Growth performance

- With exports accounting for more than 70% of GDP, and an export product mix (heavy reliance on electronics and machineries) that is highly sensitive to income, Thailand has been particularly exposed to trade shocks emanating from the global financial crisis.
- Thus, given the collapse in world external demand, the Thai export sector, particularly manufacturing, went into a slump and the economy contracted by 2.3% in 2009, the first negative growth experienced since the Asian crisis episode.
- After falling continuously since the fourth quarter of 2008, the Thai economy turned the corner in the last quarter of 2009, growing at the rate of 5.8% on a year-to-year basis. Taking into account the base effects of growth rate calculation, however, this performance is still a technical “rebound” rather than a broad based recovery.
- To offset the drop in external demand in 2009, the authorities initiated an aggressive fiscal stimulus package that spans three years. Meanwhile, the Bank of Thailand, dropped policy rates from 3.75% to 1.25% over the period November 2008 to April 2009.
- Exports, after falling by double digits since the last quarter of 2008, have started to climb at a rate close to 12% in the fourth quarter of 2009 in the wake of improving global economic prospects and higher commodity prices. Again, the base effects owing to the export slump in the fourth quarter contribute to making the magnitude of the growth rate quite high.
- Investments continue to be subdued for the whole of 2009, due, in no small measure, to the prevailing political uncertainty apart from the economic conditions.
- Because imports fell more sharply than exports, in the wake of the global crisis, the current account continued to remain positive in the first three quarters of 2009. As income growth turned positive in the fourth quarter, imports started to pick up, growing by a modest 0.3% in the same quarter.

Fiscal and Monetary Policies:

- Thailand launched an aggressive fiscal stimulus package amounting to 17% of GDP to be implemented over the period 2009 to 2012. The second tranche of the program,
to be delivered up to 2012 will be directed towards infrastructure projects, as well as investments in agriculture, education and health.

- Due to the surge in public spending the budget deficit widened in 2009. Nevertheless, the government will continue to run a deficit to support growth in 2010 and increase borrowings. In addition, to support the stimulus program, a number of projects are largely off-budget items, the government plans to increase borrowings.
- Thus, the challenge confronting fiscal authorities is how to cut spending in a way that does not jeopardize the economic recovery.
- The inflation outlook for Thailand as of February 2010 does not seem to be a very serious cause for concern. The headline inflation of 3.7%, is high relative to the deflationary conditions in most of 2009. The positive inflation, however, is a welcome development in light of the prospects of a deflationary spiral in 2009. The appreciation of the baht is likely to quell further inflationary pressures.
- Non-performing loans as a percentage of total commercial loans continue to be low, around 5.3% (as of June 2009), indicating relative resiliency of the banking sector to the global crisis.

Recovery

- Thailand is expected to grow by 4% in 2010, driven by domestic consumption and exports subject to significant downside risks, emanating from the worsening political situation and the impact it is having on tourism, retail and business confidence in general. Investments will therefore continue to be subdued unless the political situation improves in 2010.
- Thailand, like other Southeast Asian economies, is faced with the challenge of crafting an exit strategy from the stimulus that does not derail recovery and at the same time starts to unwind fiscal deficits that built up during the crisis.
- Monetary authorities, so far, have resisted the pressure to increase policy rates, despite the positive growth rate in the last quarter of 2009, in light of the weak investment climate.
- One of the more important risk factors for Thailand economic prospects for 2010 is tied up with the manner with which the political conflict in March to April will be resolved. A prolonged political wrangling will increase uncertainty that would take its toll on tourism, investments and consumer confidence.