

Thailand

A vigorous economic recovery in the first half of 2010 was driven by a rebound in exports that kick-started industrial production and stimulated investment. Private consumption also recorded solid growth. Second-half growth will show a more subdued pace given base effects, but the full-year 2010 GDP forecast is raised sharply from that projected in April's *Asian Development Outlook 2010 (ADO 2010)*. The more moderate pace of growth in the second half of 2010 is forecast to continue in 2011. An appreciating exchange rate for the baht and rising interest rates will help to curb inflation.

Updated assessment

Recovery from the 2009 economic slump was stronger than expected, especially in the first quarter of 2010 when GDP rose by 12.0% year on year. The momentum continued into the second quarter. It was interrupted when political tensions that had been simmering over recent years boiled over into violent demonstrations over 7 weeks in central Bangkok during April and May. But as the violence was confined mainly to a section of the capital, the economic impact was limited: GDP grew by 9.1% in the second quarter (Figure 3.9.1), and by 10.6% in the January–June half.

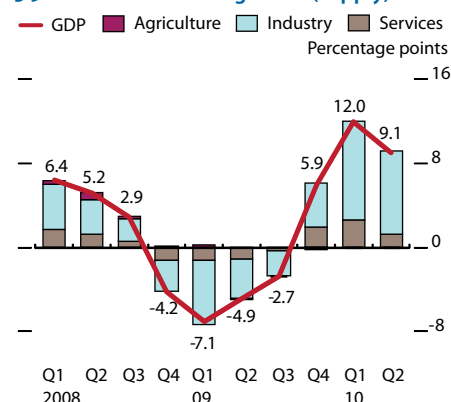
A rebound in exports kick-started the recovery, but domestic demand contributed virtually all the gain in first-half GDP (Figure 3.9.2). Private consumption increased by 5.3%, after contracting by 2.3% in the prior-year period. Supporting factors included the much-improved economic and labor-market outlook, higher farm incomes due to rising prices of crops, and fiscal stimulus measures put in place during the recession. Sales of durable goods, such as electrical appliances and passenger cars, surged in the first half (the latter by nearly 60%).

Government consumption expenditure rose by 6.8%, partly owing to disbursements of fiscal stimulus programs initiated in 2009. The government also paid compensation (in the form of grants, soft loans, and tax breaks) to businesses damaged during the violence.

Fixed capital investment increased steeply by 12.5% in the first half, mainly a result of stronger private investment, which rebounded by 17%. Substantial increases were recorded in machinery and equipment investment as businesses expanded production capacity in response to the stronger export and domestic demand for manufactured products. Private construction rose by 9%. That reflected a pickup in both residential and commercial building, stimulated by temporary tax incentives. Fixed capital investment contributed 2.6 percentage points to GDP growth.

Public investment fell slightly in that half relative to a year earlier, owing to slow disbursement of investment by state enterprises, including those in the Map Ta Phut industrial estate. Seventy-six projects were suspended there when a Thai court ruled in September 2009 that

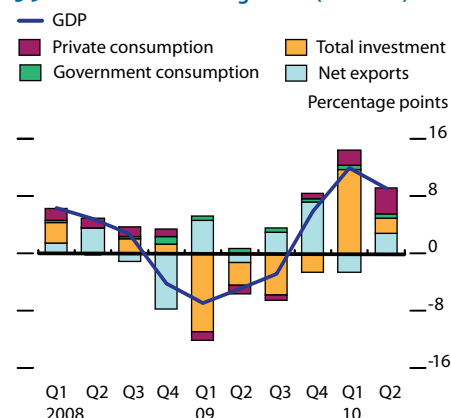
3.9.1 Contributions to growth (supply)



Source: National Economic and Social Development Board. <http://www.nesdb.go.th> (accessed 2 September 2010).

[Click here for figure data](#)

3.9.2 Contributions to growth (demand)



Source: National Economic and Social Development Board. <http://www.nesdb.go.th> (accessed 2 September 2010).

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operating licenses had been issued without completion of the necessary environmental impact assessments. Since then, the government has clarified which industries must undertake these assessments and, in September 2010, the court decided that all but two of the projects could proceed. (The two that remained suspended can resubmit applications for licenses after completing their assessments.)

Disbursement of funds under the Thai Khem Kaeng (Strong Thailand) infrastructure program that started in October 2009 was also behind schedule (69% of the allocated amount was disbursed in the 10 months through July 2010).

On the supply side, industry rebounded by 18.7% in the first half of 2010, after it contracted in the prior-year period, and it contributed nearly all the GDP growth. Spurred by the bounce in export demand, manufacturing production soared by about 23% in January–March (Figure 3.9.3), and by 18% in April–June. Shipments abroad of passenger cars nearly doubled in value in the first 6 months, and those of electrical appliances jumped by two-fifths.

Services started the year on a strong note, but its growth slowed when the political strife and violence eroded consumer confidence and reduced inbound tourism for a time. Still, tourism arrivals rose by 12.1% in the first half (Figure 3.9.4). (Some visitors bypassed the capital and went to other Thai cities.) Agricultural production fell slightly in the first half because of drought and pest infestations in rice and cassava crops.

Growth in manufacturing and services absorbed most of those who lost jobs in 2009, so that by midyear there were signs of labor shortages in some industries.

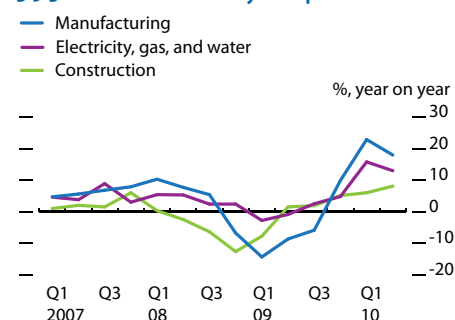
Consumer prices had declined for much of 2009, turning up late last year as domestic demand lifted and global oil prices rallied. The consumer price index continued to edge higher in the first 8 months of 2010, easing a little in April, when the demonstrations in Bangkok dented consumer sentiment (Figure 3.9.5). Inflation averaged 3.4% year on year in January–August. An appreciation of the baht against the US dollar (by 5.3% over the same 8 months) helped to mitigate the impact of higher import prices.

During the global crisis, the Bank of Thailand lowered its policy interest rate by 250 basis points to 1.25%. It maintained that low rate through the first half of 2010. After the domestic political situation settled somewhat, and in the context of the revival of the economy and inflation, the central bank started to normalize the policy rate, with increases in July and August of a cumulative 50 basis points (Figure 3.9.6).

As world trade recovered from the 2009 slump, Thailand's merchandise exports rebounded by 36.6% in US dollar terms in the first half of 2010 from the prior-year period. Exports also benefited from tariff reductions effective January 2010 under the ASEAN Free Trade Area (AFTA) agreement. Shipments to Southeast Asian markets jumped by 55.2% in value in the first half. Furthermore, exports to rapidly growing India and the People's Republic of China soared by about 54% and 48%, respectively (against an increase of 27% in exports to major industrial economies—Figure 3.9.7).

Imports soared by 51.7% in January–June 2010, from low levels in the first half of 2009. The sharpest rise was in imports of semifinished goods and raw materials (up by 63%), much of this destined for export-oriented

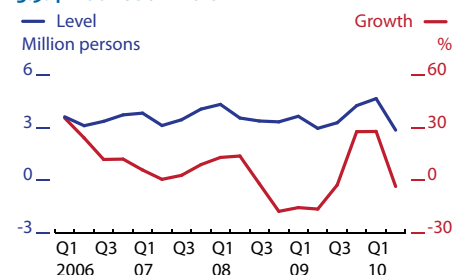
3.9.3 Growth in industry components



Sources: National Economic and Social Development Board. <http://www.nesdb.go.th> (accessed 2 September 2010).

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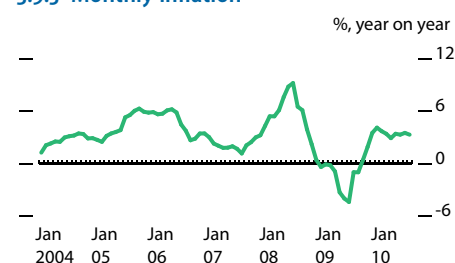
3.9.4 Tourist arrivals



Source: National Economic and Social Development Board. <http://www.nesdb.go.th> (accessed 2 September 2010).

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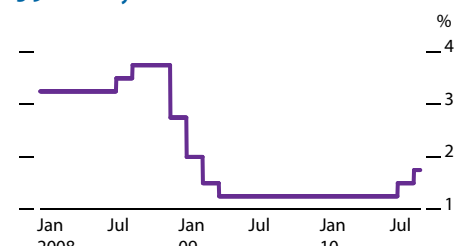
3.9.5 Monthly inflation



Sources: CEIC Data Company; Bureau of Trade and Economic Indices. <http://www.price.moc.go.th> (both accessed 2 September 2010).

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3.9.6 Policy rate



Source: Bloomberg (accessed 5 September 2010).

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manufacturing. Imports of capital equipment rose by 32%, reflecting the boost in fixed investment, and imports of consumer goods climbed by 36%. Higher global oil prices contributed to the rise in the import bill.

The current account registered a surplus of \$6.5 billion in the first half of 2010 (4.2% of GDP), mainly a result of a substantial \$6.7 billion surplus in merchandise trade. The capital and financial account recorded a net inflow of \$5.8 billion in the form of portfolio, direct, and other investment such as loans. However, foreign direct investment inflows have been weakening for several years (Figure 3.9.8).

International reserves rose by 22% to a sizable \$151.5 billion in the 12 months to July 2010, equal to 9.6 months of import cover and 4.7 times the short-term external debt.

Domestic financial markets have been buoyant. The SET index of share prices rose by almost 30% in the first 8 months of 2010, recovering from a dip in April–May during the worst of the strife. Demand for government bonds pushed down the yield on 10-year securities by about 1 percentage point to 3.3% over the first 6 months.

The government budgeted to rein in the fiscal deficit to the equivalent of 3.8% of GDP in FY2010 (ended 30 September 2010), from 4.3% of GDP in FY2009. Revenue grew much faster than expected, so the actual FY2010 gap is likely to be just 0.5% of GDP, or less. Most of the financing for the infrastructure program is off-budget.

Public debt as a ratio to GDP declined a touch to 43.2% by June 2010, from 43.9% at end-2009. Nevertheless, the debt is still above the 38.1% level seen in 2008, the result of government borrowing, mainly in domestic markets, to fund fiscal stimulus programs during the economic slump. Strong revenue inflows in the first half of 2010 reduced the need for the government to issue bonds for financing the fiscal deficit in this period.

Prospects

The projections assume that the political situation will be relatively calm during the forecast period, and that national elections scheduled to be held in 2011 will go smoothly.

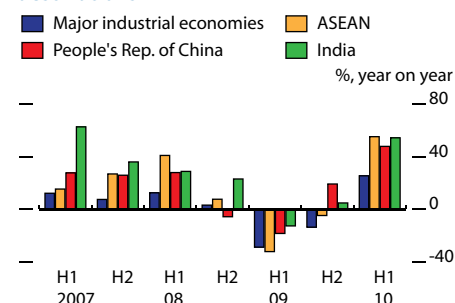
Fiscal policy will likely be aimed at supporting economic growth during the forecast period and ahead of the elections, reinforced by off-budget expenditure under the Thai Khem Kaeng infrastructure program, which runs through 2012. The government is targeting a FY2011 fiscal deficit equivalent to 4.1% of GDP, significantly wider than the expected FY2010 deficit.

As for monetary policy, the Bank of Thailand is expected to edge its policy rate higher in the context of a continuing economic recovery, moderate inflation pressures, and currently negative real interest rates.

The outlook for exports is for further growth, but not at the rapid recovery pace seen in the first half of 2010. For full-year 2010, merchandise exports are projected to increase in value by 25%, stronger than anticipated in April. The forecast for imports is also raised, to 35% for this year. Growth in tourism has resumed after the decline in April–May, and prospects are good for the tourism industry next year.

Private consumption is expected to grow in the second half of 2010, given a recovery in consumer confidence after the April–May

3.9.7 Export growth, selected other destinations

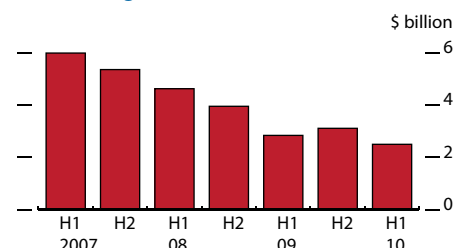


ASEAN = Association of Southeast Asian Nations (Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam).

Source: Bank of Thailand. <http://www.bot.or.th> (accessed 2 September 2010).

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3.9.8 Foreign direct investment



Source: Bank of Thailand. <http://www.bot.or.th> (accessed 2 September 2010).

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3.9.1 Selected economic indicators (%)

	2010		2011	
	ADO 2010	Update	ADO 2010	Update
GDP growth	4.0	7.0	4.5	4.5
Inflation	3.5	3.2	3.0	3.0
Current acct. bal. (share of GDP)	4.0	4.0	2.0	3.0

Source: ADB estimates.

demonstrations (Figure 3.9.9) and higher farm incomes. The private consumption index was growing at relatively high rates at midyear (Figure 3.9.10).

Several government decisions this year will bolster private consumption. Concessions for low-income households—free electricity, water, and public bus and train services—have again been extended, this time through end-2010. The government will provide low-interest loans to low-income households so that they can repay higher-interest debt owed to loan sharks. It will also promote microfinance to improve such households' access to finance. Further, the authorities maintained a freeze on the price of gas used for cooking and for fueling motor vehicles until February 2011.

A 5% wage rise for most government employees from April 2011 will contribute support to consumption spending next year.

Private investment is likely to be underpinned by expectations of further gains in world trade through the forecast period and by growth in bank lending. The government's clarifications of environmental regulations, plus the September 2010 court ruling on the Map Ta Phut projects, should assist the effort to attract investment into industry. The index of business sentiment is higher in 2010 than other recent years, despite a dip during the demonstrations (Figure 3.9.9, above).

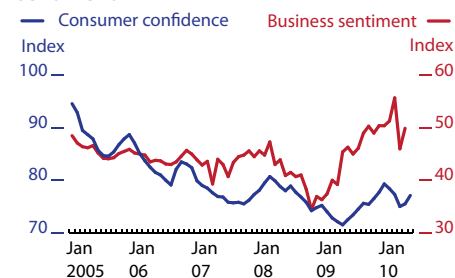
Taking into account the vigorous recovery in the first half of 2010 and the outlook discussed above, the 2010 GDP growth forecast is raised to 7.0% (Figure 3.9.11). Growth in the second half will decelerate markedly, owing to a base effect and expected slower pace of expansion in several external markets such as the PRC. These influences will continue in 2011, when Thailand's GDP growth is seen at 4.5%. The current account is forecast to remain in surplus (equivalent to about 4% of GDP this year and 3% in 2011—Figure 3.9.12).

Inflation for 2010 is forecast to average 3.2%, kept in check by the gradual rise in interest rates and the appreciating baht. Next year, inflation is forecast to be slightly lower, about 3.0%, owing to the deceleration in domestic economic activity coupled with likely modest increases in global oil and commodity prices. Capital inflows and current account surpluses will likely maintain pressure on the baht to appreciate, although the Bank of Thailand might well move to moderate the currency's rise if it sees the pace as excessive.

Risks to the outlook include the frail recoveries in industrial economies and a possible resurfacing of domestic political tensions. Addressing divisions in Thai society illustrated by several years of political turmoil and the violent demonstrations earlier in 2010, the government has drawn up a so-called reconciliation framework that includes a goal of narrowing social and economic gaps. So far, the focus is on broad social protection policies rather than policies to improve economic opportunities in less developed regions of the country.

The government has approved, in principle, the establishment of a national saving fund to provide pensions for people in the informal sector. It has also agreed to the idea of a farmers' welfare fund that would provide pensions and other benefits to farmers and their families, and that would offer financial support for rice production. While there is a need to strengthen the social safety net, it will be important to ensure that the policies are fiscally sustainable in the longer term.

3.9.9 Consumer confidence and business sentiment

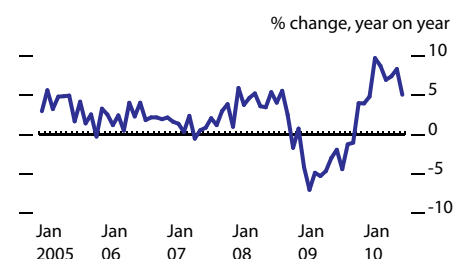


Note: A reading of less than 100 for consumer confidence and less than 50 for business sentiment denotes a deterioration.

Sources: Center for Economic and Business Forecasting; Bank of Thailand. <http://www.bot.or.th> (both accessed 10 September 2010).

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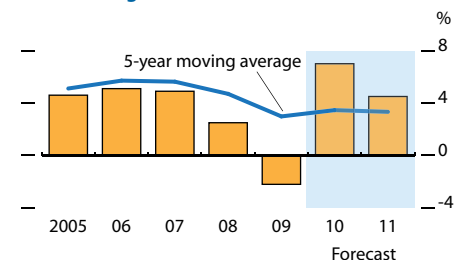
3.9.10 Composite private consumption index



Source: Bank of Thailand. <http://www.bot.or.th> (accessed 10 September 2010).

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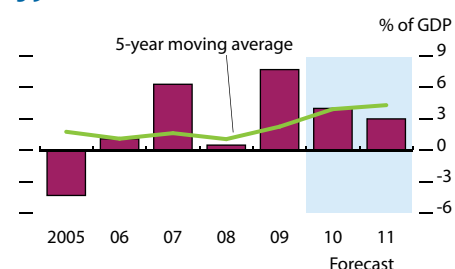
3.9.11 GDP growth



Source: Asian Development Outlook database.

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3.9.12 Current account balance



Source: Asian Development Outlook database.

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