

**High-level Regional Policy Dialogue on
"Asia-Pacific economies after the global financial crisis: Lessons learnt,
challenges for building resilience, and issues for global reform"**

6-8 September 2011, Manila, Philippines

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UNESCAP and BANGKO SENTRAL NG PILIPINAS**

Country Experiences 1: ASEAN Economies

Presentation

**Impact of Global Economic Crises on Thai Economy,
Thailand's Current Economic Situation and Future Trend,
Key Challenges and Policy Responses**

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High-level regional policy dialogue

Asia-Pacific economies after the global financial crisis:
Lessons learnt, challenges for building resilience, and issues for global reform

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Presentation outline

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- 1. Impact of Global Economic Crises on Thai Economy
 - 2. Thailand's Current Economic Situation and Future Trend
 - 3. Key Challenges and Policy Responses

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1. Impact of Global Economic Crises on Thai Economy

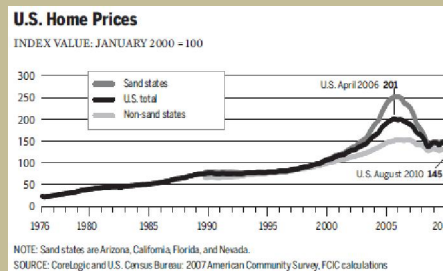
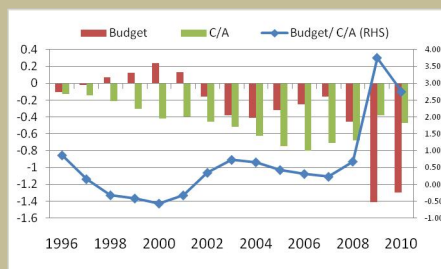
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Global Economic Crises

U.S. - Global financial crisis in late-2008

U.S. Twin Deficits (C/A, Fiscal) – “Global financial imbalance”

Asset Bubble, Inadequate Banking Supervision, Financial Innovation

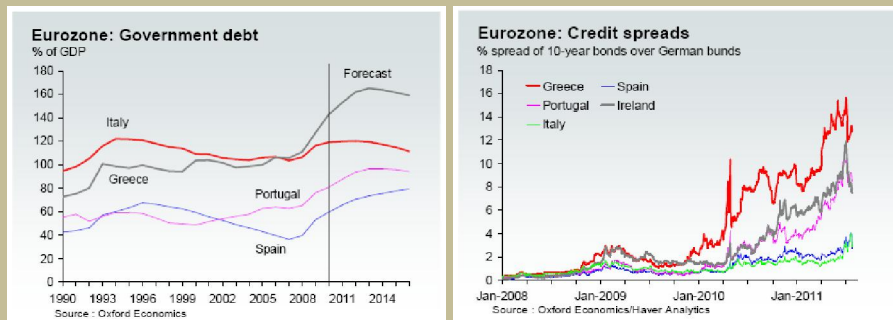


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Global Economic Crises

Euro debt crisis since late-2009

Insolvent and unsustainable sovereign debts among the PIIGS countries

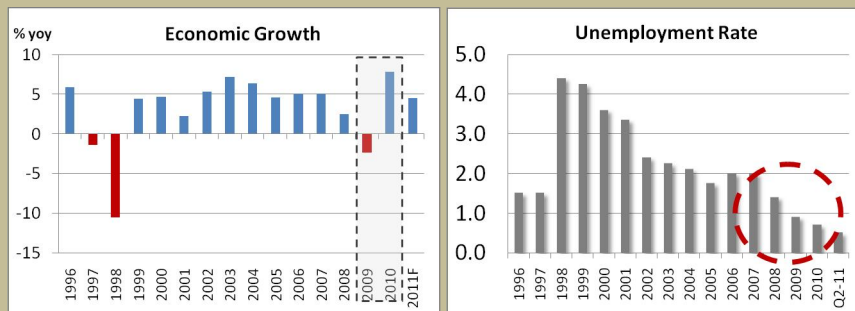


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Effects of the Crises on Thai Real Sector

Much less negative impact compared to 1997 Asian economic crisis

Lower growth contraction; faster rebound; impact mainly felt in lower external demand whereas impact from 1997 crisis was severe on domestic financial sector and collapse in real sector



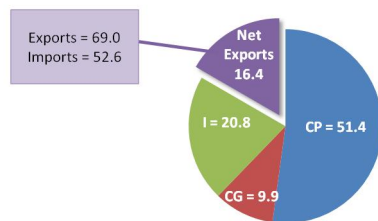
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Effects of the Crises on Real Sector

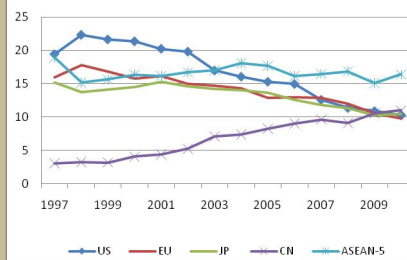
Compared to 1997 Asian crisis

At present, export-oriented Thai economy has diversified its export destinations from traditional markets (US, Europe and Japan) to emerging markets particularly Asian countries.

GDP Components in 2010



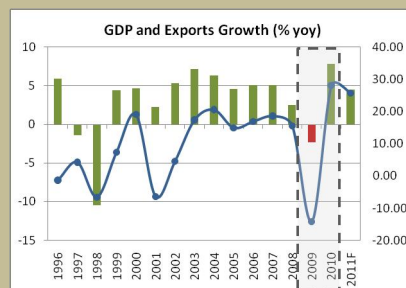
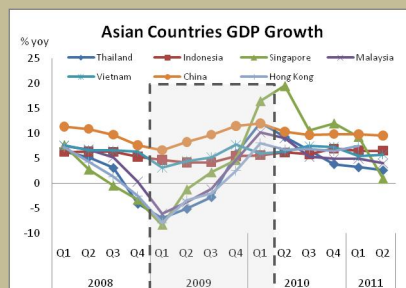
Main Exports Markets



Effects of the Crises on Real Sector

Compared to Asian Crisis in 1997

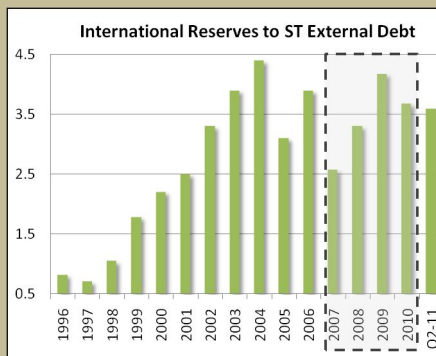
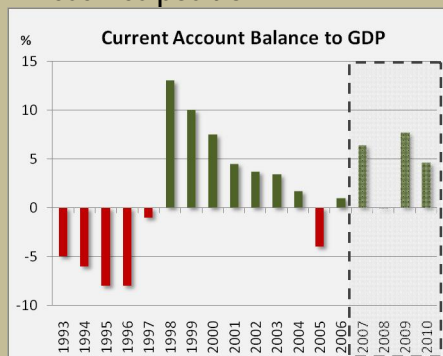
Quick rebound in exports, especially to Asian countries following their quick economic revival was one of the key factors causing Thailand's economic recovery.



Effects of the Crises on Real Sector

Compared to Asian Crisis in 1997

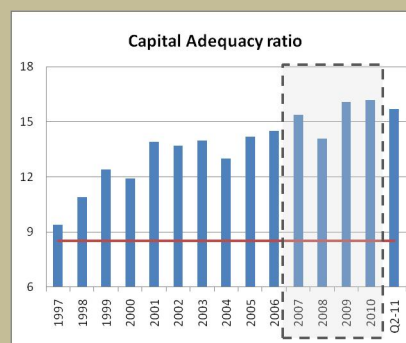
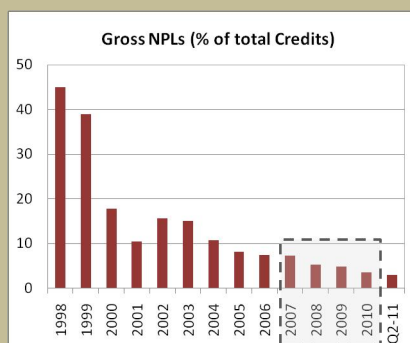
Going into the recent crises, Thailand has much stronger economic fundamental with current account surplus and high international reserves position



Effects of the Crises on Financial Sector

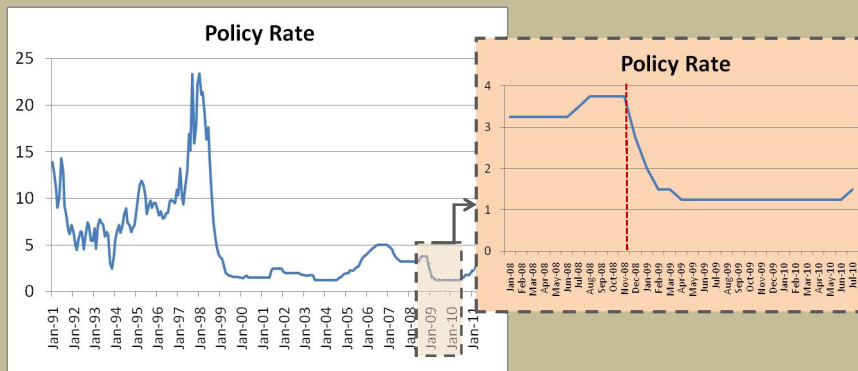
Compared to Asian Crisis

Sound domestic financial sector has supported domestic real sector to withstand external shocks.



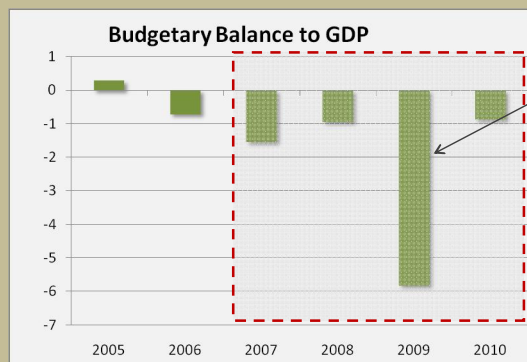
Policy Responses

Prompt Monetary Stimulus: Accommodative monetary policy was implemented to support domestic economy



Policy Responses

Prompt Fiscal Stimulus: Expansionary fiscal policy was one of the main drivers for Thai economy during the recent crises



Supplementary budget has been added (Stimulus Package 1 and 2) in 2009 in order to stimulate the economy

Policy Responses

Stimulus Package 1: Stimulate the Economy in the short run

	Budget Items	Amount (Thai Baht)
1	Low income earner Living cost subsidy for income earner of less than 15,000 Baht - Socially secured (8.1 million persons) - Public sector official (including pensioners civil servant) 1.3 million persons	18,970
2	Household Extension of Utilities and transportation cost for another 6 months	11,297
3	Unemployed One month training program and living cost allowance for 3 months (Estimate of 240,000 persons)	6,900
4	Parents/ Students Free education for 15 years - (Estimate of 10 million student)	19,503
5	Health Healthcare subsidy fund of 600 Baht per month - (Estimate of 830,000 persons)	3,000
	Health clinic improvement	1,096
6	Village Sufficiency economy philosophy enhancement on village - Increase funding for 78,358 villages	15,200
7	Elder Elderly subsidy 500 Baht per month - (Estimate of 5 million persons)	9,000
8	Utilities Agricultural water source Small water source Village infrastructure	2,000 760 1,500
9	Policeman Police officer residents of 532 places	1,808
10	Tourism Tourism promotion	1,000
	Consumer goods price subsidy	1,000
11	Others Small and Medium Enterprises Economic confidence restoration and national image promotion	500 325
12	Contingency Contingency budget management	4,090
13	Treasury repayment	19,139
	Total	116,700

Policy Responses

Tax Stimulus Measures

Sector	Policy Details
Individual Taxpayers	Income Tax Exemption for taxpayers who are subject to 0.5 % tax rate and having annual income of less than THB 1 mm
Community Enterprises	Applicable to 58,000 community enterprises nationwide
Venture Capital	Extension period of Venture Capital (VC) establishment until 31 December 2011 Income tax exemption for any gains from transferring of SME shares in Exchanges by VC (SMEs with asset less than THB 200 mm or less than 200 workers)
Real-Estate	Tax deductions for up to THB 300,000 for new real estate purchased and transferred in 2009 as well as up to THB 100,000 for mortgage interest payment. SBT reduction from 3.3% to 0.11% for transfer of property during 29 March 2008 – 28 March 2010 Transfer fee reduction from 2% to 0.01% for transaction during 29 March 2008 – 28 March 2010
Tourism	Double deduction for accommodation and conference room expenses arising in Thailand during 2009 accounting period
Debt Restructuring	Exemption of Income Tax, Value Added Tax, Specific Business Tax and Stamp Duty arising from debt restructuring under BoT regulations undertaken in 2009 Exemption of Value Added Tax, Specific Business Tax and Stamp Duties for M&A of associated companies undertaken in 2009
Others	- Reduction of customs tariff for raw material product - Personal income tax exemption for pension benefits from Government Pension Fund and Provident Funds - Tax incentives for employment of handicap persons

Policy Responses

Stimulus Package 2: Enhance Thailand Competitiveness in the medium to long term (Strong Thailand 2012)

Objective/Sector	Budget Framework
1 Food & energy security	59,503
1.1 Water resource management	59,503
2 Basic public service development	74,781
2.1 Logistic & Transportation	46,587
2.2 Energy	174
2.3 Communication	0
2.4 Tourism Infrastructure development	3,282
2.5 Public health infrastructure development	14,692
2.6 Social welfare	9,173
2.7 Science & technology	185
2.8 Environment	689
3 Create tourism potential	5,394
3.1 Tourism development	5,394
4 Create new economy revenue	1,331
4.1 Creativity economy	1,331
5 Develop education quality	51,981
5.1 Education	51,981
6 Develop public health quality	1,928
6.1 Public health personal development	1,928
7 Create job & improve quality of life	106,542
7.1 Community development	106,542
8 Government policies	40,000
8.1 Income support	40,000
Total	341,460
Expenditure under emergency circumstances	8,500
Grand total	349,960

Infrastructure investment projects worth 350 billion Baht over 2009 – 2012 focusing in key sectors such as mass transit and transportation, irrigation, education, public health, and energy.

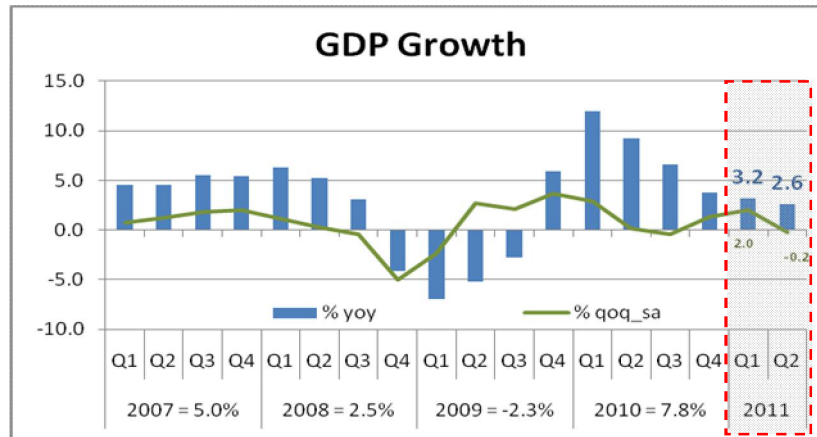


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2. Thailand's Current Economic Situation and Future Trend

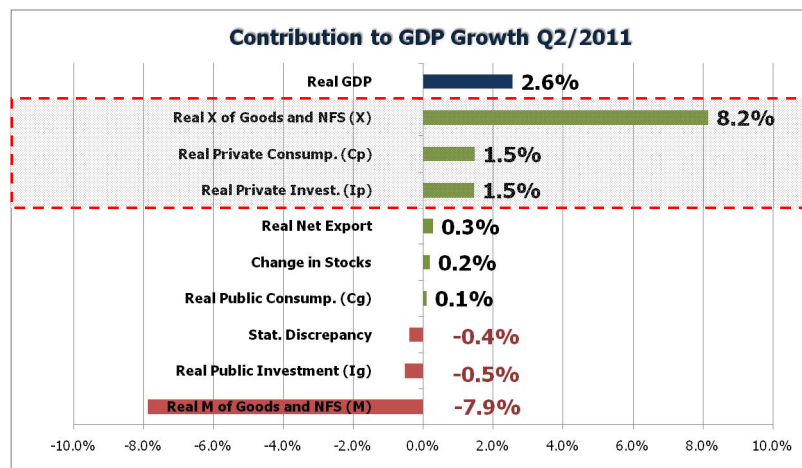
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The Thai economy recovered strongly in 2010 and continued to grow by 2.6 percent y-o-y in Q2/2011



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GDP expansion in Q2 2011 was from both internal and external demand



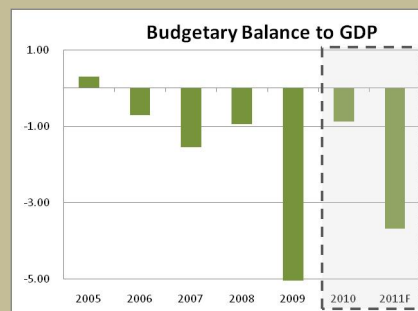
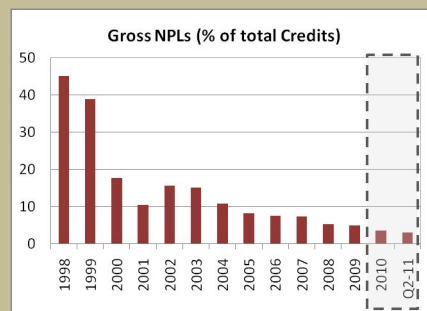
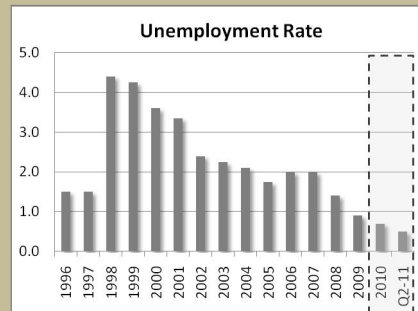
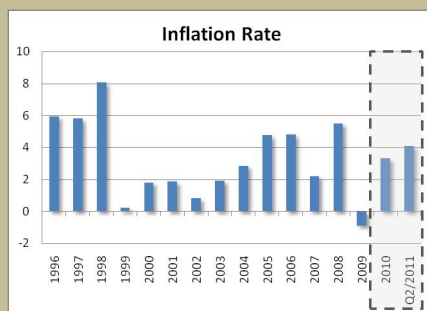
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Solid economic foundation

1. Internal stability

- Moderate inflation: 4.1% in Q2/2011
- Low unemployment rate: 0.4% in Q2/2011
- Healthy banking system: NPLs at 3.0% in Q2/2011
- Fiscal discipline: Public Debt to GDP at 40.7% as of June 2011

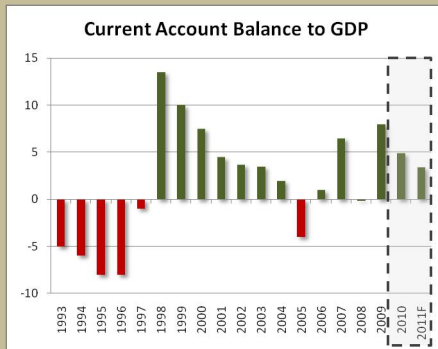
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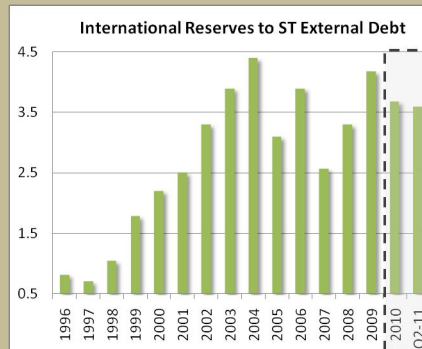
Solid economic foundation

2. External stability

Current Account Surplus of 4.6% of GDP in 2010

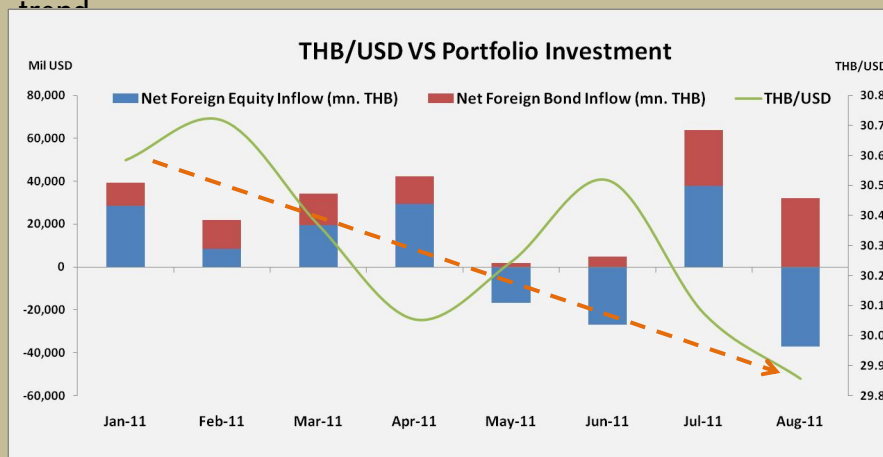


High International Reserves: 189 billion USD or 3.6 times ST External Debt



Exchange Rate

Since the beginning of 2011, THB experienced an appreciated trend



Outlook for 2011

(Unit: % yoy)	2010	2011F (Jun 2011)	
		Average	Range
Real GDP	7.8	4.5	4.0-5.0
- Real Private Consumption (Cp)	4.8	4.3	3.8-4.8
- Real Public Consumption (Cg)	6.4	3.0	2.5-3.5
- Real Private Investment (Ip)	13.8	9.6	8.6-10.6
- Real Public Investment (Ig)	-2.2	3.6	2.6-4.6
- Real Export of goods and services (Xgs)	14.7	9.0	8.0-10.0
- Real Import of goods and services (Mgs)	21.5	10.1	9.1-11.1
Trade Balance	14.0	10.8	9.8-11.8
Export of goods in \$ term	28.5	17.6	16.6-18.6
Import of goods in \$ term	36.8	20.8	19.8-21.8
Current Account (Bill.\$)	14.8	12.3	10.7-13.2
- Current Account / GDP (%)	4.6	3.4	3.1-3.8
Headline Inflation	3.3	3.8	3.3-4.8
Core Inflation	1.0	2.5	2.0 - 3.0

Source: Fiscal Policy Office

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3. Key Challenges and Policy Responses

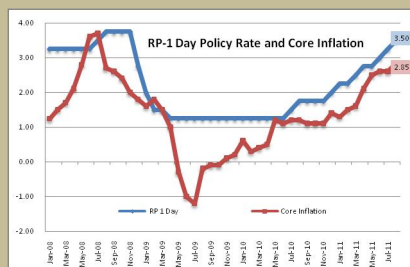
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Major Policy framework for Thailand

Policies on inflation and capital flow

More tightened monetary policy to curb inflationary pressure since the second half of 2010.

Encourage capital outflow to balance out the THB's strength from future massive inflow of capital.



- (1) Relaxing regulations on Thai direct investment and lending to affiliated companies overseas
- (2) Relaxing regulations on lending of Thai companies to non-affiliated companies abroad up to USD 50 million per year
- (3) Increasing the amount limit for purchase of immovable properties abroad
- (4) Raising the outstanding balance limit of foreign currency accounts
- (5) Relaxing regulations on repatriation of export proceeds of values less than USD 50,000

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Major future policy framework for Thailand

Medium-term Fiscal Policy

- Accelerate medium-term infrastructure investment programs, such as irrigation and rail system
- Support global rebalancing: domestic vs. external demand
- Enhance social welfare programs for disadvantaged groups
- Enhance competitiveness and reduce income inequality through Tax Reform
- Promote regional integration particularly within Asia-Pacific

Fiscal Discipline

- Aim to achieve primary balance by FY2015 and to achieve overall balance by FY2018 dependent

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Major future policy framework for Thailand

Expand Irrigation Area (Mil. Rai)



Present

Government Plans

Reduce Logistics Cost to GDP



Present

Government Plans

Increase Imports of Capital Goods to GDP



Present

Government Plans



Thank you