



Thailand

ECONOMIC MONITOR

Press Briefing

June 24, 2010



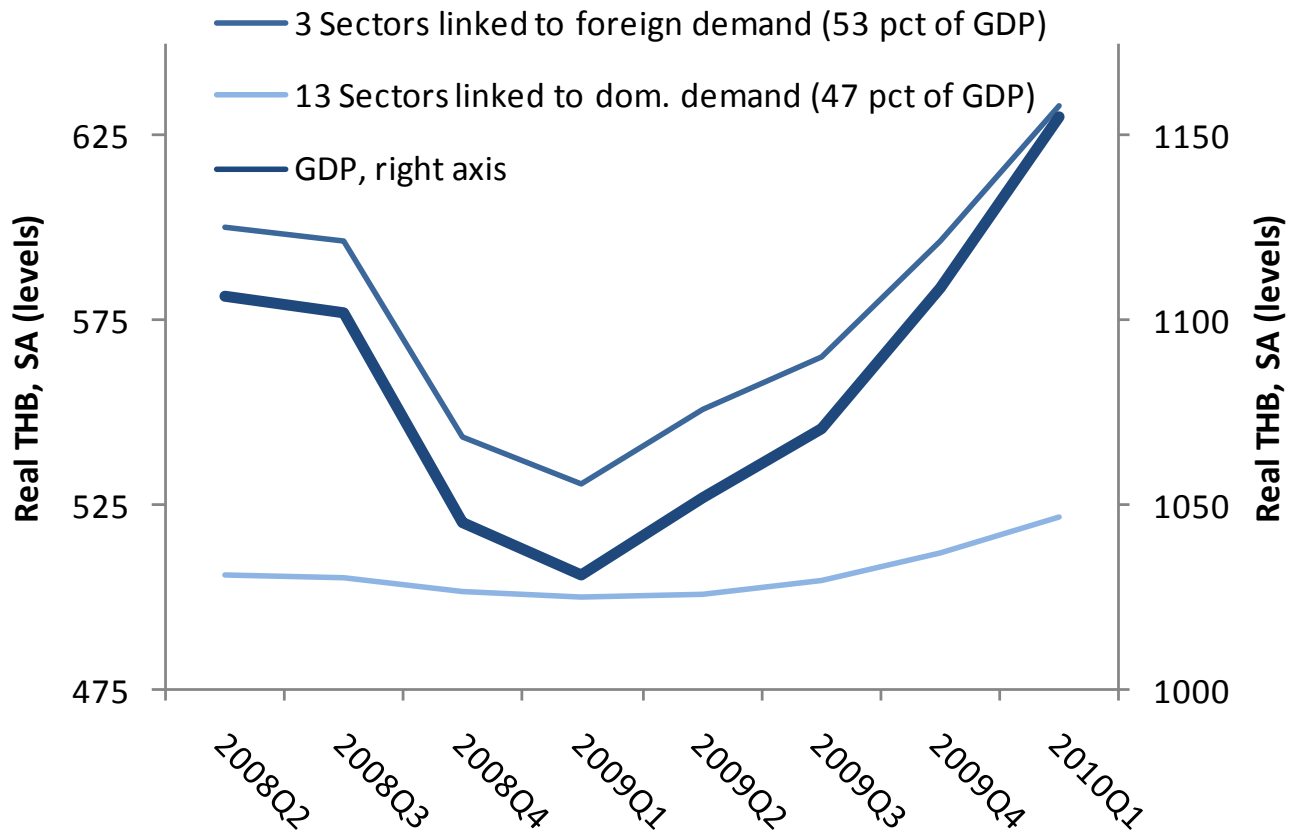
Thailand's dependence on external demand bodes well for the near term, but a second engine of growth is needed for sustained long-term growth.

- The Thai economy has been running on one engine: external demand
- Good news: engine working well thanks to continued recovery in global economy (with help from China)
- Effects of the political crisis on GDP largely offset by external demand, but social impact likely greater
- Not-so-good news: high vulnerability to external shocks (Greece?) and below-potential growth in 2011 due to unfinished recovery in advanced economies and continued uncertainty at home



1. running on one engine

Thailand's near-term growth remains driven by three sectors linked to external demand: manufacturing, logistics and tourism.



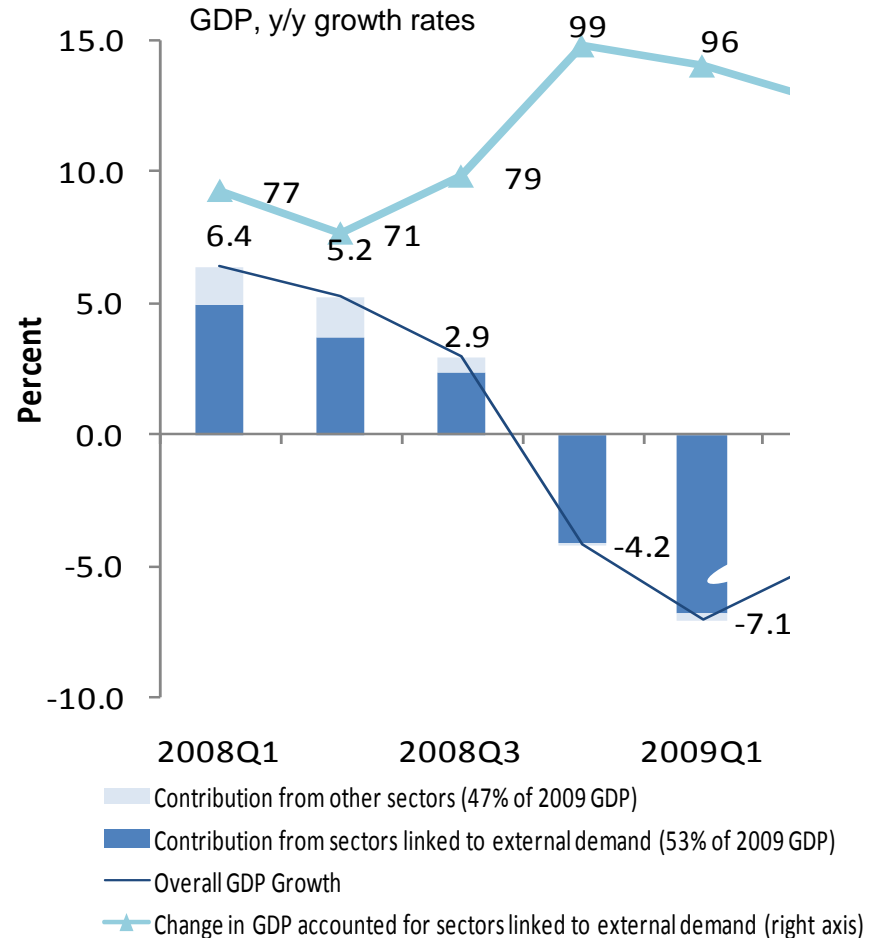
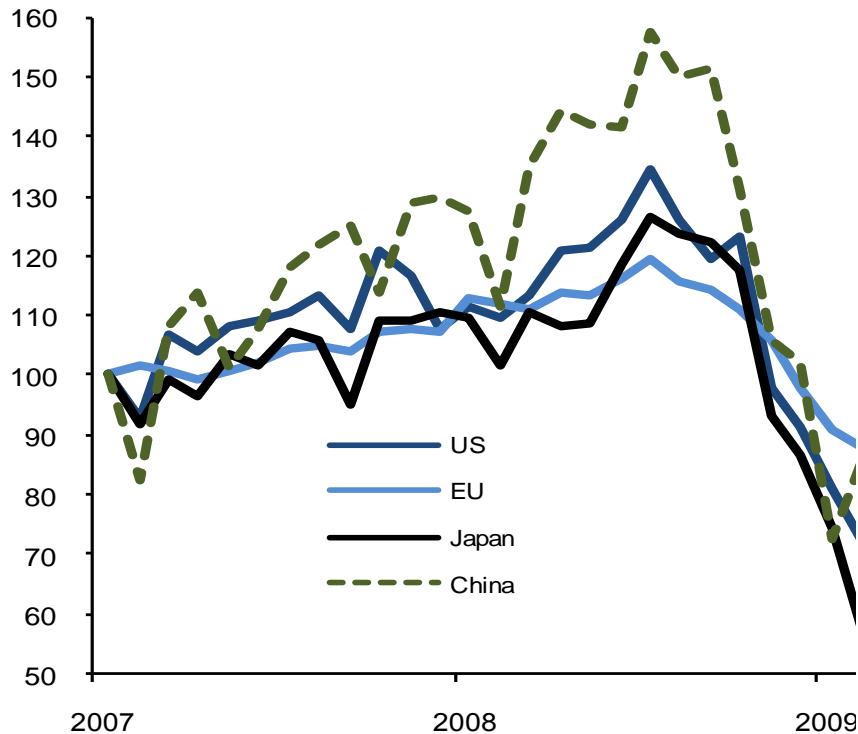
Source: NESDB and World Bank Calculations



1. running on one engine

The global financial crisis exposed the risks of relying on one engine: when the external fuel is cut, the economy falls.

Nominal merchandise imports (January 2007=100)



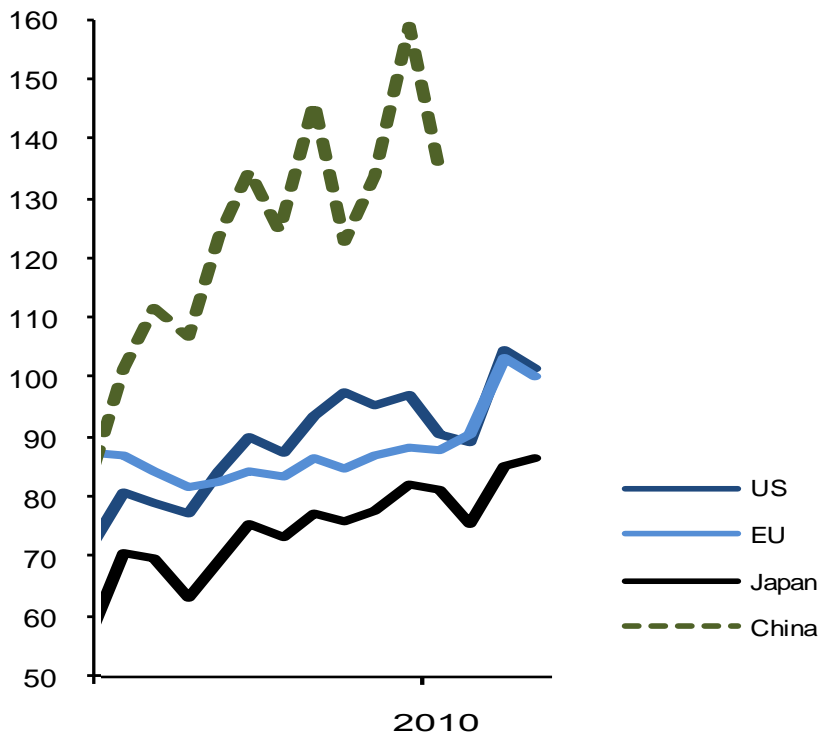
Source: BoT, NESDB and World Bank Calculations



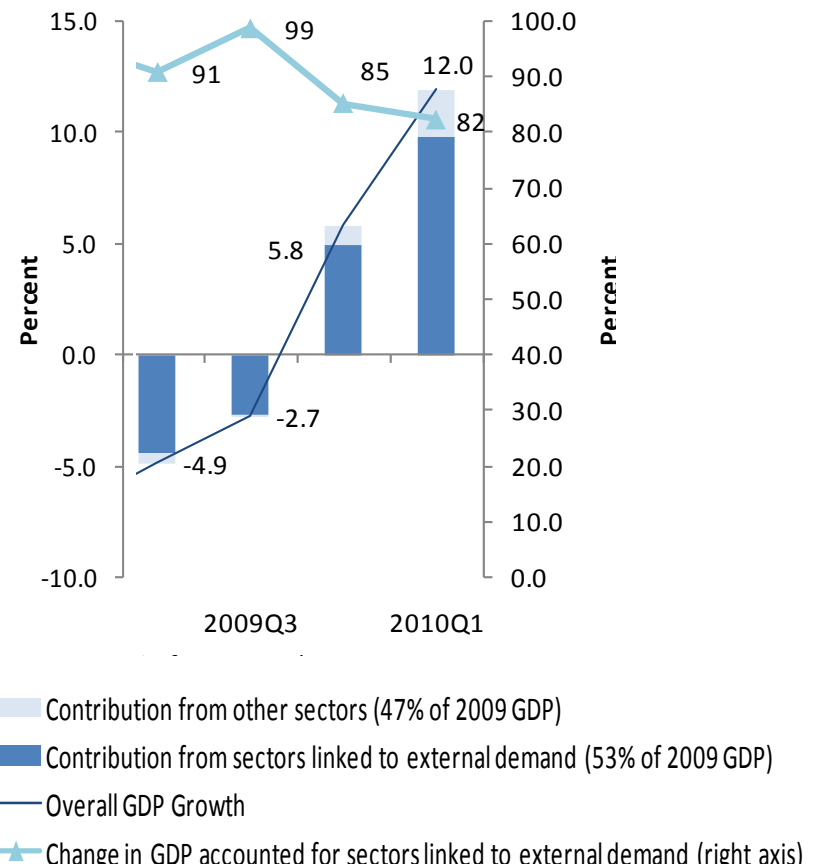
1. running on one engine

But once the fuel started flowing again, the economy returned to its previous 'flight path'.

Nominal merchandise imports (January 2007=100)



GDP, y/y growth rates

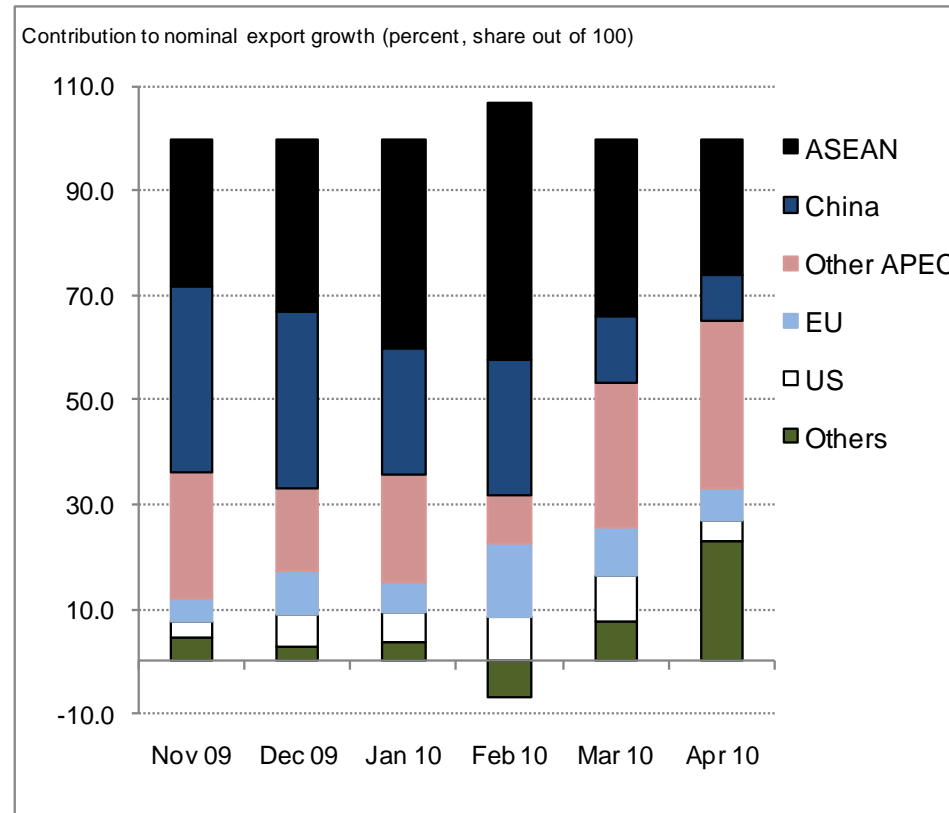


Source: BoT, NESDB and World Bank Calculations



1. running on one engine

About 80 percent of Thailand's export growth since November has come from East Asia, mostly due to restocking in global supply chains.

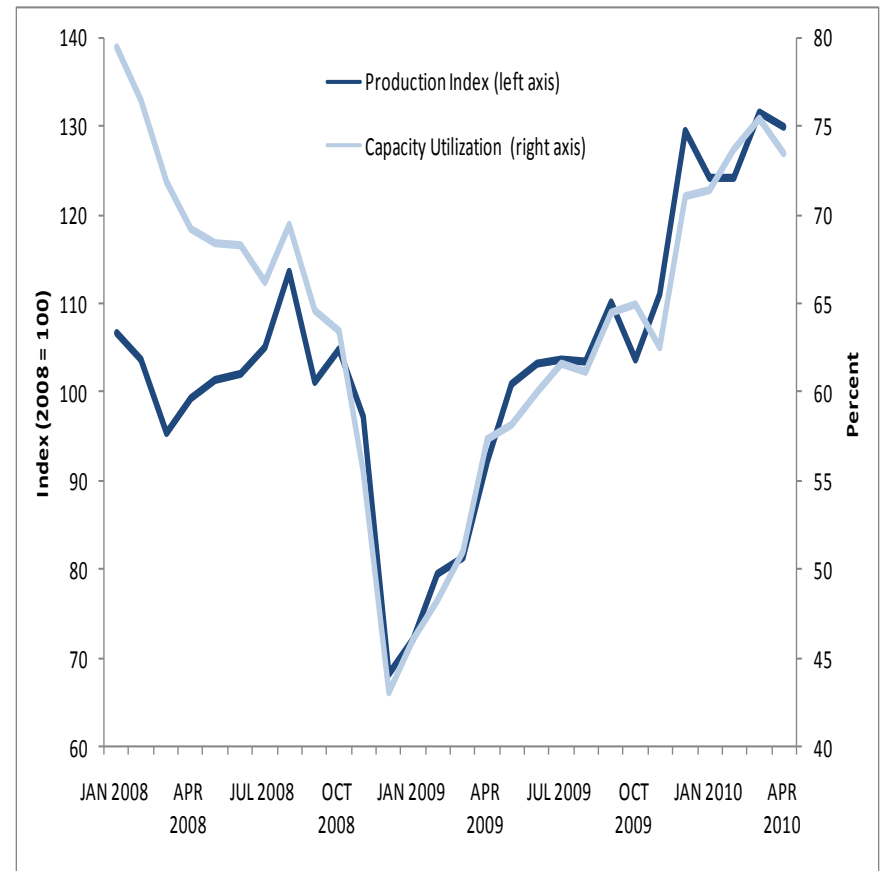
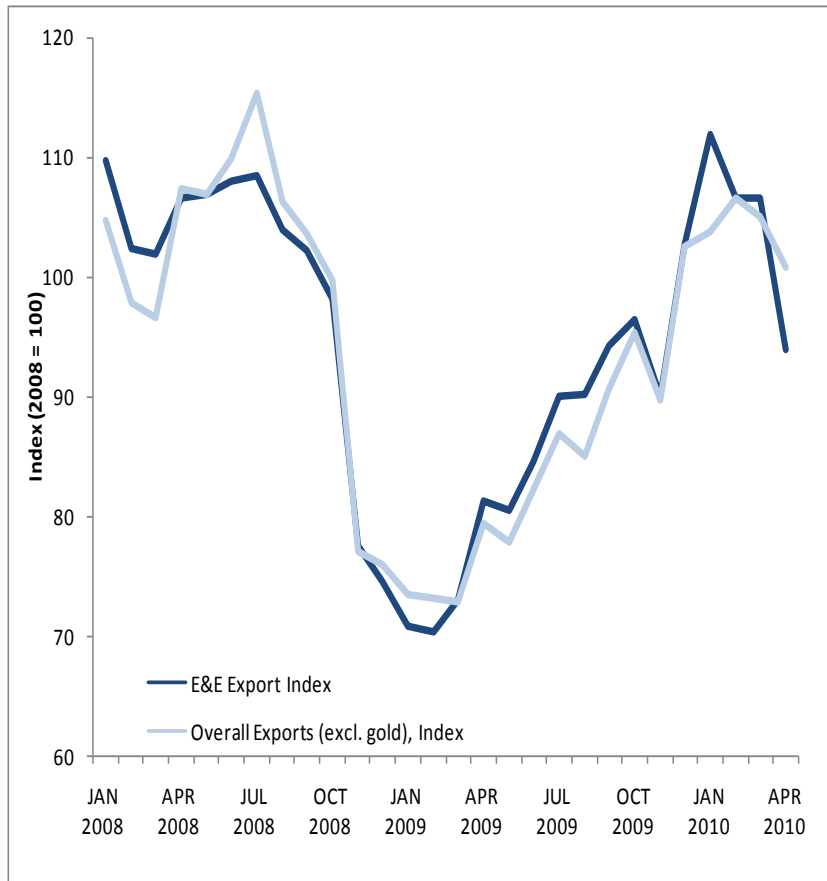


Source: Bank of Thailand and World Bank staff calculations.



1. running on one engine

The electronics sector has been a key contributor to the recovery.

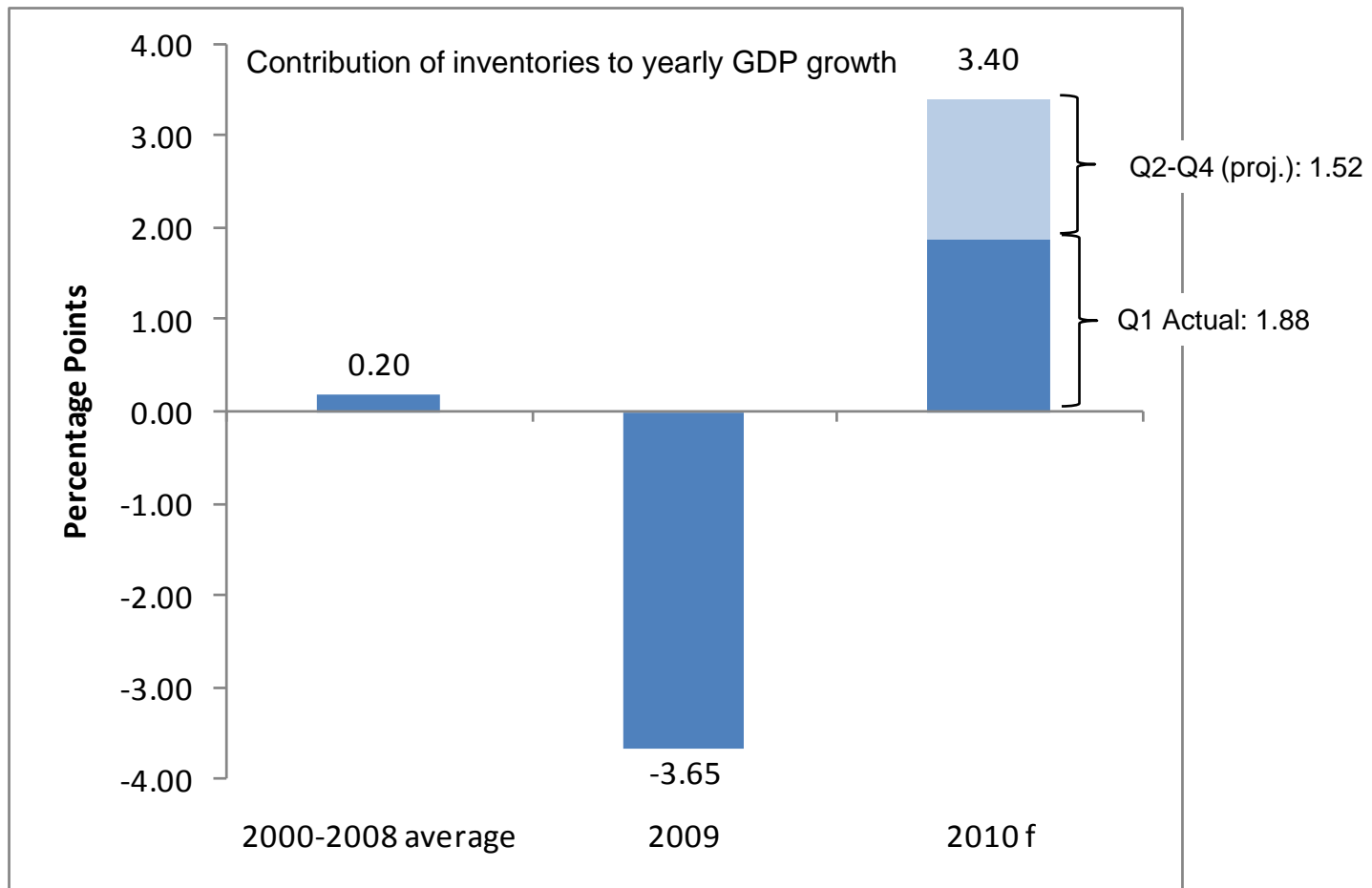


All figures are seasonally adjusted levels and except for overall exports refer to electrical and electronics only.
Source: Bank of Thailand and World Bank staff calculations.



1. running on one engine

On the demand side, inventory restocking – following massive drawdowns in 2009 – has made a large contribution in the first quarter, but may have run its course.



Source: NESDB and World Bank staff calculations.



1. running on one engine: impact of recent political turmoil

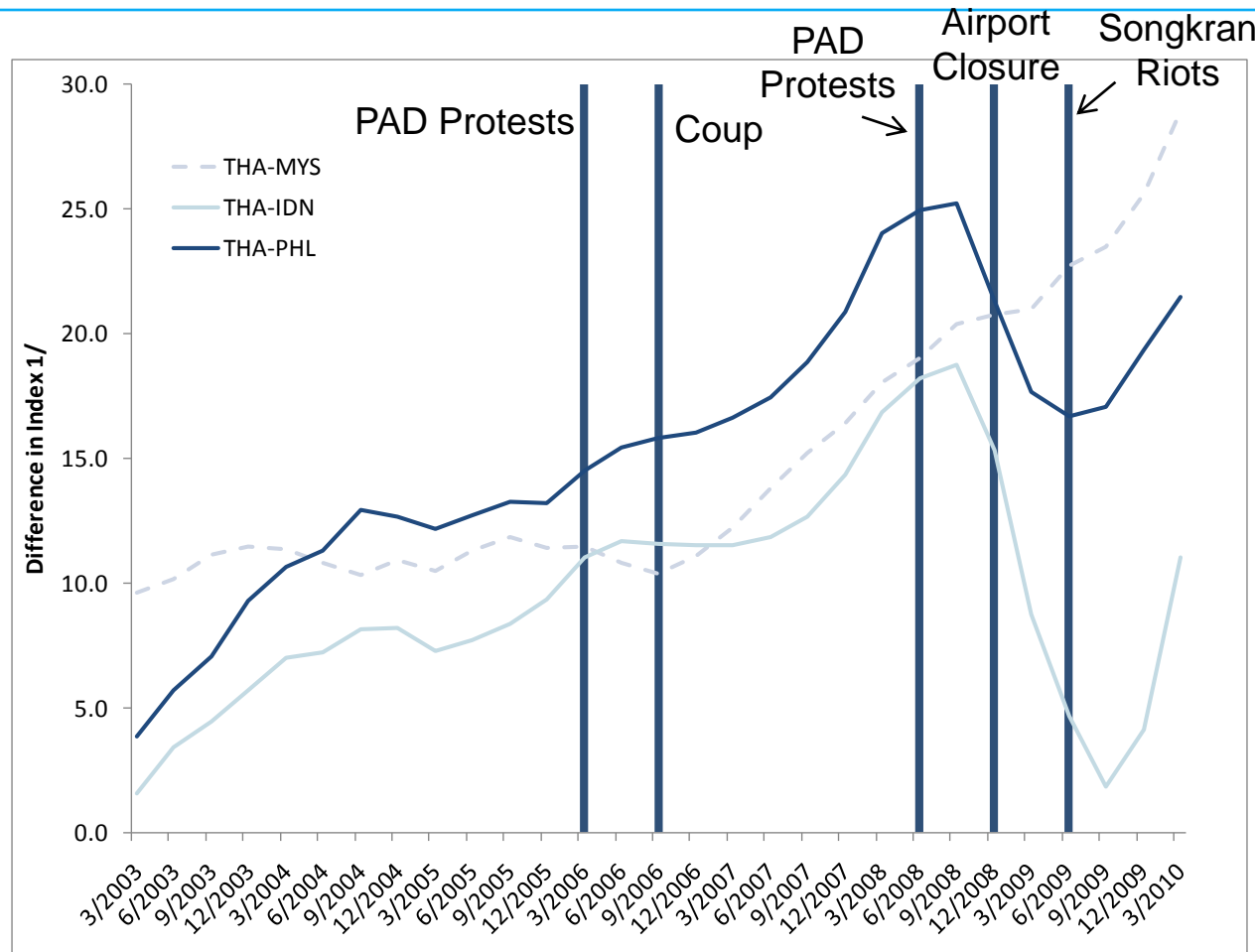
Because the economy is driven primarily by external conditions, GDP should expand in 2010 despite negative impact the political crisis, but GDP likely understates social impact.

- As of March, forecast growth of 6.2 percent for 2010
- Performance of economy in the first quarter may have raised forecast closer to 7 percent
- Impact of the political crisis on tourism, domestic demand likely erase these gains
- Overall, growth expected to come at 6.1 percent as better-than-expected first quarter performance is offset by political crisis
- However, impact on GDP may understate social impact, as relatively more workers in affected sectors



1. running on one engine

The manufacturing-for-exports sector (39 percent of GDP) was largely undisrupted by the crisis and performed well in other political events.



1/ Index: Real Manufacturing Value Added in 2000 = 100.

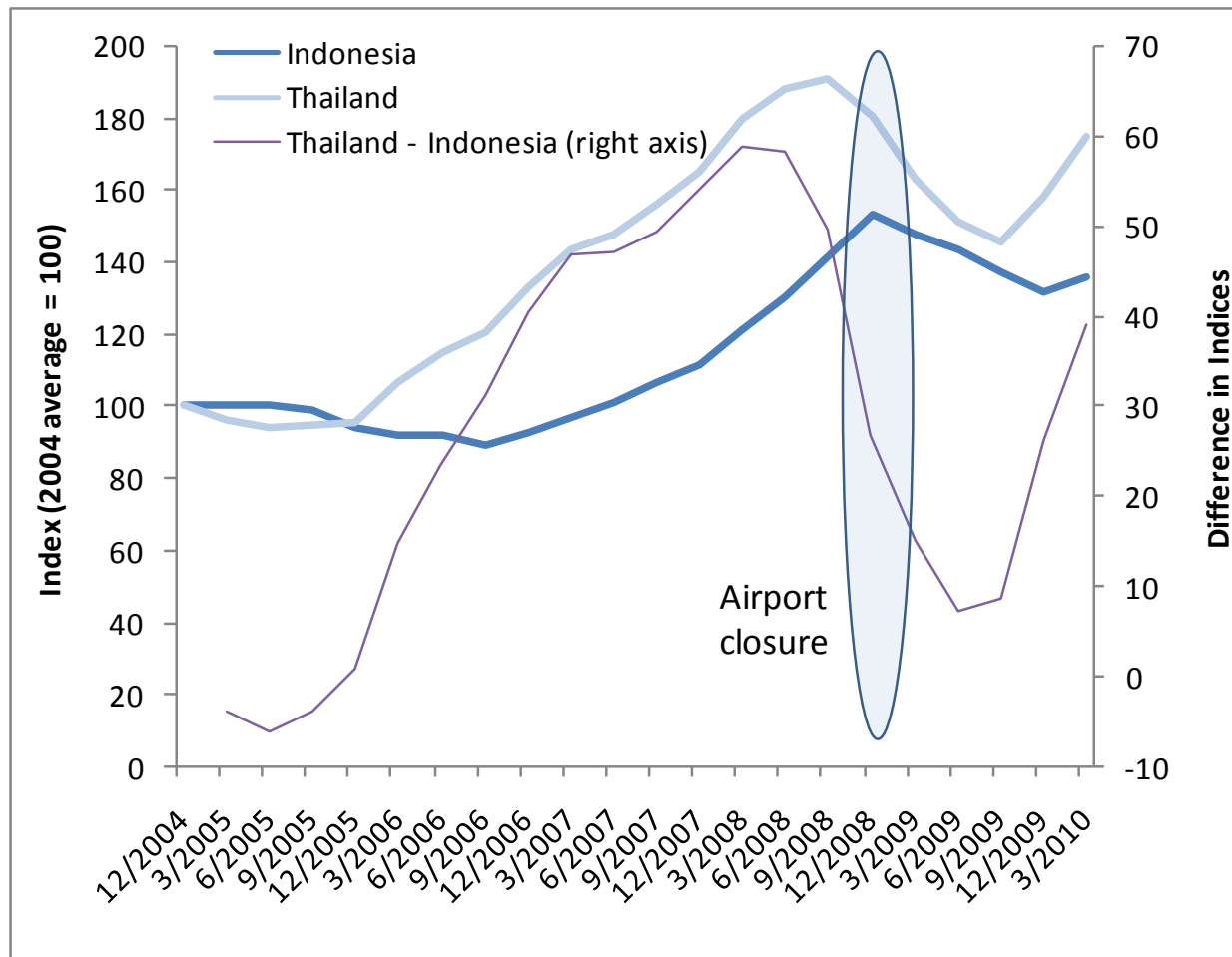
Lines show difference in 4-quarter moving average of index for countries indicated.

Source: CEIC and World Bank Calculations



1. running on one engine

The events in April and May are likely to have an impact on tourism (8 pct of GDP) for at least another two quarters.

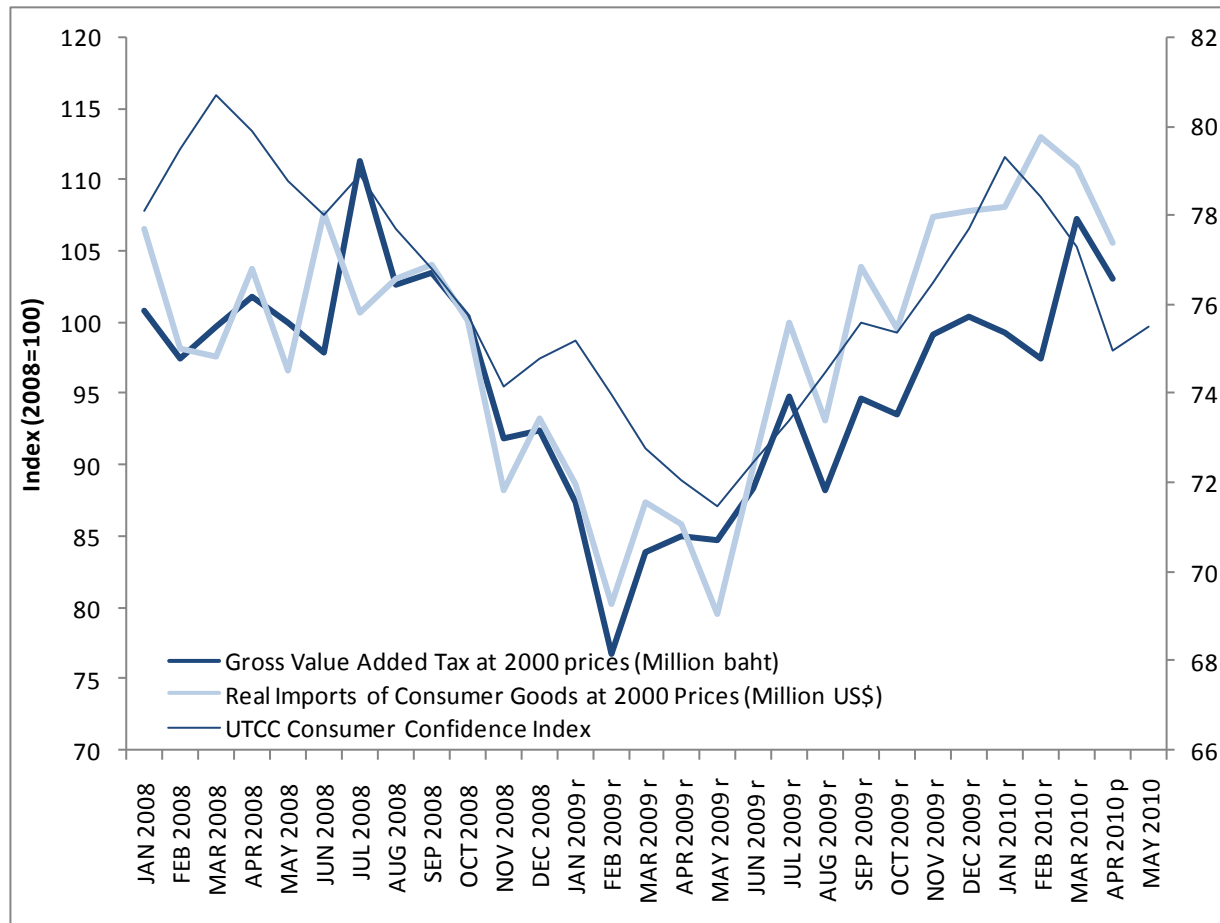


Thin lines show difference in 4-quarter moving average of index for countries indicated.
Source: CEIC and World Bank Calculations



1. running on one engine

Household consumption posted solid gains in the first quarter, but consumer confidence and other consumption indicators declined sharply in April.

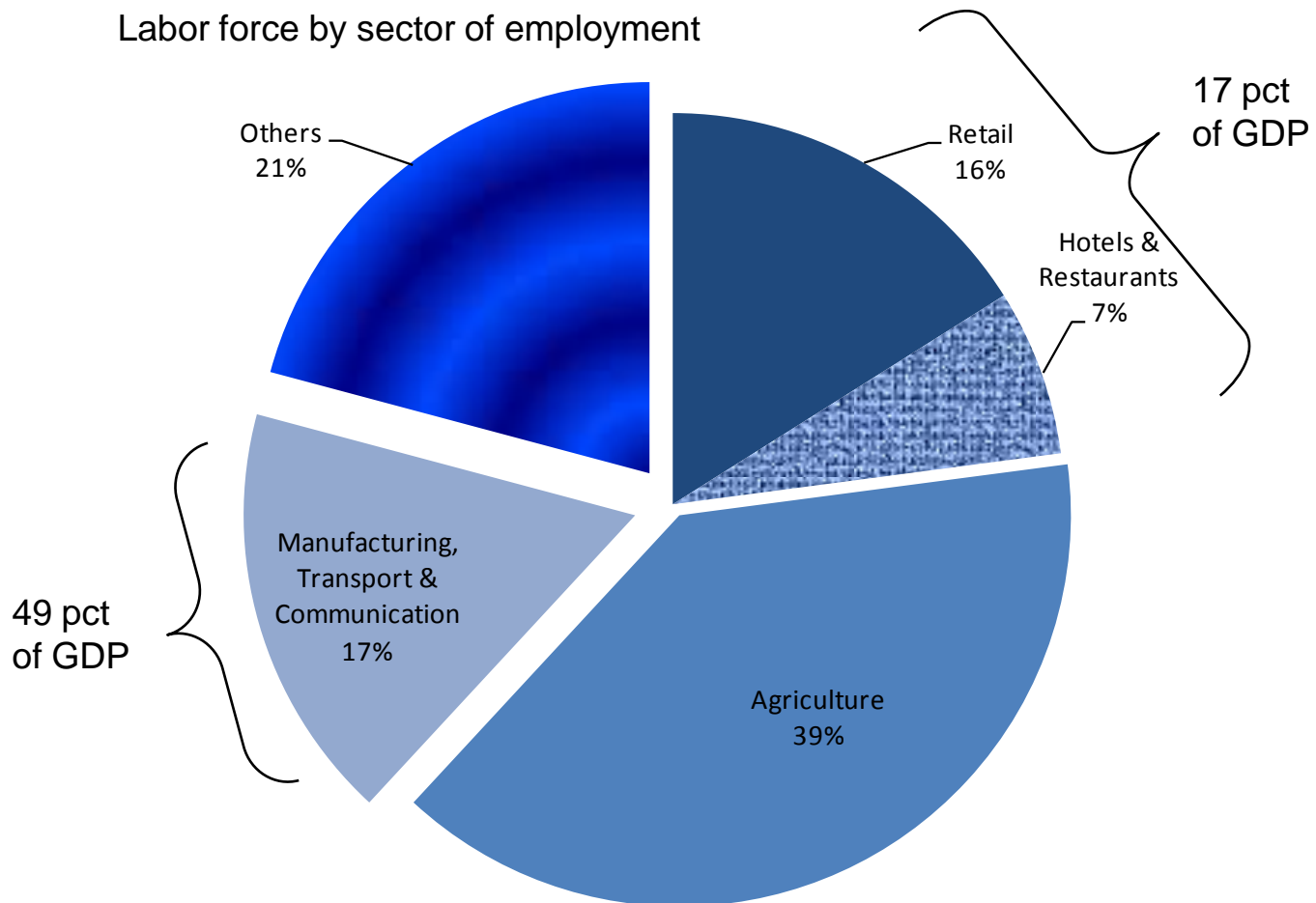


Source: Bank of Thailand and UTCC.



1. running on one engine

The resilience of the overall GDP to the political turmoil does not translate into limited social impact given the large number of workers in affected sectors.

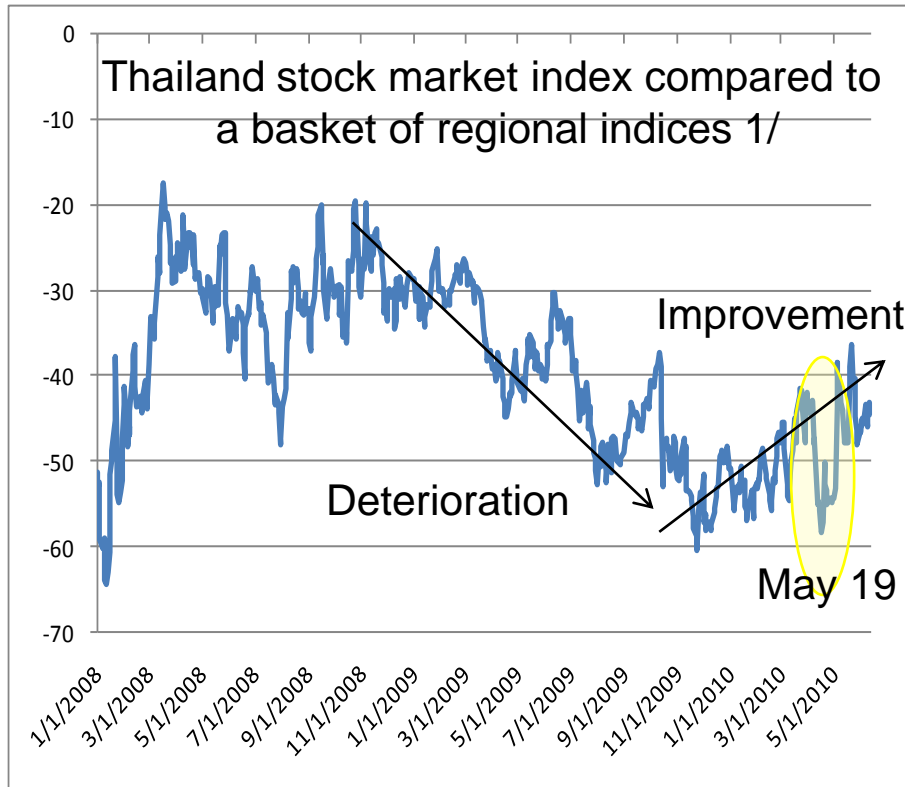


Source: NSO Labor Force Survey, NESDB.



1. running on one engine

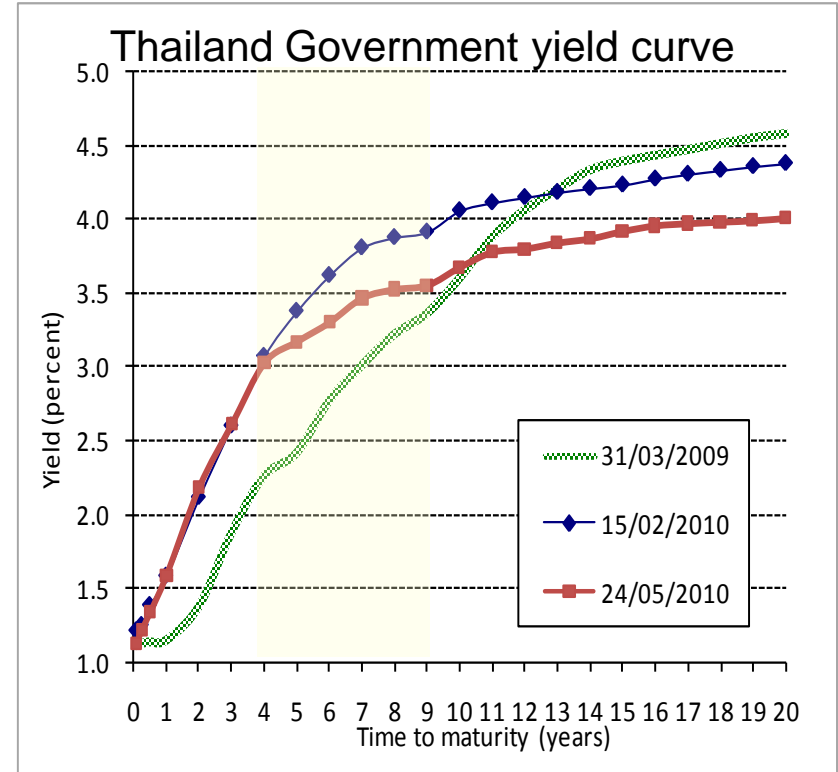
The limited reaction from financial markets confirms the solid financial position of Thai economy and likely limited overall impact on GDP.



1/ Regional indices include Malaysia, Philippines, Singapore, China, Korea and Indonesia.

Index: 1/1/2000 = 100

Source: World Bank Development Prospects Group

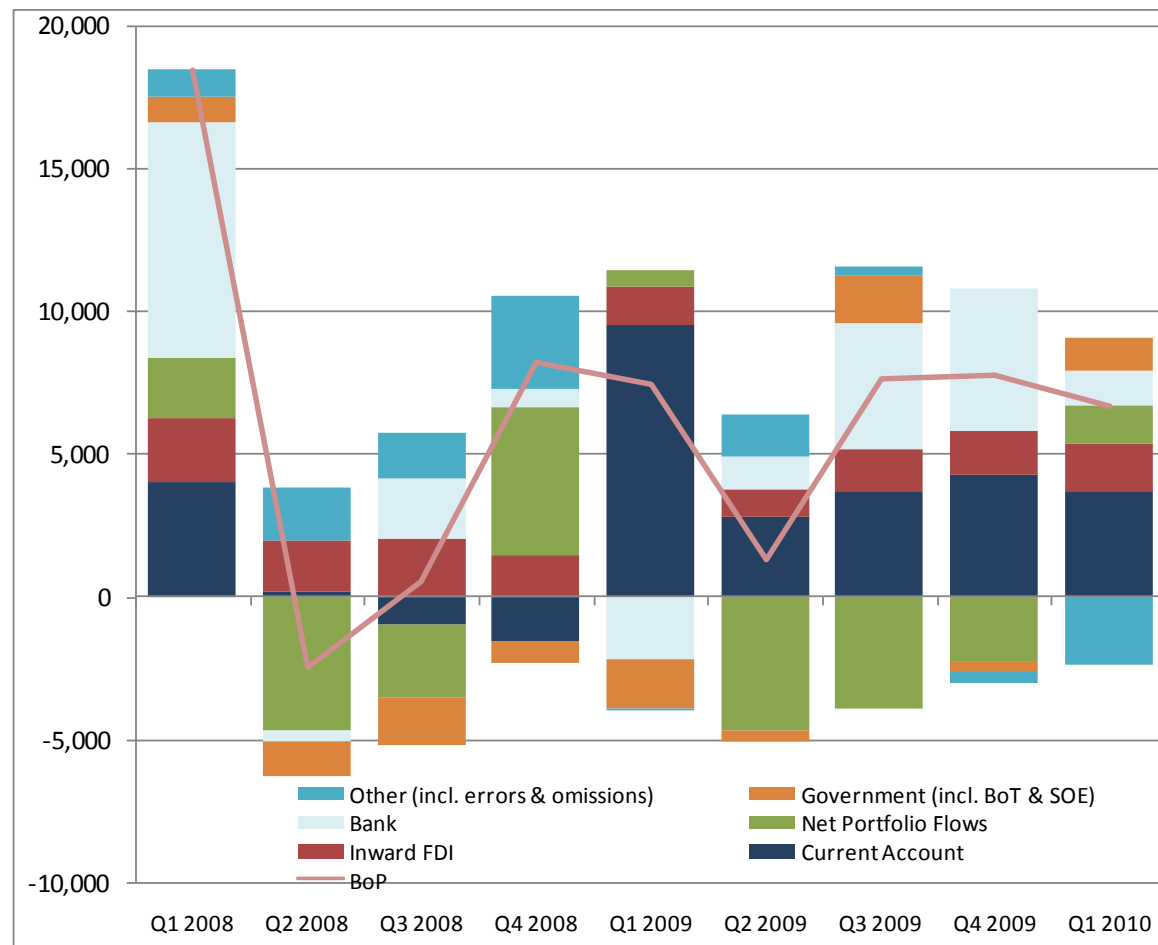


Source: Thai Bond Market Association



1. running on one engine

Current account surpluses support a strong external position, while 'hot money' portfolio flows have been limited due to the political turmoil.

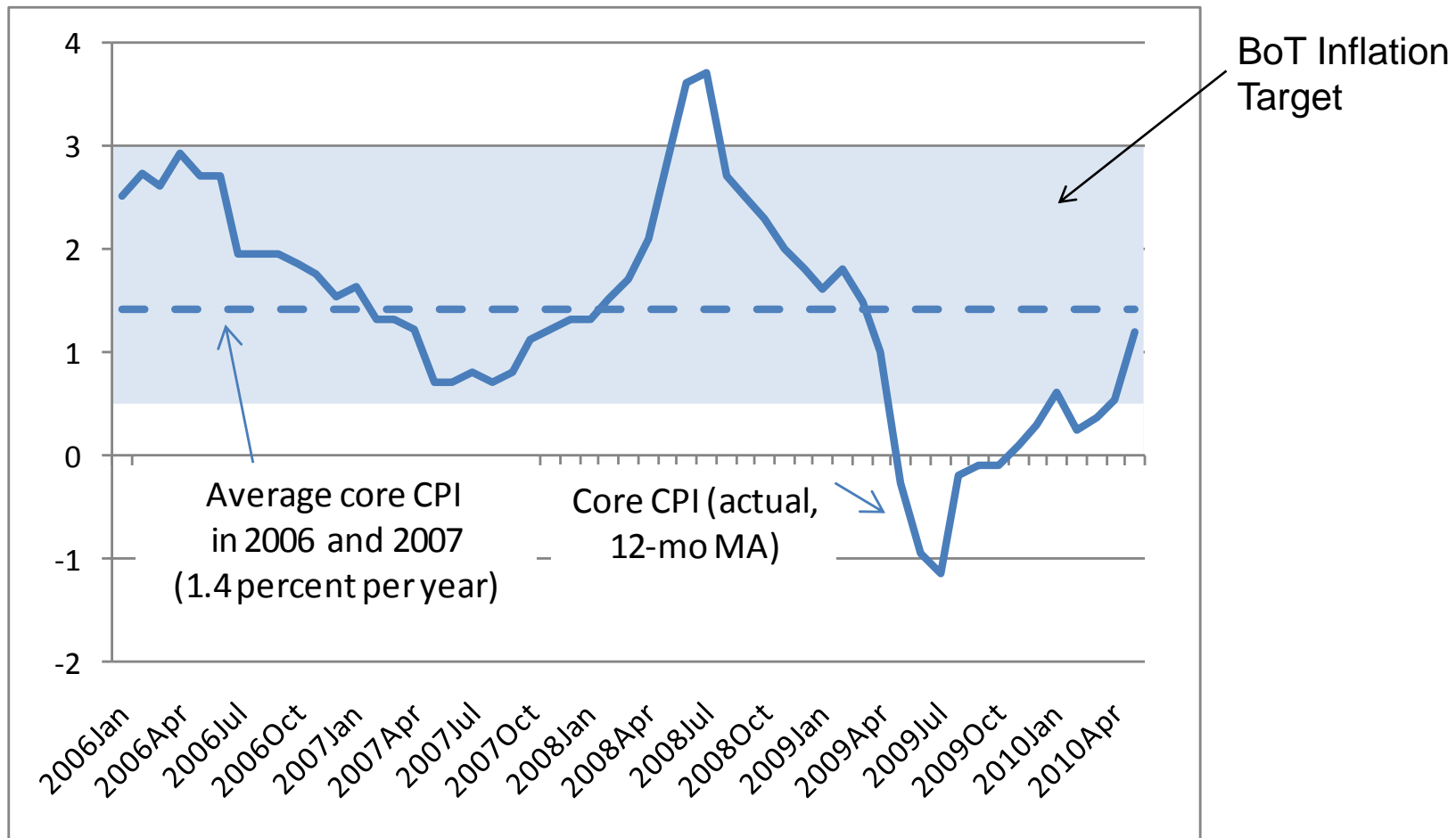


Source: Bank of Thailand



1. running on one engine

Inflation has risen from negative readings in 2009, but remains below (already low) historical levels.

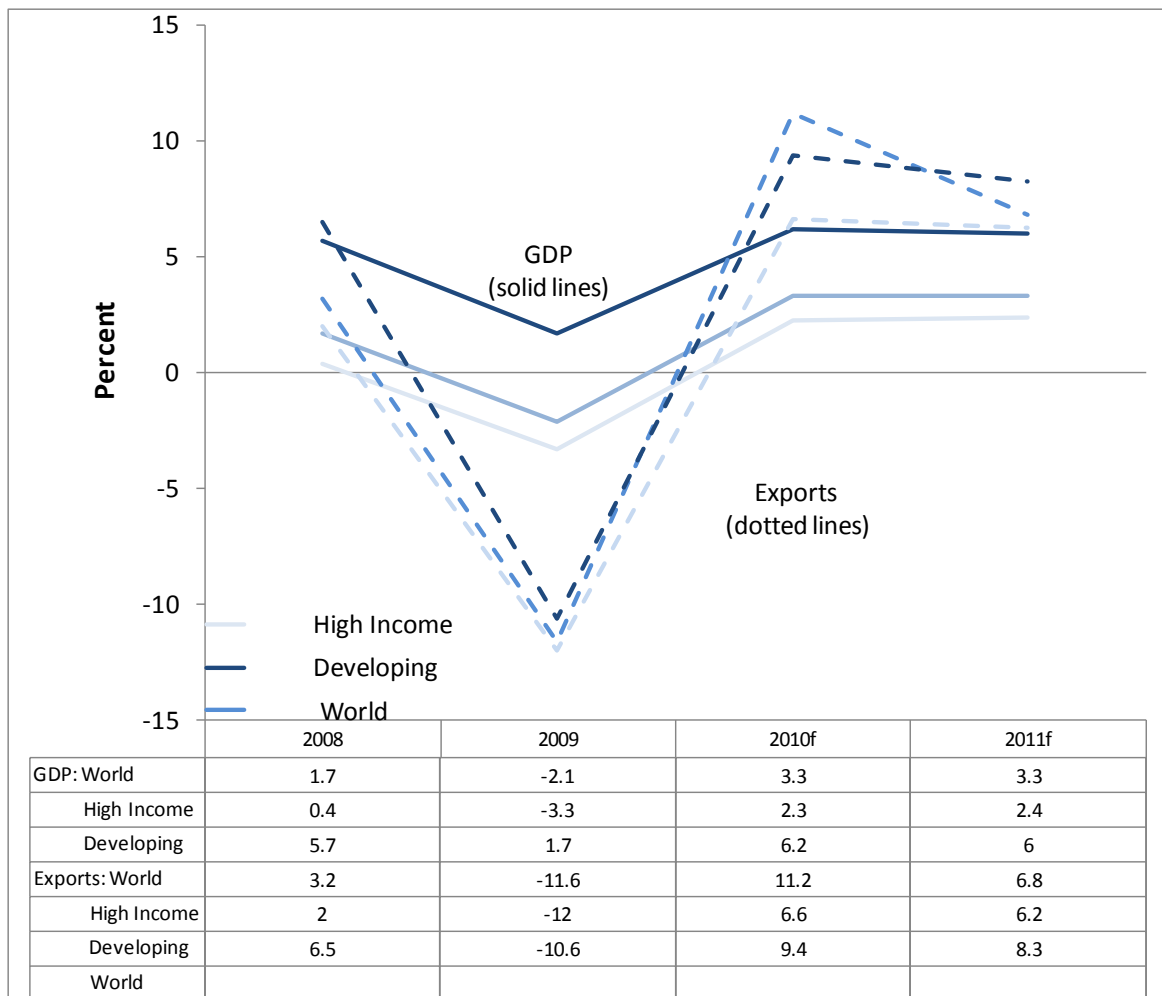


Source: Ministry of Commerce, World Bank Staff Calculations



1. running on one engine

Ultimately the relatively favorable outlook of the external environment dominates prospects for the Thai economy in 2010.

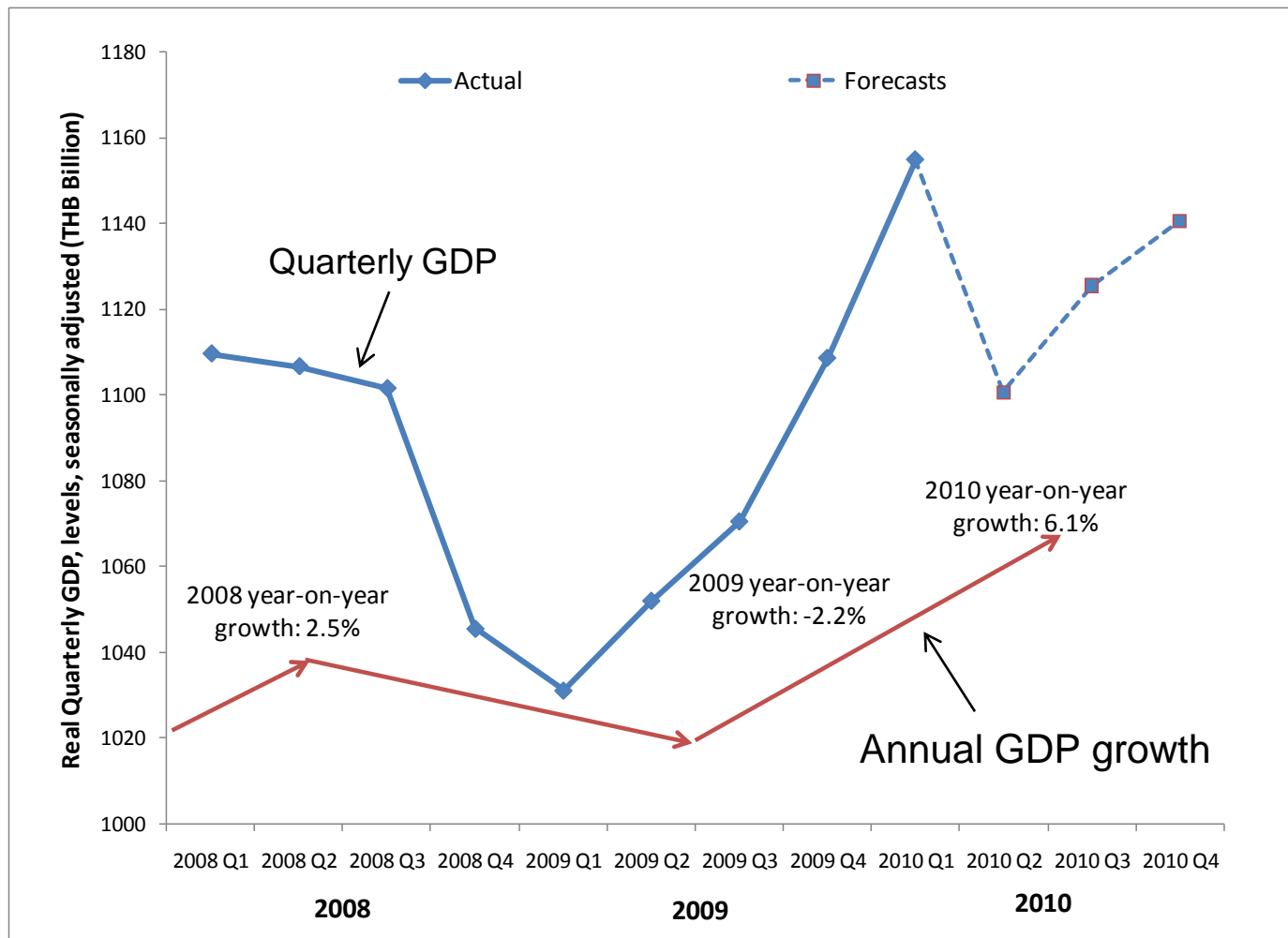


Source: World Bank Global Economic Prospects



1. running on one engine

The favorable external outlook and low base of 2009 means that Thailand post a high growth rate in 2010 despite the impact of the political crisis.

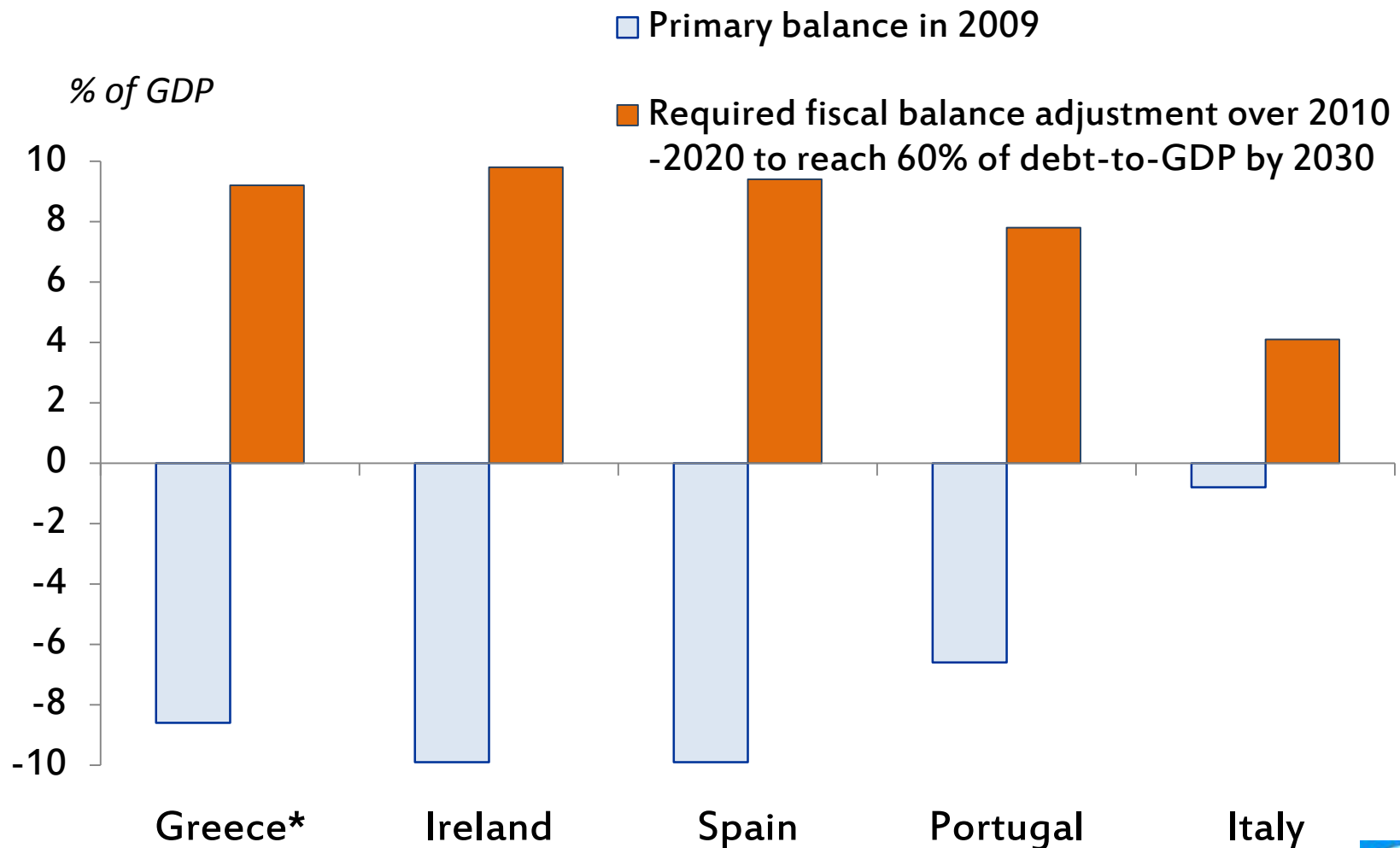


Source: NESDB, World Bank calculations and forecasts



1. running on one engine

But risks are elevated: to avoid a deeper crisis, European countries must cut their deficits sharply, which will reduce demand for Thai imports...

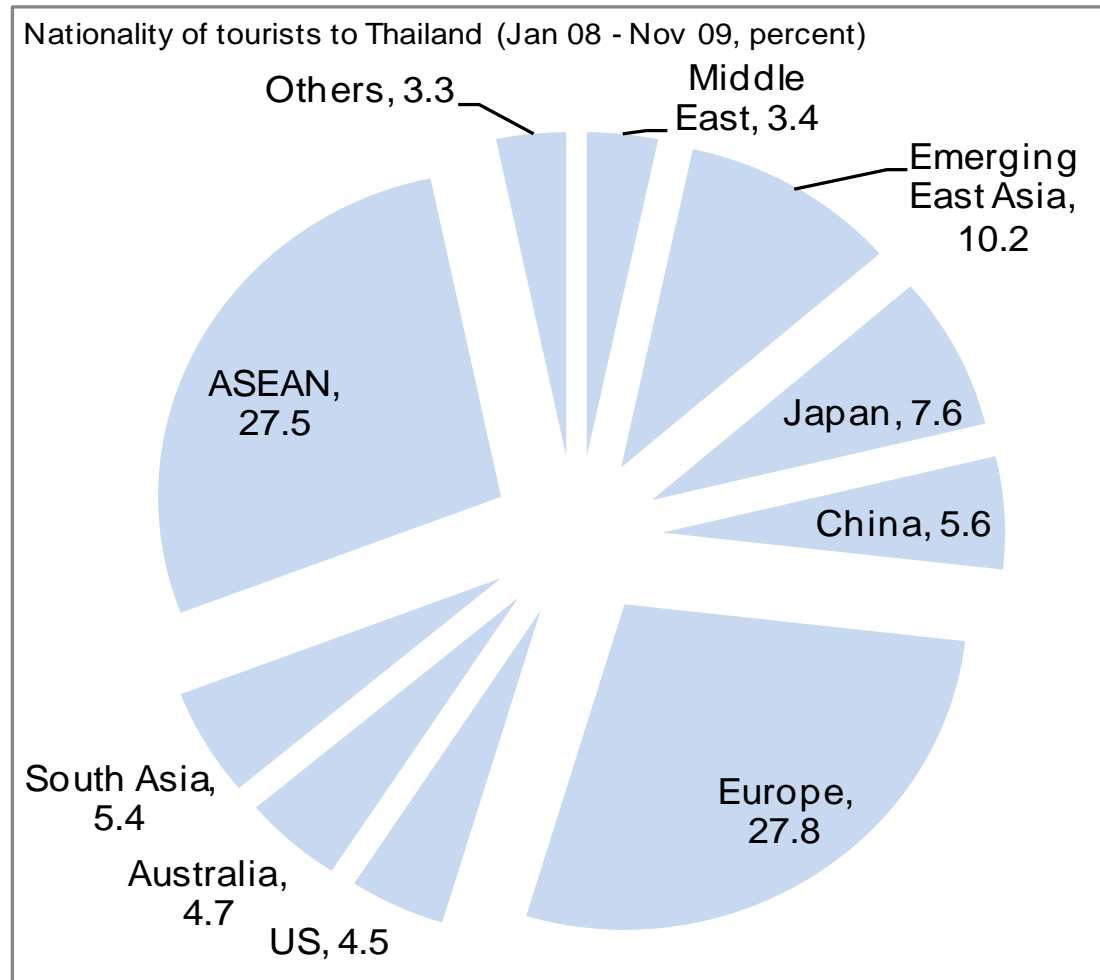


* Data for Greece are based on the assumption that adjustment amounting to 7.6% of GDP is implemented in 2010.



1. running on one engine: external demand

... as will a further weakening of the euro, which would also affect tourism. Europe is currently the major source of tourists in Thailand.



Source: Office of Tourism Development and World Bank staff calculations.



1. running on one engine

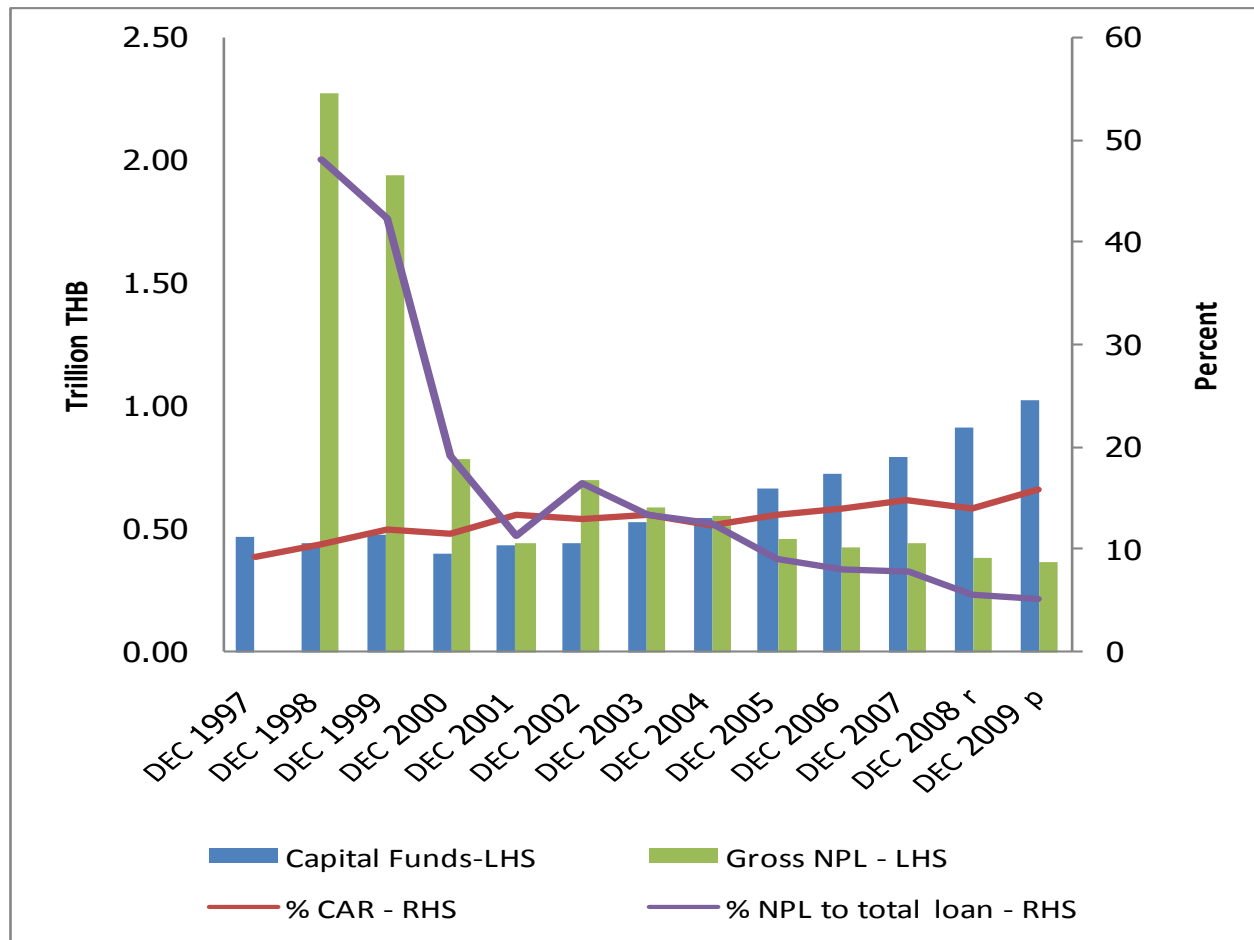
With the economy's fate tied to external conditions and global demand still below potential, growth will slow down to 3.6 percent in 2011.

- “Easy growth” factors will be exhausted in the first half of 2010:
 - base effects
 - reactivation of existing capacity
 - inventory restocking in Thailand and abroad
- External demand will continue to fuel Thailand's growth engine, but the pace will be below historical averages
 - unfinished recovery in US, Japan
 - fiscal consolidation and slow growth in Europe
 - Asian imports robust, but growth will slow down
- Sectors linked to domestic demand likely to grow even slower than in the past due to continued political uncertainties in 2011



2. resilience for long-term growth: strong 'body'

The financial structure of the Thai economy is solid with strong public, private, and external balance sheets.

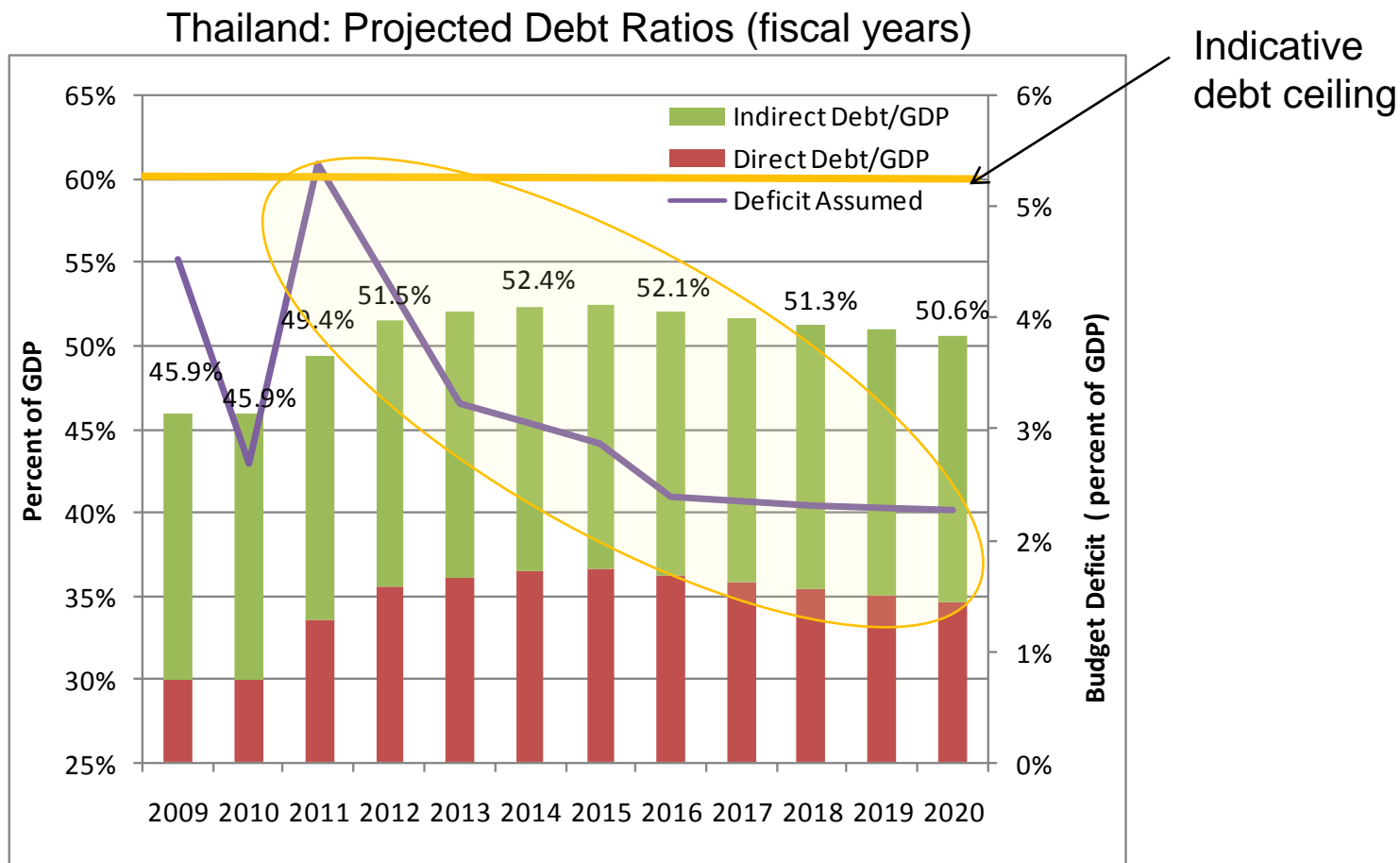


Source: Bank of Thailand



2. resilience for long-term growth: strong 'body'

Deficits must eventually be reduced to ensure debt sustainability...

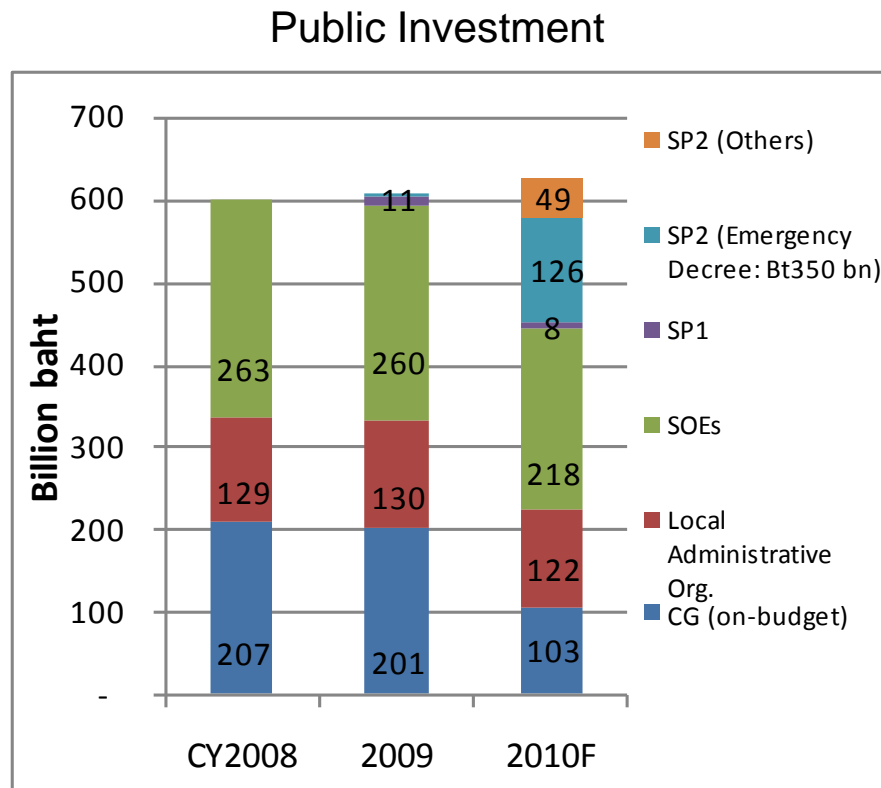


Source: FPO, PDMO and World Bank calculations and projections.



2. resilience for long-term growth: strong 'body'

... but more public investments are needed while disbursements of public investment plans have remained sluggish.

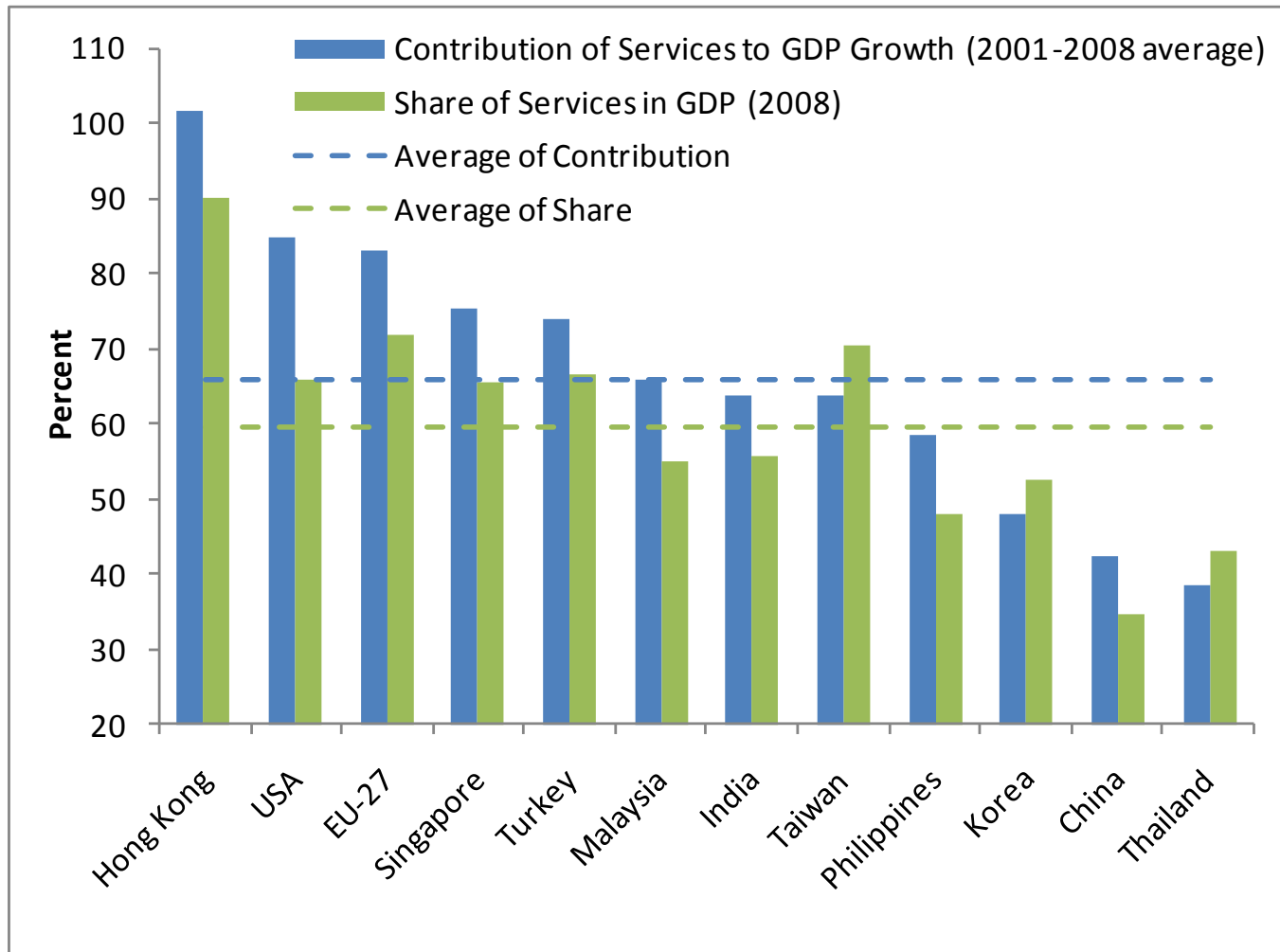


Source: FPO, PDMO and World Bank calculations and projections.



2. resilience for long-term growth: firing up the second engine

The services sector in Thailand underperformed compared to its peers and services as a share of GDP declined between 2001 and 2009.



Source: CEIC and World Bank Calculations



2. resilience for long-term growth: firing up the second engine

A long-term growth strategy should include both sectors linked to domestic as well as external demand.

- Elements of a new growth strategy potentially include:
 - Higher growth in the services sectors, especially in high-value added services such as medical tourism or creative industries, possibly driven by increased trade in services
 - Increase in the number of high value-added tasks in manufacturing (such as product design and development) that are performed in Thailand
 - Boost productivity in agriculture
- These elements may call for, among others:
 - an increased supply of highly-skilled and creative professionals
 - regulatory and institutional reforms (e.g. in the services sector)
 - greater regional integration and trade of both goods and services



summary: growth projections

The economy is expected to grow by 6.1 percent supported by export-related manufacturing on the production side and inventory restocking and exports on the demand side.

Real GDP Growth Rates - Percent, Year-on-Year								
	Share in	2009	2010				2010	2011
	2009 GDP	Year	Q1	Q2	Q3	Q4p	Year(p)	Year (p)
Consumption	63.2	-0.1	4.5	0.4	0.9	2.7	2.1	3.7
Private	53.1	-1.1	4.0	1.4	2.0	2.0	2.3	3.5
Public	10.1	5.8	6.9	-5.0	-4.0	6.5	0.8	5.0
Gross Fixed Capital Formation	20.7	-9.0	12.6	6.1	6.0	7.6	8.0	5.4
Public	5.7	2.7	2.7	4.0	5.0	6.5	4.6	5.0
Private	15.0	-12.8	15.8	7.0	6.5	7.9	9.3	5.5
Change in Inventories	-2.3	-268.2	137.1	260.0	88.0	-94.0	-145.6	-40.0
<i>memo: level of chg. in inventories</i>		-98,510	24,773	23,251	-4,217	1,081	44,888	26,933
Total Domestic Demand	81.5	-6.6	18.6	6.2	5.8	2.0	7.8	3.6
Exports	65.1	-12.7	16.2	17.7	11.5	7.0	12.8	7.0
Goods	52.4	-14.0	16.5	20.6	13.2	8.0	14.3	7.7
Services	12.8	-6.9	15.0	4.0	3.5	3.0	6.6	4.0
Imports	46.6	-21.8	31.4	25.0	15.1	6.7	18.5	8.2
Goods	36.8	-23.7	43.2	31.0	17.0	6.1	22.4	9.0
Services	9.8	-13.5	-4.5	4.0	7.0	9.5	4.0	4.5
Net Foreign Demand	18.5	23.4	-10.3	-4.2	2.1	7.6	-1.7	3.5
By Sectors:								
<i>Agriculture</i>	8.9	-0.5	0.2	0.5	1.5	1.0	0.8	2.0
<i>Industry</i>	44.1	-4.2	20.7	8.4	7.7	3.8	9.9	4.7
<i>Services</i>	47.0	-0.4	5.8	1.2	2.8	2.4	3.1	2.7
GDP	100.0	-2.2	12.0	4.6	5.1	2.9	6.1	3.6

Source: World Bank Projections





Thank you!

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