Macroeconomic Perspectives for Thailand

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Outline of presentation

• Current economic situation:
  Thailand, in Q4/08, experienced first contraction in 10 years.

• Economic outlook in 2009-2010:
  Domestic demand-led recovery; a challenging task for Thailand?

• Policy framework/guidelines to revive the Thai economy:
  Policy combination of short-term stimulus package and long-term investment projects aimed at strengthening economic and social fundamentals in a bid for Thailand to cope with a changing global economic landscape after this crisis?
Impacts of sub-prime and world economic crisis on Thailand

Direct impacts on financial institutions
- Total foreign exposure (which includes loan in foreign currency and investment in foreign debt and equities) as a percentage share to total assets of financial institutions was only approximately 7.5%
- Hence, direct impacts on financial institutions were limited.

Related impacts on International capital movement
- Capital outflows from portfolio investment
- Thai stock market’s volatility and decline in set index and hence decline in wealth
- Depreciation of baht currency

Impacts on Thai exports and tourism
- Contraction in world demand
- decline in trade finance
- growing concern over protectionism
Currently, the Thai economy is in a contraction period. Q4/08 saw the first economic contraction in 10 years.

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<tbody>
<tr>
<td>GDP</td>
<td>10.9</td>
<td>8.1</td>
<td>-5.9</td>
<td>3.9</td>
<td>5.6</td>
<td>3.8</td>
</tr>
<tr>
<td>Inflation</td>
<td>4.7</td>
<td>4.8</td>
<td>6.9</td>
<td>1.2</td>
<td>2.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Current Account/GDP</td>
<td>-7.7</td>
<td>-8.1</td>
<td>12.8</td>
<td>7.4</td>
<td>1.2</td>
<td>-0.1</td>
</tr>
<tr>
<td>External Debt/ GDP</td>
<td>44.4</td>
<td>65.9</td>
<td>69.9</td>
<td>56.1</td>
<td>32.8</td>
<td>26.8</td>
</tr>
</tbody>
</table>

Source: NESDB 1/ at the final year of each period

GDP Growth

- Low interest rate, banks' lending data and consumption expanded at an accelerating rate.
- Private investment expanded significantly.
- Noticeable recovery of the global economy bolstered the country’s exports.
- The Tsunami disaster
- High crude oil prices/inflation
- Oil price
- World economic recession
- Political unrest

Global economic recession

GDP at 1988 prices
Q4/2008 saw the first contraction in 10 years

GDP Growth

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Year</td>
</tr>
<tr>
<td>GDP</td>
<td>5.2</td>
<td>4.9</td>
<td>2.6</td>
</tr>
<tr>
<td>GDP (QoQ annualized)</td>
<td>5.2</td>
<td>4.9</td>
<td>2.6</td>
</tr>
<tr>
<td></td>
<td>6.0</td>
<td>5.3</td>
<td>3.9</td>
</tr>
<tr>
<td></td>
<td>-4.3</td>
<td>-6.1</td>
<td></td>
</tr>
</tbody>
</table>

Hampering factors:
- Military coup in September 2006
- Rapid increase in oil prices in H2/2007 and H1/2008
- World economic recession has prevailed since Q4/2008
- In Thailand, followed again by political unrest in 2009
Thailand’s Economic Outlook in 2009
Economic contraction will continue…

Risks & uncertainty associated with the outlook

- World econ. recession
  - Main economies (US, EU, Jap) contracted
  - Key Asian economies (Taiwan, S. Korea, HK, Thailand, Singapore) contracted
  - Emerging Asian Economies (China, India, Viet Nam) slow down

- Political uncertainty

- Consumer and business confidence
  key for policy effectiveness

- Dampen market sentiment and public confidence and delay the recovery of domestic demand

- Discourage domestic demand and limit effectiveness of accommodative policies

- Bottoming out in H1/2009?
  - Decline in consumption & investment
  - Decline in World trade volume
  - Reduction in manufacturing production
  - Gloomy confidence

- Weaker economic momentum in emerging Asia; an important regional growth engine

- Low CAPU & Excess capacity
  High unemployment

World scenario
…contributed by severe contraction in exports, which had been key driver to the Thai economic growth in 2006-2007. While domestic demand remain weak and policy effectiveness is constrained….

In 2008, however,
1. Imports increased much faster than exports. Net exports, therefore, contributed less to growth than in 2006-2007
2. Stocks were built up as the consequence of the surge in imports, particularly of such items as steel and iron, auto parts, electronic parts, and gold. Change in stocks, therefore, contributed a big share of growth in 2008.
Thailand Economic Outlook in Q1/09:
- Contraction in Consumption, Investment, and Supply side
- Sharp contraction in export
- Rising unemployment
- Decline in Consumer Confidence

<table>
<thead>
<tr>
<th>%YOY</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year</td>
<td>Year</td>
<td>Q1</td>
</tr>
<tr>
<td>Private Consumption Index</td>
<td>1.5</td>
<td>3.6</td>
<td>2.7</td>
</tr>
<tr>
<td>Value added Tax (VAT)</td>
<td>3.3</td>
<td>9.0</td>
<td>9.9</td>
</tr>
<tr>
<td>Private Investment Index</td>
<td>-0.5</td>
<td>3.5</td>
<td>5.9</td>
</tr>
<tr>
<td>Export value</td>
<td>17.3</td>
<td>16.8</td>
<td>23.8</td>
</tr>
<tr>
<td>- excluding gold</td>
<td>16.6</td>
<td>15.7</td>
<td>22.9</td>
</tr>
<tr>
<td>Import value</td>
<td>9.1</td>
<td>26.4</td>
<td>35.0</td>
</tr>
<tr>
<td>- Capital goods</td>
<td>3.6</td>
<td>19.5</td>
<td>39.4</td>
</tr>
<tr>
<td>MPI</td>
<td>8.2</td>
<td>5.3</td>
<td>12.6</td>
</tr>
<tr>
<td>Capacity Utilization</td>
<td>72.6</td>
<td>67.7</td>
<td>73.6</td>
</tr>
<tr>
<td>Number of foreign Tourists</td>
<td>20.0</td>
<td>0.5</td>
<td>13.3</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>1.4</td>
<td>1.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Number of unemployment claim of insured workers (in thousand)</td>
<td>280.4</td>
<td>387.6</td>
<td>82.0</td>
</tr>
<tr>
<td>Consumer Confidence Index</td>
<td>77.1</td>
<td>77.8</td>
<td>79.4</td>
</tr>
<tr>
<td>Business Confidence Index</td>
<td>43.4</td>
<td>41.9</td>
<td>45.9</td>
</tr>
<tr>
<td>Industrial Confidence Index</td>
<td>80.9</td>
<td>77.2</td>
<td>84.1</td>
</tr>
</tbody>
</table>
Expenditure side: contraction in first 2 months of 2009

Private Expenditure

- Private consumption index: -5.5%
- Private investment index: -11.3%

International Trade

- Q1/09 Export value in USD term -19.8%
- Q1/09 Import value in USD term -38.3%

Both export and import value sharply contracted in Q1/088

Source: BOT
Imports by economic classification: **broad-based contraction**

<table>
<thead>
<tr>
<th>(% YOY)</th>
<th>2008</th>
<th>2009_p</th>
<th>%Share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year</td>
<td>Q1</td>
<td>Q2</td>
</tr>
<tr>
<td>Consumer goods</td>
<td>25.1</td>
<td>37.3</td>
<td>32.6</td>
</tr>
<tr>
<td>Raw mat. &amp; intermediate</td>
<td>21.9</td>
<td>25.8</td>
<td>27.2</td>
</tr>
<tr>
<td>Capital goods</td>
<td>19.5</td>
<td>39.4</td>
<td>17.0</td>
</tr>
<tr>
<td>Auto and parts</td>
<td>24.4</td>
<td>40.6</td>
<td>28.4</td>
</tr>
<tr>
<td>Crude oil &amp; lubricant</td>
<td>44.2</td>
<td>68.5</td>
<td>51.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>27.6</td>
<td>37.9</td>
<td>29.3</td>
</tr>
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Source: BOT  p: preliminary
On the production side:
Agriculture output and prices are likely to slow down.

Source: BOT
Production side:
continued decline in first 2 months

Production

- **MPI -20.5%**
  (Jan. -21.3%  Feb. -19.8%)
- **CAPU = 56.2%**
  (Year 2008 = 67.6%
  Year 1997 = 69.9%)

Services

- **Number of foreign tourists: -16.9%**

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<thead>
<tr>
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<tbody>
<tr>
<td>Foreign tourists (Mil. persons)</td>
<td>1.29</td>
<td>1.14</td>
</tr>
<tr>
<td>(%Y0Y)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1-19 April</td>
<td>10.5</td>
<td>23.2</td>
</tr>
</tbody>
</table>

Number of Tourists declined

- **Number of foreign tourists**:
  - 2005: 1,600
  - 2006: 1,400
  - 2007: 1,200
  - 2008: 1,000
  - 2009: 800

- **%YoY**:
  - 2005: -50%
  - 2006: -40%
  - 2007: -30%
  - 2008: -20%
  - 2009: -10%

- **2006 2007 2008 2009**

- **%**
  - 2005: 20
  - 2006: 40
  - 2007: 60
  - 2008: 80

- **Capacity Utilization (RHS)**
- **MPI (LHS)**
### Manufacturing Index (MPI, % growth)

<table>
<thead>
<tr>
<th>Year</th>
<th>Year</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Jan.</th>
<th>Feb.</th>
<th>2m</th>
</tr>
</thead>
<tbody>
<tr>
<td>MPI growth</td>
<td>8.2</td>
<td>5.6</td>
<td>12.6</td>
<td>10.1</td>
<td>7.6</td>
<td>-8.1</td>
<td>-21.2</td>
<td>-19.8</td>
</tr>
<tr>
<td>- Export &lt; 30%</td>
<td>2.1</td>
<td>6.4</td>
<td>12.7</td>
<td>9.9</td>
<td>4.6</td>
<td>-1.2</td>
<td>-15.6</td>
<td>-21.1</td>
</tr>
<tr>
<td>- 30%&lt;Export&lt;60%</td>
<td>1.0</td>
<td>-1.3</td>
<td>3.5</td>
<td>1.3</td>
<td>-0.8</td>
<td>-9.9</td>
<td>-11.7</td>
<td>-14.5</td>
</tr>
<tr>
<td>- Export &gt; 60</td>
<td>18.0</td>
<td>8.2</td>
<td>18.8</td>
<td>15.8</td>
<td>14.4</td>
<td>-11.5</td>
<td>-30.9</td>
<td>-22.3</td>
</tr>
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### Capacity Utilization (CAPU, % rate)

<table>
<thead>
<tr>
<th>Year</th>
<th>Year</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Jan.</th>
<th>Feb.</th>
<th>2m</th>
</tr>
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<tbody>
<tr>
<td>CAPU</td>
<td>72.5</td>
<td>67.6</td>
<td>73.5</td>
<td>69.2</td>
<td>67.9</td>
<td>60.1</td>
<td>57.1</td>
<td>55.4</td>
</tr>
<tr>
<td>- Export &lt; 30%</td>
<td>76.0</td>
<td>75.4</td>
<td>79.2</td>
<td>78.1</td>
<td>75.3</td>
<td>69.5</td>
<td>67.2</td>
<td>64.2</td>
</tr>
<tr>
<td>- 30%&lt;Export&lt;60%</td>
<td>69.3</td>
<td>64.8</td>
<td>80.2</td>
<td>63.3</td>
<td>61.7</td>
<td>54.1</td>
<td>64.4</td>
<td>60.6</td>
</tr>
<tr>
<td>- Export &gt; 60</td>
<td>70.1</td>
<td>59.8</td>
<td>63.6</td>
<td>61.9</td>
<td>62.3</td>
<td>52.4</td>
<td>41.7</td>
<td>42.6</td>
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Rise in unemployment

- Unemployment rate in Jan/09 = 2.4% (year 2008 = 1.4%)
- Number of unemployed person in Jan/09 was 900 thousand persons, up from 500 thousand in Dec/09
- Number of claims for unemployment compensation (for insured workers) totaled 245 thousand persons in Q1, increased by 198.8%
**Prices:**

- **Headline inflation** = -0.3% in Q1/09
- **Core inflation** = 1.6% in Q1
- **Producer price index** declined by 3.5% in Q1

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<tbody>
<tr>
<td>H. Inflation</td>
<td>-0.4</td>
<td>-0.1</td>
<td>-0.2</td>
</tr>
<tr>
<td>Core inflation</td>
<td>1.6</td>
<td>1.8</td>
<td>1.5</td>
</tr>
<tr>
<td>PPI</td>
<td>-2.5</td>
<td>-4.0</td>
<td>-4.0</td>
</tr>
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Thailand’s Stimulus Packages and Macroeconomic management
Policy mix/Policy coordination
to stabilize and stimulate the economy

**Monetary Policy**
- Low Interest Rate policy
  - From 2.5% to 1.25%
- Closely monitoring of financial liquidity

**Fiscal Policy**
- Support for consumer spending through...
- Public investment Projects

**Stimulus Package I**
- Personal tax cuts & Transfer payment
  - e.g. more generous unemployment insurance benefit, subsidy to senior citizen, cash handout for low income-earners, free education, etc.

**Stimulus Package II**
- 3-Years Public Investment Projects
  - e.g. Infrastructure projects, education development-related projects, water system development projects, health care upgrading-related projects etc.

**Macro prudential policy**
- to prevent financial imbalances and to ensure stability of financial institutions
Economic recovery measures

Stimulus Package 1
Stimulus Package 1

- Strong boost to domestic demand is key and imperative for the road to recovery in 2009 while Thai exports will contract throughout 2009. The measures under SP I are aimed to mitigate impacts of economic slowdown.

- In January 2009, Abhisit's government announced a Bt116.7 billion (US$3.35 billion) stimulus package aimed at boosting domestic demand shore up an economy which has been battered by the global downturn and political turmoil and last year's airport blockade. Excluding an amount paid back to treasury balance, this is a one-year 2,700 mil. USD (or 93,000 million baht) program.

- The stimulus package was 2009 based on 4 principles as guidelines for implementation, namely timely, transparent, temporary, and targeted.

- The plan comprised a mix of cash handouts for low earners, tax cuts, tax deductible for mortgage payment up to 300,000 baht, expanded free education, monthly payments to the elderly and volunteer health-care workers, and subsidies for transport and utilities.

- If implemented by Q2/2009, potential boost of GDP is expected to be around 0.5-0.7 percent of GDP.
Economic recovery measures

Stimulus Package 2
Three-year 1.56 trillion baht or 45 billion USD of public investment plan was announced in March 2009.

- Public investment programs will be in effect for 2010-2012
- Stimulate economic activities and create jobs in the SR and also build strong economic and social foundations in the LR to enhance competitiveness in the context of stronger tide of globalization and regional integration
- Also include community involvement

- Projects to develop and improve water grid system
- Programs to develop and improve infrastructure, logistic system, and other public services/facilities
- Programs to promote tourism income
- Projects to increase potential of Thailand’s creative economy
- Plans to upgrade quality of Thai education
- Projects on health care/public health system reform
- Investment projects to upgrade income-earning of Thai people especially those in the rural areas
Key concerns: Political uncertainty and low public confidence could be constraints for policy effectiveness

- If fully disbursed and timely implemented could increase public investment by 0.2% of GDP in 2010, 0.5% of GDP in 2011, and 1% of GDP of 2012.

- If fully implemented, will stimulate growth and improve Thailand’s competitiveness.

- The government is working in preparing project details to reduce risk of implementation delay so that to achieve full impacts.

- Political uncertainty and protracted low public confidence remain key risks for policy effectiveness.

- Government’s deficit is appropriately counter-cyclical and the deficit must be managed to decline after a few years.
The economy is likely to contract by 5%-6%, in H1/2009, before it recovers to zero growth, yoy, in H2/09 provided the world economic and political factors improve in H2. Positive yoy growth in H2 is possible on the back of effective implementation of SP I and SP can kick in right away in Q4/09.

Depletion of stocks in H1 is reflected in the reduction of imports and production to a greater extent than the decline in sales. It is, thus, expected that more product line will resume in H2. That means laying off of labour should bottom in H1.

Private investment will contract by 5%-8% in 2009.

There is still possibility that private consumption expenditure increase slightly by 1%-2%, supported by government programs.
Growth Outlook....

• However, in terms of growth component in 2009, the GDP data in 2009 could be significantly contributed by net exports, given that imports will contract more severely. Big contribution from domestic demand is expected to realize in 2010 when the SP II is implemented.

• Contraction in imports and bigger reduction in production than is sale will be on the expenses of de-stocking of inventory. That is stock accumulation will likely be negative contribution for growth in 2009 as compared to relatively large positive contribution in 2008.

• Trade surplus is predicted based on the prospect of faster decline in imports than in exports. The pressure on baht currency will subside, as a result.
Thank you

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