

The Last Quarter of ECONOMIC OUTLOOK OF THAILAND

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The economy of Thailand in the past appears to have been driven by exports with competition in the wake of the appreciating baht in the first half of the year. Growth factor remained strong nonetheless. This has adversely affected exporters using high local content and faced losses because the orders had been accepted prior to the period the baht began to appreciate. Several factories were forced to close down their business operations. **Looking at the collective picture of exports for the first 8 month of the year, the expansion reached 16.9% and the expansion in baht terms came to 5.14%.** It is expected that average exports for the last 3 months of the year are not likely to exceed 8 – 10 percent. This made total exports for the year to expand by not more than 13.0 percent. Exports volume is about 144.9 thousand million US dollars. Now, this is the first year when Thai exports have begun to shrink to the level of 60.37% of GDP (against past statistics of 65 percent of GDP). It is expected that the economy generally should fare good ahead of the general elections. At the same time, confidence in consumer goods sector and investments remain healthy to some extent. The situation derives from the local political situation and the poor performance of the government. Politicians of the current era failed to inspire public confidence in their ability to govern. Under this scenario, businesses may all have to tighten their belts as any hope of economic recovery by the current government dims as it is slowly disintegrating with many cabinet ministers quitting. In short, the current government can be expected to do nothing more than keeping the economy afloat until the general elections and an elected government takes over.

Thai economy keeps moving at present thanks to the exports sector and the spending on the part of the government itself. There are indications that by end of September, government spending should reach 93 percent of the budget of 1,306,842.9 million baht. This should boost consumerism and yet confidence of consumers **and investment slowing down should all result in the economy dampened until the end of this year.** Cash flow during the election period is forecasted to be good, although the index for the confidence about industrial sector in the month of August was seen to be adjusting itself at the level of 76.0 .

The adjustment was a plus factor slightly over the July statistics of 72.7 . It is expected that this year industrial sector expansion may be just 6% over the previous years 6.5%. In this nexus, consumer spending for the whole year by private sector (Consumption) will expand at 1.7% with state expenses (Government Spent) expanding at 7.8% so that total consumer index spending expands at 2.6% which is regarded as exceedingly low compared to the year 2006 figure of 3.2% and 2005's rate of 5.5% and in 2004 the expansion was 6.1%. The drop in consumer index pattern is attributed to the lack of confidence by consumers with political uncertainties before and after the general elections. Political uncertainties before and after the elections coupled with national insecurity in the 3 southern provinces dampen the investment climate and it is bound to slow down despite BOI's efforts and approvals reaching several hundred thousand million baht. But must wait and see result after the elections.

Factors With Bearings On Economic Growth of Thailand in 2008 (Q₁ – Q₂)

Asian Development Bank in its economic forecast for 2007 for Thailand said the economy would grow at 4.0 – 4.20 percent, regarded as lower than average for Thailand against this year's forecast of 8.3% and this means Thai economy fell below that of Indonesia and Philippines. ADB again for Thai economic forecast for Thailand for 2008 put the growth level at 5.0 %. Nevertheless, based on assessment of Office of the National Economic and Social Development Board and The Bank of Thailand, Thai economy for 2007 shall be at 4.0-4.5% (first quarter at 4.2% second quarter at 4.4%) and in 2008, the economy would expand at around 4.5-6.0%.

Risk Factors To Be Analyzed vis-à-vis Economic Outlook for Thailand comprised the following:

1. **Political Instability facing the government.** The government in its present stage of limbo could not solve economic and political problems effectively. Particularly concerning consumer spending which expands at 1.7% this year only. Towards the end of the fiscal year in September, the government spent pushed up its expenditures to over 93% which made consumer spending and investment to expand around 7.8%.
2. **Political Worries** center on the next government's instability and uncertainties as to whether it will be able to ride through political upheavals. Other concerns center on politicians performance, honest and transparency and there is the general concern about old political clique surfacing to serve the vested interests of those who held power in the past. These adverse factors dampened consumer spending; The Federation of Thai Industries (FTI) index has grown nonetheless from 72.7 to 76.0 level but The Thai Chamber of Commerce : Board of Trade of Thailand index drop from 69.5 to 69.2.
3. **The Shrinking Economy** with particular respect to SMEs as a result of the stagnant economy and credit extensions also tightened up so that there is just 2% expansion, regarded as very low compared to the 2006 figures when the expansion was recorded at 7-8%. Such tight credit situation posed obstacles to the economic recovery at the end of 2007 which is likely to extend into the 2nd quarter of 2008. But some favorable factors have been seen in the investment horizon. New projects are surfacing with investment in the range of 500,000 million baht and above, although in real money terms, the expansion could be not more than 1.5 and 2% and investments expanding at 3.9%.
4. **Global Economic Slow Down.** Looking at the major competitors reeling in the wake of rising oil prices in October that is about 74-80 USD / Barrel coupled with sub prime Crisis arising out of bubble economy in USA bursting which depressed consumer spending. US exports expansion average stood at 15%. The ASEAN group of countries is also not doing so well, with direct and indirect exports to USA at a high level of 25%. Japan also requires consideration whose economy also faced a slow down.
5. **Exchange Rate Fluctuation Worries.** Baht has suffered from the greenback's sliding downwards; although over the Past 1-2 months Thai baht exchange rate remained stable, at 34.26 to a US dollar, it is regarded as a decrease in the factor of appreciation compared to neighbor countries currency. Exchange rate risk factors towards the end of the year until the early part of next year require close monitoring because of dollar outflows with speculators using baht to make profits, including Carry Trade, and Baht remains vulnerable.

Moreover, Financial Tools in the hands Bank of Thailand remain limited so that the problems are likely to persist in early next year.

All these factors are responsible for the economic slow down in the last 3 quarters of the year which is likely to extend into next year. Of interest is the political situation and the government's ability to tackle problems. The new government to be elected in 2008 is also of concern.

	Actual data		Estimates	
	2004	2005	2006	2007
GDP (thousand million baht)	6,489.8	7,087.7	7,813.1	8,399.0
GDP ate of expansion (prices stable, %)	6.3	4.5	5.0	4.0-4.5
Total investment, private Stable price, %)	16.2	10.9	3.9	1.0
Total investment, state Stable price, %)	5.0	11.3	4.5	3.0
Total consumer spending Private	6.2	4.3	3.1	1.7
Total exports value (thousand million USD)	94.9	109.2	128.2	144.9
Rate of expansion (%)	21.6	15.0	17.4	13.0
Rate of expansion (%)	8.4	4.3	9.0	8.5
Imports volume	93.5	117.7	126.0	135.4

Source : Office of the National Economic and Social Development Board.
3rd September 2007.