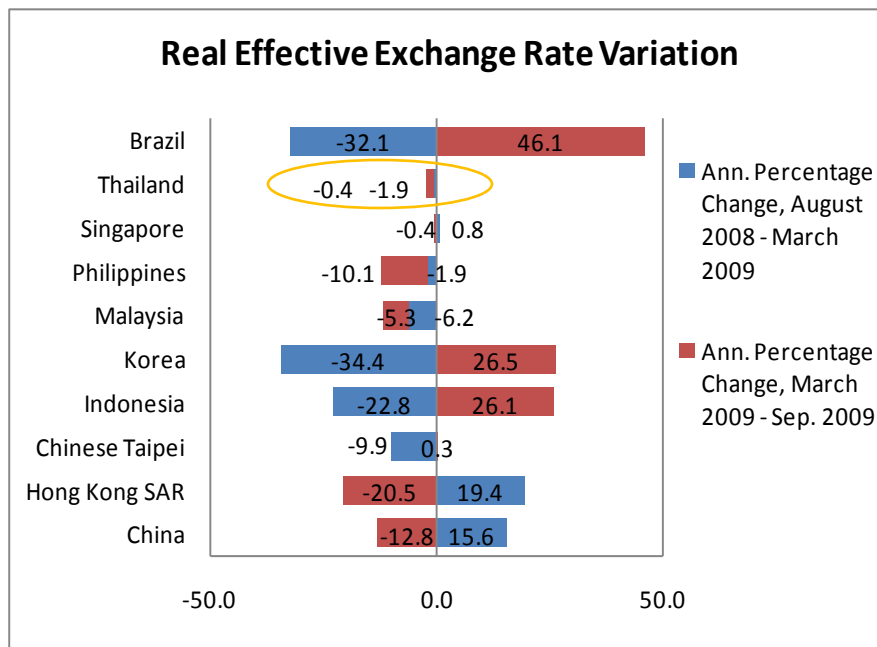
Source: NESDB and World Bank



# 1. near term – economy is doing better than what most people feared earlier this year

The baht has appreciated only modestly in 2009, and remains in line with East Asia's currencies.

- In 2009, Asian exchange rates have continued to weaken modestly (Malaysia, Philippines, Singapore), remained fixed against USD (China, Hong Kong) or recovered from large depreciations following the crisis (Korea, Indonesia).
- Contrast with Brazil, where the real exchange rate has already appreciated by 14 percentage points more than the post-crisis depreciation

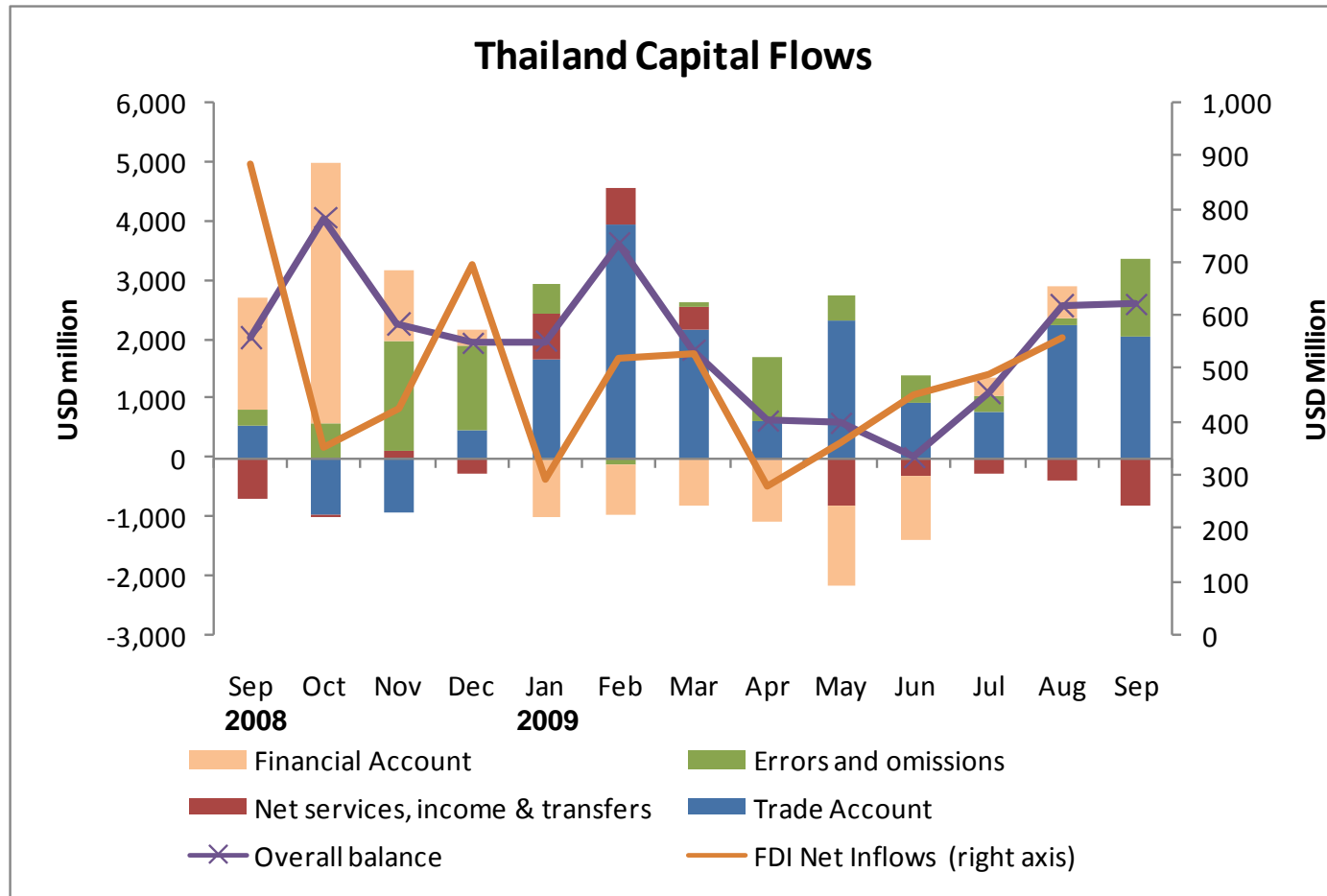


Source: Bank for International Settlements and World Bank calculations



# 1. near term – economy is doing better than what most people feared earlier this year

Pressures to appreciate are coming from high capital inflows in 2009, especially from the trade account.



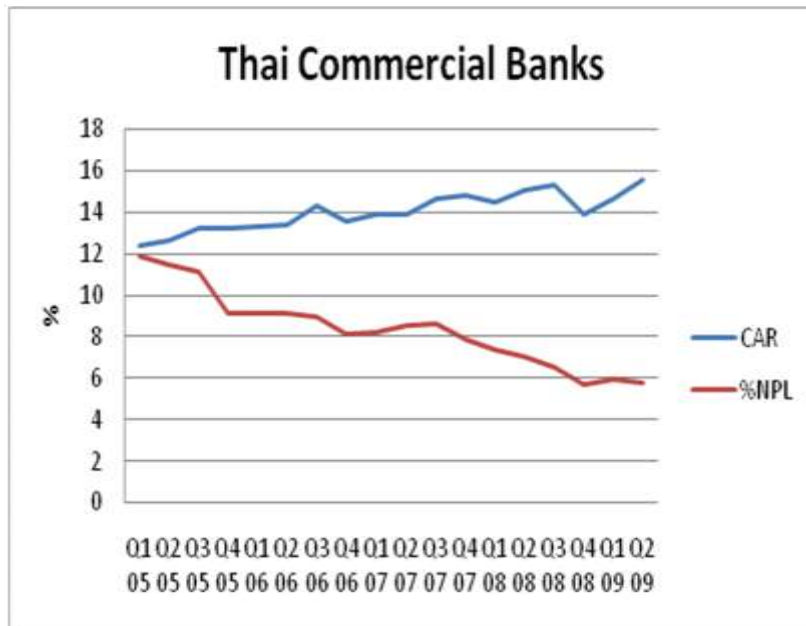
Source: Bank of Thailand



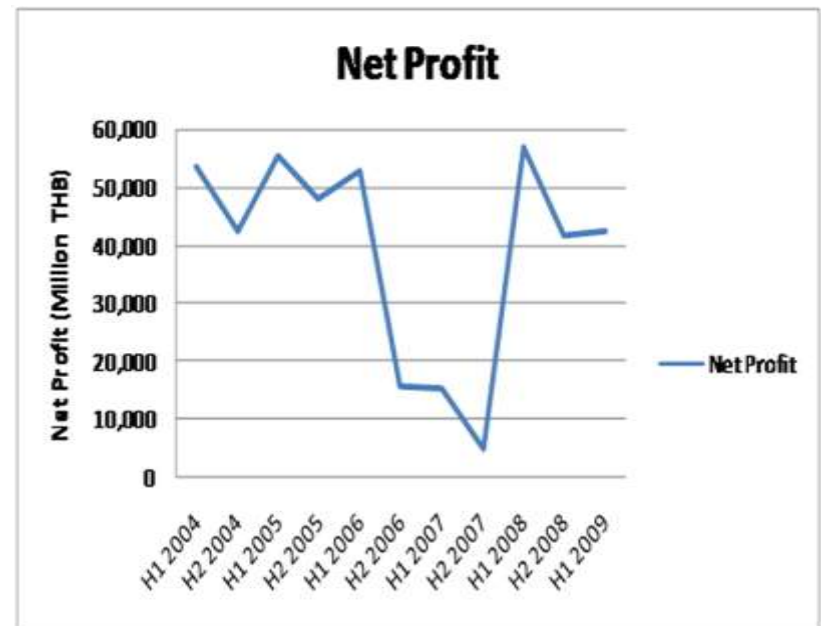
# 1. near term – economy is doing better than what most people feared earlier this year

## The financial sector has remained strong, supporting the rebound.

- The financial sector has mirrored the strong balance sheets of most of its corporate clients
  - Large corporate clients came into the crisis with strong balance sheets
  - At the onset of the crisis, banks substantially slowed credit growth to SMEs and other riskier credits, protecting their balance sheets



Source: Bank of Thailand



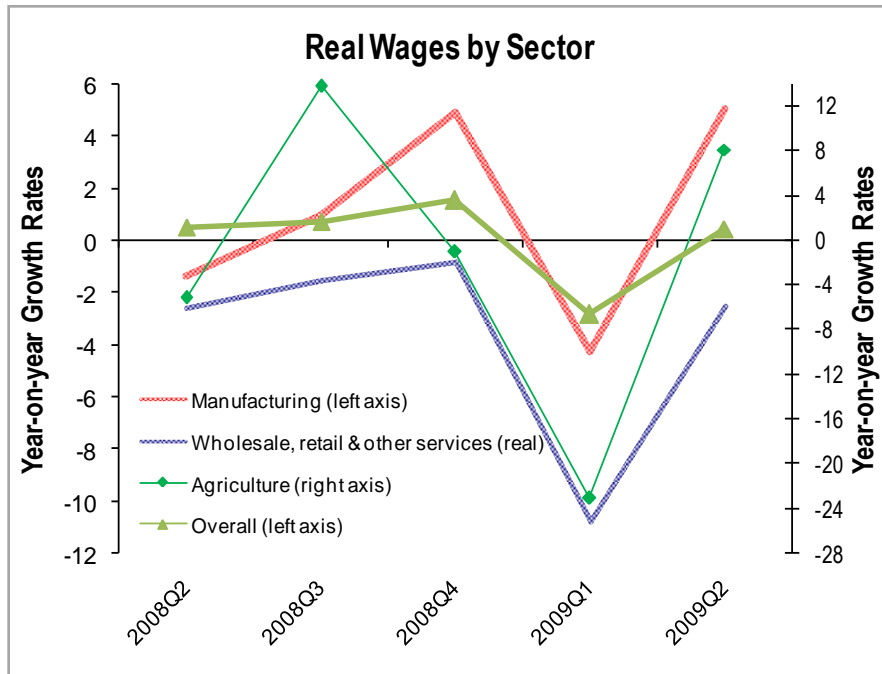
Source: Bank of Thailand



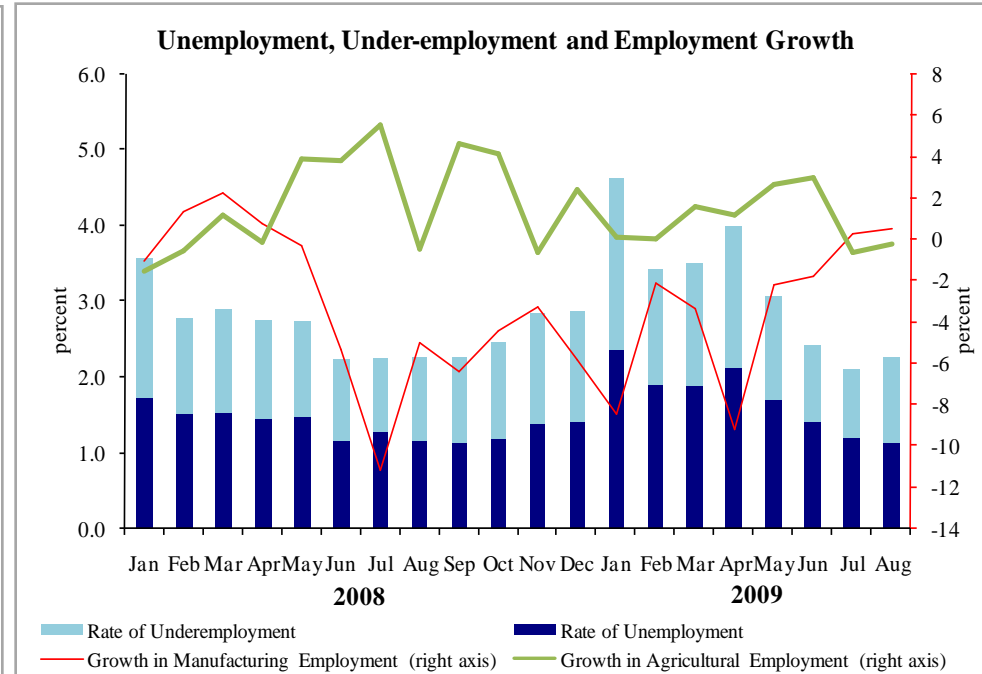
# 1. near term – economy is doing better than what most people feared earlier this year

Wages and employment have started to recover along with GDP growth.

- Real wages recovered since 2009Q2 while unemployment & under-employment declined since May



Source: NSO, MoC (prices) and World Bank calculations



Source: NSO and Bank of Thailand



1. near term – economy is doing better than what most people feared earlier this year

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**Stimulus Package 1 may have supported consumption and cushioned some vulnerable households.**

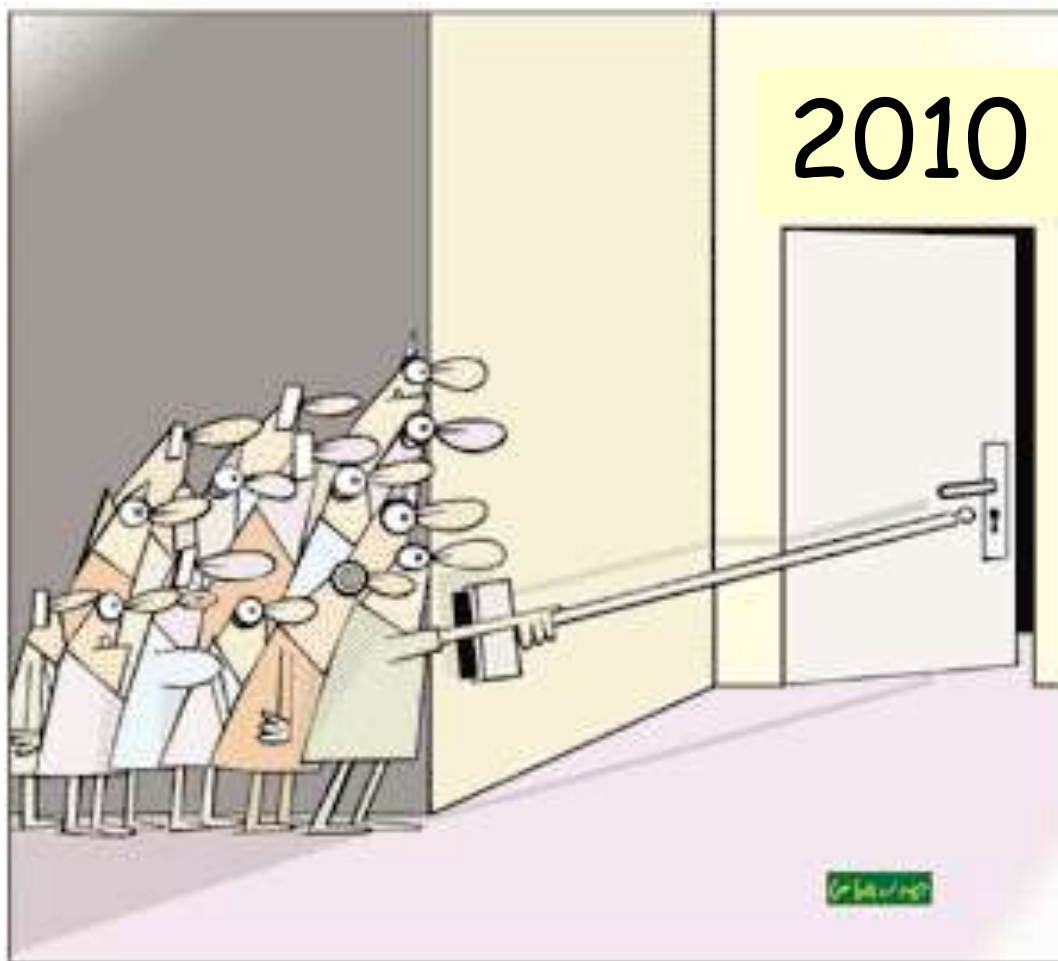
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- **First stimulus package mainly focuses on transfers to individuals in Q2 and Q3 of 2009 to mitigate immediate impact of crisis**
  - From April-September, total SP1 disbursement rate was 81%; disbursement rate of transfer programs (excluding Sufficiency Economy program) was 92%
  - although SP1 not very well targeted, some measures likely to reach the poor (e.g. pension for elderly)



## 2. medium-term outlook – not out of the woods

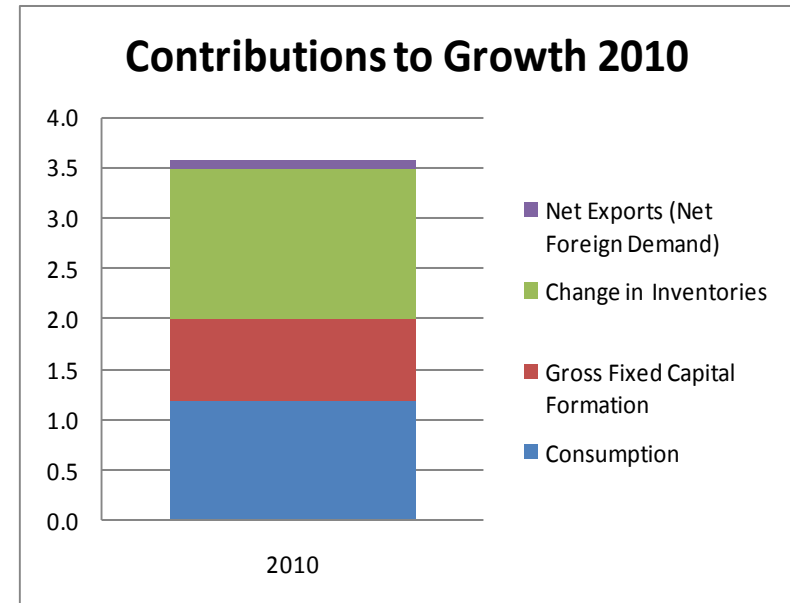
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## 2. medium-term outlook – not out of the woods

**2010 GDP growth is projected at 3.5%, driven by domestic demand.**

- **In the context of weaker global demand in 2010,**
  - Exports grow modestly, but the restocking cycle and slow rebound in investment also imply a pick-up in imports, which results in muted net external demand
  - Public and private investment add 0.8 percentage point to the growth rate, while normal stocking patterns provide a boost to growth of 1.5 percentage points
  - Household consumption picks up modestly, adding 0.8 percentage point to the growth rate, whereas public consumption decelerates from 2009 levels but still adds 0.4 percentage point



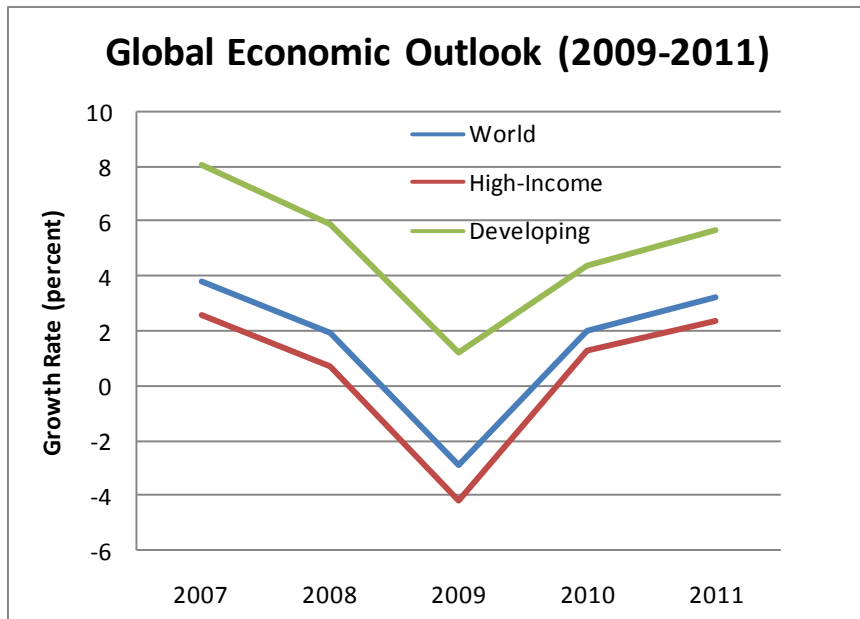
Source: World Bank Projections



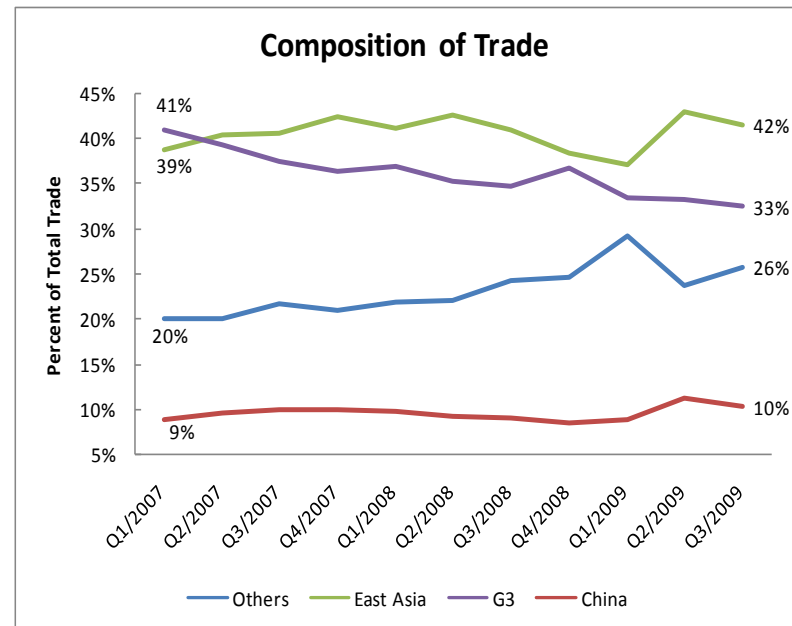
## 2. medium-term outlook – not out of the woods

### Thailand will take at least another 2-3 years to return to its potential growth.

- **Lower G3 growth expected in the next 2-3 years**
  - Thailand's trade still dependent on G3 directly – and indirectly, as most exports to East Asia end up in the G3
- **Rebalancing towards domestic consumption – both in Thailand and in the region will take time**
  - Exchange rate adjustments unlikely in the near term, will slow down rebalancing



Source: World Bank Global Economic Prospects



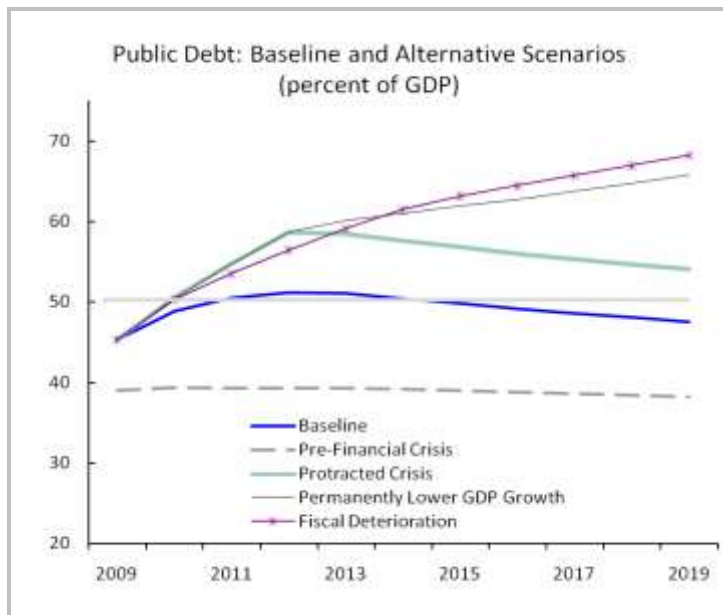
Source: Bank of Thailand



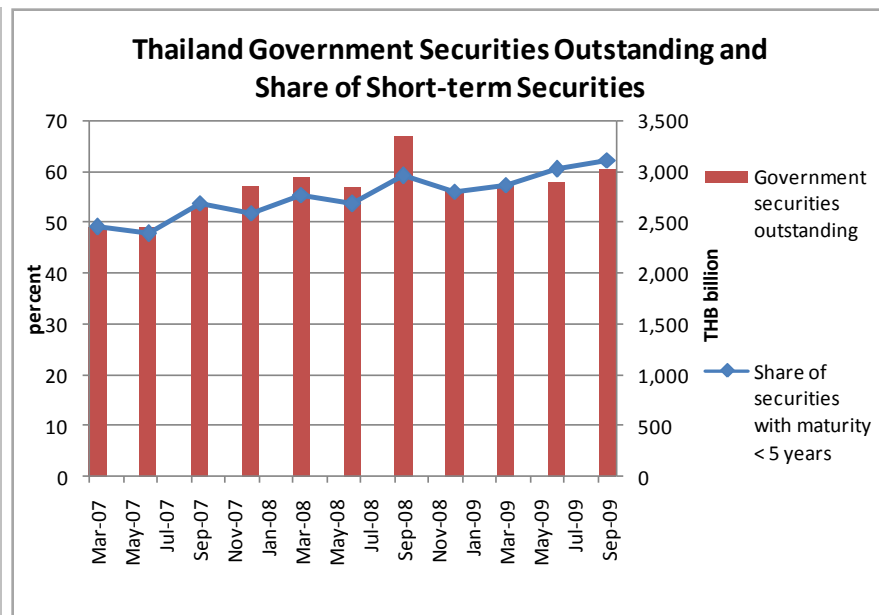
## 2. medium-term outlook – not out of the woods

### Public debt issued in the past six months has been relatively short term.

- **Based on our current projections, public debt is sustainable**
- **But shift in composition towards shorter-term instruments that must be refinanced 3-5 years from is a concern**
  - Since investment projects are long-term, debt will need to be refinanced
  - 3-5 years from now, interest rates will likely be higher with economic rebound, interest bill is likely to rise, putting pressure on the budget and creating the risk of dampening recovery



Source: World Bank



Source: Asian Development Bank (Asian Bonds Online)



## 2. medium-term outlook – not out of the woods

The fiscal deficit will reach 4.6 percent of GDP in 2010, before starting to decline in 2011.

### Thailand's Fiscal Balance (calendar years)

	2008	2009	2010	2011	2012	2013
<b>Revenues</b>	1,496.1	1,451.6	1,540.8	1,661.4	1,800.3	1,961.7
<i>% of GDP</i>	16.4	16.4	16.5	16.6	16.7	16.8
<b>Primary Expenditures, Orig</b>	1,488.9	1,580.5	1,607.9	1,656.1	1,705.8	2,042.0
<b>Primary Expenditures, SP1/SP2</b>	-	116.7	224.7	206.5	226.8	-
<i>% of GDP</i>	16.4	19.2	19.6	18.6	17.9	17.5
<b>Primary Deficit % of GDP</b>	-0.1	2.8	3.1	2.0	1.2	0.7
<b>Interest</b>	108.9	129.7	137.5	148.7	144.8	152.9
<b>Fiscal Balance % of GDP</b>	1.1	4.2	4.6	3.5	2.6	2.0

Source: MOF and WB projections



### 3. finding the way back into growth

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**Long-term growth depends on a return to private investment. How to raise returns given weak global demand?**

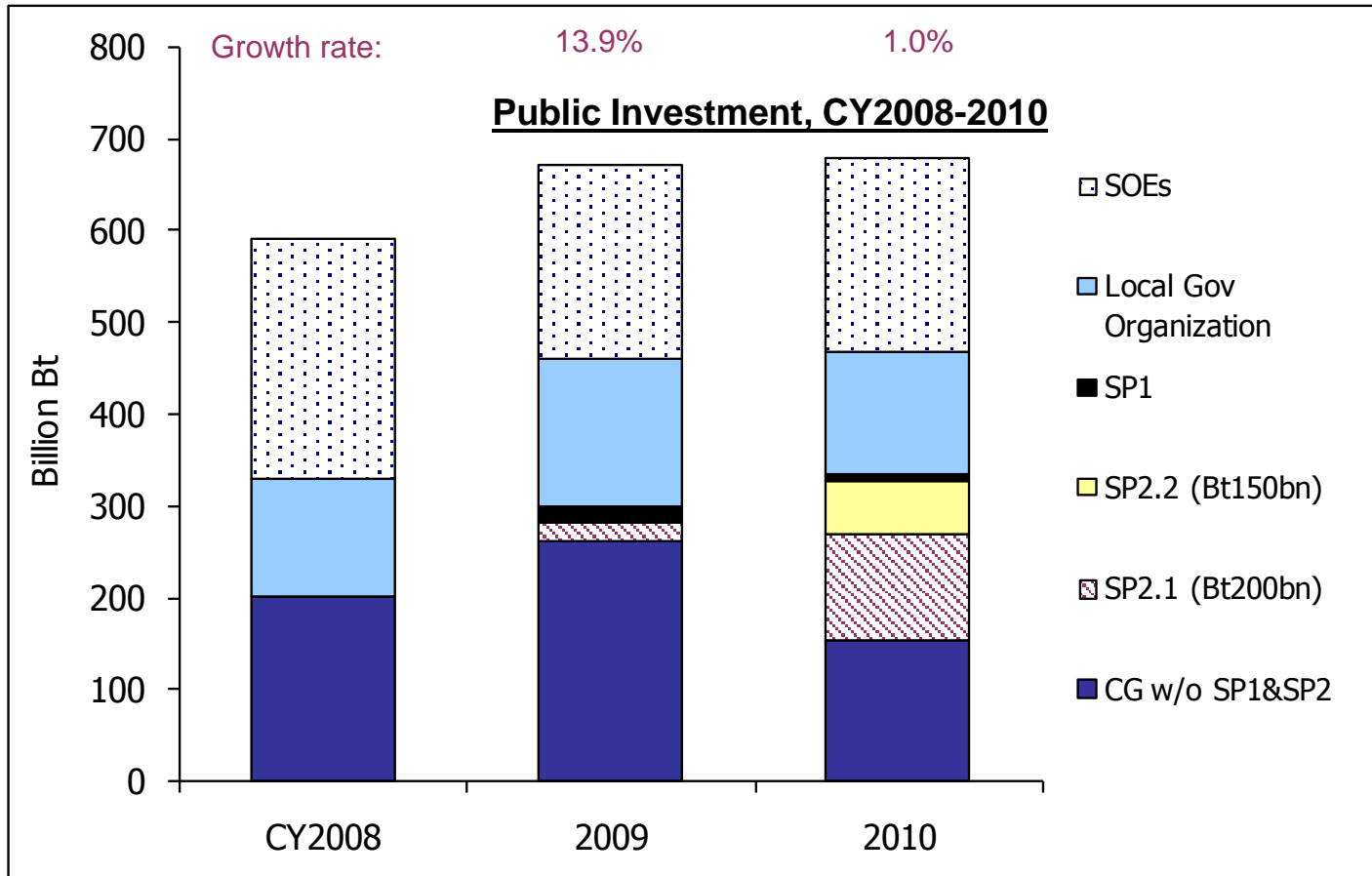
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- Ensuring political stability and improving skills, human capital, and infrastructure services can help offset the decline in returns to private investment arising from lower world growth rates
- “Software” (regulations, management, quality of services) as important as the “hardware” (infrastructure, subsidies)
- SP2 (Thai Kem Kaeng) is relatively quick-disbursing and focuses on the hardware (~70% is for construction and equipment)
  - ▲ compensates fall in on-budget investment next year
  - ▼ but may not be sufficient to address constraints to long-term growth (which requires reforms to the software)
- Rebalancing the economy towards domestic demand



### 3. finding the way back into growth

SP2(Bt350bn) have added marginally to public investment this year and will be used to compensate the fall in CG on-budget investments in 2010.



Source: FPO, PDMO, BOB WB calculations



### 3. finding the way back into growth

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**The efficient and transparent implementation of SP2 will set an example for future CG investments.**

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- **Enhancing Public Financial Management System (PFMS)**

- ➔ By utilizing existing GFMIS data with an enhanced reporting system, government and the public can monitor implementation progress and success indicators. Hence, stakeholders can give feedback to projects and related agencies.

- **M&E of projects to ensure the outcome and impact of SP2 projects are achieved according to the objectives**

- ➔ With sufficient progress data, responsible central agencies can do M&E to guide agencies to implement on the right track (i.e. following the policy) in the long-run.



### 3. finding the way back into growth

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**Rebalancing the economy towards domestic demand will involve increasing value-added in services, better social safety nets, and regional integration.**

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- **Increasing competition in services can drive productivity growth and higher value added in the services sector**
  - Service sector accounts for more than 45% of GDP, has almost twice the employment of industry, and most are SMEs
  - Supports manufacturing
  - Current regulations limits growth and productivity of the services sector
- **Improved social safety nets allow greater risk-taking and higher equilibrium levels of private consumption**
  - With robust social safety nets, workers are more inclined to work in more productive but higher volatility jobs in manufacturing production rather than lower productivity, low risk jobs in agriculture or the informal service sector (which currently function as safety net for subcontracted or temporary workers) → higher incomes and lower savings needed → more consumption
- **Regional integration**
  - Consumption in East Asian countries, if raised, could help promote trade and growth in the region as growth of demand from developed countries slows down



## 4. growth projections

Real GDP Growth Rates - Percent, Year-on-Year										
	Share in	2007	2008	2009					Previous	2010
	2008 GDP	Year	Year	Q1	Q2	Q3	Q4	Year(p)	Forecast	Year (p)
Consumption	61.0	2.7	2.2	-1.6	-1.2	0.5	1.8	-0.1	0.7	1.9
Private	52.1	1.6	2.5	-2.5	-2.3	-0.9	1.1	-1.1	-0.5	1.5
Public	8.9	9.2	0.5	3.6	5.9	7.5	6.0	5.9	7.6	4.0
Gross Fixed Capital Formation	22.1	1.3	1.1	-15.8	-10.1	-2.4	3.1	-6.4	-4.9	3.6
Public	5.3	3.4	-4.8	-9.1	9.6	12.0	17.0	7.5	3.3	2.5
Private	16.8	0.6	3.2	-17.7	-16.1	-8.5	-0.5	-10.8	-7.5	4.0
Change in Inventories	1.4	-62.4	1114.7	-488.5	-27.3	10.0	-40.0	-167.4	...	-150.0
<i>memo: nom. chg in inventories</i>		5,035	61,161	-67,856	-9,765	12,341	24,088	-41,193	...	20,596
Total Domestic Demand	84.5	2.0	3.5	-14.7	-3.9	-0.1	0.3	-4.5	-3.9	4.1
Exports	72.5	7.1	5.4	-16.7	-21.8	-18.0	7.9	-12.7	-13.4	7.8
Goods	58.9	6.7	6.0	-17.9	-22.8	-19.5	8.6	-13.6	-15.0	8.5
Services	13.5	8.9	2.9	-12.4	-17.0	-10.5	5.0	-8.7	-6.4	5.0
Imports	57.0	3.4	7.5	-31.6	-25.3	-18.6	2.9	-18.1	-18.0	10.5
Goods	45.8	2.2	6.9	-36.1	-28.9	-21.0	4.0	-20.7	-21.3	12.0
Services	11.2	8.6	10.0	-13.0	-9.4	-8.0	-1.0	-7.7	-4.1	5.0
Net Foreign Demand	15.5	21.7	-1.4	29.5	-10.3	-15.8	33.0	7.4	3.5	0.4
<b>By Sectors:</b>										
Agriculture	8.9	1.8	5.0	3.4	-2.7	-2.0	3.0	0.8	...	2.0
Industry	43.2	5.7	3.4	-12.8	-7.2	-3.8	5.5	-4.8	...	5.1
Services	47.9	4.7	1.2	-2.9	-2.6	-1.5	2.6	-1.1	...	2.2
<b>GDP</b>	<b>100.0</b>	<b>4.9</b>	<b>2.6</b>	<b>-7.1</b>	<b>-4.9</b>	<b>-2.7</b>	<b>4.0</b>	<b>-2.7</b>	<b>-2.7</b>	<b>3.5</b>

Source: NESDB, World Bank projections.



# Thank You



Full report of the  
**Thailand Economic Monitor**  
will be available at

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

