Research Institute of Economy, Trade and Industry (RIETI)

BBL Seminar

Handout

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“Thailand's Economy After the Great Flood"

H.E. Mr. Virasakdi Futrakul

http://www.rieti.go.jp/jp/index.html

Flood Relief and Recovery : Reconstruction and Future Development Strategy Framework

The floods that hit Thailand during the last three months of 2011 temporarily interrupted the production and supply chain in key industrial sectors. Since then, the industrial estates that were affected by the floods have resumed operations and are on their way towards strong industrial productivity. Thailand's economic foundations remain solid, and because of the vibrant private consumption, public investment, high global demand for Thai exports, as well as revived inflow of foreign direct investment and foreign tourism since the floods, the Thai economy in 2012 is expected to grow by 5.5-6.5 %.

Since the recovery stage began after the floods, the Royal Thai Government has formulated a flood-prevention plan for industries of all sizes. The Government allocated 382 billion Baht (12.6 billion USD) for soft loans to help manufacturers in flooded industrial estates, SMEs, as well as independent business operators to resume their business as soon as possible. For industrial estates, the low-interest loans (0.01%) are for 7 years. The Board of Investment has also provided various incentives for industrial estates affected. Moreover, the Government has subsidized two-thirds of the costs for the construction of flood prevention dykes in the 7 industrial estates affected by the floods, which has begun earlier this year and is expected to be completed by August 2012.

One of the Royal Thai Government's top priorities is the implementation of the **Reconstruction and Future Development Strategy Framework.** The overall target is to build investors' confidence, especially in manufacturing and service sectors, as well as the long-term competitive and resilient economy, through effective disaster prevention and management system and upgraded infrastructure. In this strategy framework, the Government will focus on :

1. Economic restructuring
   - Support for businesses to build up disaster prevention and responsiveness, including supply chain management
   - Electronics, automotives, agro-business, service and tourism are target sectors for competitiveness improvement
   - Development of eco-industry and industrial clusters
   - Technology and innovation as a key factor
2. Development of new economic zones
   - More efficient use of land through adequate regulation
   - Development along the East-West, North-South and Southern Economic Corridor and in the GMS as regional production base for industry, agriculture and tourism
   - Forging economic development of border areas through trans–frontier development strategy integration.
3. Infrastructure development
   - Emphasis given to 3 key areas (a) railroad transportation and logistics, high-speed rails, motorways, transportation networks (b) energy security, including renewable energy and energy sources (c) telecommunication, especially access to high-quality service

4. Disaster insurance system development
    - Awareness raising for the necessity of disaster insurance
    - Setting up of standards for the protection of the insured
    - Improvement of law and regulations
    - Establishment of the Disaster Insurance Fund with participation of private insurance companies. This 50 billion baht (1.6 billion USD) Fund, which has been launched, is a two-tier disaster insurance system that is common in Japan, whereby the Government takes a higher responsibility in cases of severe disasters. Japanese investors are encouraged to purchase the disaster insurance offered by the Fund.

On the implementation of this Strategy Framework, the Government will establish an integrated command unit (Single Command Authority), seek sources of finance for more infrastructure projects, and encourage private sector participation in projects and public services.

Infrastructure development projects are underway. The Cabinet approved the allocation of 350 billion Baht (11.4 billion USD) for the construction of various water management projects. The flood protection infrastructure covering Bangkok and all important economic and industrial estates will be put in place, commencing within the first quarter of this year in order to be completed before the next flood season. The expected outcomes of the planned investment scheme in water resources management infrastructure are systematic water management to prevent damages caused by floods, the increase of forest areas, more efficient and environmental-friendly use of land, and increased investor confidence.

Moreover, from 2012-2016, the Government plans to invest in many large-scale infrastructure projects worth over 72 billion USD, ranking first among ASEAN countries in terms of project value. Thailand welcomes the active participation of Japanese companies in future Public-Private Partnership (PPP) projects in Thailand.

Aside from structural improvements, the non-structural improvements in the pipeline include the integration of a database for water management, including weather forecast and early warning system, the promotion of public awareness and participation, the creation of a more efficient mechanism of compensation for households and business affected by the planned infrastructure investments, and the establishment of relief and recovery scheme, including access to flood insurance for household and businesses.

The recent flood does not change our investment promotion policy direction. We remain focused particularly on potential industries with high value-added (e.g. service sectors), environmental friendliness and creativity. The recent flood also offers an opportunity to restructure the economy. Our aim is to make Thailand an even more attractive investment destination, our economy more disaster-resilient, and our entrepreneurs more competitive.

The Ministry of Foreign Affairs of the Kingdom of Thailand
March 2012

As of 8 March 2012

Thailand's Economic Fact Sheet

Economic projections*	2010	2011	2012[F]
GDP (billions US$)	318.8	**345.6**	379.4
GDP growth (%)	7.8	**0.1**	5.5 – 6.5
GDP per capita (US$ per year)	4719.8	**5112.0**	5587.0
Exports (billions US$)	193.7	**225.1**	264.2
Exports growth (%)	28.5	**16.4**	17.2
Imports (billions US$)	161.9	**201.9**	250.9
Imports growth (%)	37.0	**24.7**	24.3
Trade balance (billions US$)	31.8	**23.2**	13.3
Current Account balance (billions US$)	13.2	**11.9**	4.5
Current Account balance to GDP (%)	4.1	**3.4**	1.2
Inflation - CPI (%)	3.3	**3.8**	3.5 - 4.0

* Source: NESDB (02/02/2012)

GDP growth forecasts	2011[F]	2012[F]	(Time of forecast)
Bank of Thailand	1.8%	4.8%	(30/11/2011)
Fiscal Policy Office	1.7%	5.0%	(28/11/2011)
IMF	3.5%	5.5%	(20/02/2012)
World Bank	2.4%	4.0%	(22/11/2011)
HSBC	1.7%	4.5%	(28/11/2010)
ADB	2.0%	4.5%	(06/12/2011)
Kasikorn Bank	1.5%	5.0%	(30/11/2011)

Economic Conditions[/2] (01/2012)

Percentage change (y-o-y)	11/11	12/11	01/12[P]
Manufacturing Production Index (seasonally adjusted)	-47.2	-25.3	-15.2
Private Consumption Index	-1.6	4.8	0.4
Private Investment Index	-1.9	-3.9	-0.4
Capacity Utilization (seasonally adjusted)	40.6	52.5	60.2

Net FDI flows: 0.3 bil. USD; **Net TDI* flows**: 1.1 bil. USD

Government revenue collection: 4.78 bil. USD, decreased by 3.7% (y-o-y)

Government expenditure: 4.76 bil. USD, decreased by 35.8% (y-o-y)

Farm income decreased by 11.2% (y-o-y)

Economic stability

Inflation[/2] (01/2012): Core inflation 2.75% (y-o-y); Headline inflation 3.58% (y-o-y)

Official foreign reserves[/2] (24/02/2011): 180.6 bil. USD (3.4 times short-term foreign debt)

External debt[/2] (01/2012): 111.7 bil. USD

Public debt[/4] (12/2012): 40.3% GDP

Unemployment rate[/2] (12/2011) : 0.4%

Doing Business 2011 - 2012[/7]: #17 in the world; #3 in the Asia-Pacific Region

Structure of the GDP

Supply side (2010)[/1]

Sector	% GDP
Primary Sector (Agriculture and fishing)	**12.1**
Secondary Sector (Manufacturing)	**32.7**
Electronics and computer	5.6
Petroleum products and chemicals	5.3
Automotives	3.1
Rubber and plastic products	2.5
Machinery and equipment	1.8
Other manufacturing	14.3
Tertiary Sector (Service)	**55.2**
Wholesale and retail trade	13.3
Real estate and construction	8.9
Transport, logistics and telecommunications	7.5
Public administration, defense and compulsory social security	6.6
Financial intermediation	5.4
Hotels and restaurants	3.1
Electricity, gas and water supply	2.8
Other services	7.6

Demand side (2011)[/1]

GDP component	Value (bil. USD)	% of GDP
Private consumption	190.4	55.1
Government consumption	46.4	13.4
Investment	91.6	26.5
Trade surplus	23.2	6.7
Change in inventories	-6.0	-1.7
GDP (2011)	**345.6**	**100.00**

External sector (12/2011)[/2]

Exports: 16.9 bil. USD, decreased by 2.1% (y-o-y)

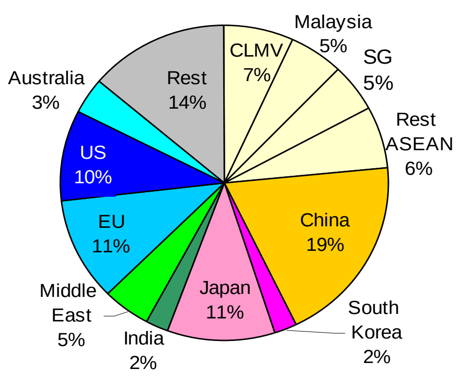
Imports: 17.1 bil. USD increased by 19.6% (y-o-y)

Trade balance: deficit 0.2 bil. USD

Average exchange rate (01/2012): 31.55 THB/USD, depreciated by 1.12% (m-o-m)

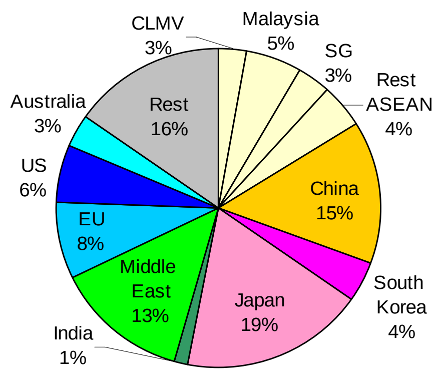
Foreign tourists (01/2012): 1.95 mil., increased by 8.0%(y-o-y)[/2]

Export, by country (2011)[/6]



Export by products (2010)	Share
Data Processing Machine	9.64%
Motor Cars, parts & accessories	9.07%
Precious Stone & Jewellery	5.97%
Electronic Integrated Circuits	4.13%
Rubber	4.04%
Refine Fuels	3.62%
Rubber products	3.29%
Polymers of Ethylene, etc	3.25%
Chemicals	2.96%
Rice	2.73%

Import, by country (2011)[/6]



Import by products (2010)	Share
Crude Oil	13.11 %
Machinery & parts	9.17 %
Chemicals	6.90 %
Electrical Machinery & parts	6.67 %
Iron, Steel & products	6.43 %
Electrical Circuit Panels	5.90 %
Precious Stone, Jewellery & Gold	5.42 %
Computer, Accessories & parts	4.47 %
Other Metal Ores	4.12 %
Automobile parts	3.24 %

Financial data

Interest rates[/2] :

Policy interest rate: 3.00% (since 25/01/2011);

Average MLR (01/2012): 7.22%;

Average 12-m deposit rate (01/2012): 2.87%

Stock market[/3]

On 04/03/2013, SET index closed at 1157.95 points, increased by 12.94% (year-to-date)

Rating of Sovereign bonds

S & P: BBB+ stable / **Fitch**: BBB stable / **Moody's**: Baa1 stable

Tax Rates[/4]

Corporate Income Tax: 10 - 23%

Withholding tax: 10 - 15% **VAT**: 7%

Source: /1 NESDB; /2 Bank of Thailand; /3 Stock Market Exchange of Thailand; /4 Ministry of Finance; /5 Ministry of Industry; /6 Ministry of Commerce; /7 World Bank

Note: **Green** = increase; **Red** = decrease from previous Fact Sheet; [P] = preliminary; [F] = forecast; ***TDI** = Thai Direct Investment (Outward FDI from enterprises in Thailand)

Division of Economic Information
Department of International Economic Affairs
ธีรภัทร ตรังคธรรมกุล (14242)
พัชรา โล่ห์จินดารัตน์ (14240)
กองสนเทศเศรษฐกิจ กรมเศรษฐกิจระหว่างประเทศ

As of 8 March 2012

Thailand's Key Economic Indicators – January 2012

GDP 2011 Growth 0.1% **GDP per Capita (2011)** 5112.0 USD **GDP 2012 Growth Forecast** 5.5 - 6.5% **GDP 2012 Projection** 379.4 bil. USD **GDP per Capita (2012^{F})** 5587.0 USD	**Private Consumption Growth** 0.4% (y-o-y) **Private Investment Growth** -0.4% (y-o-y) **Headline Inflation** 3.58% **Policy Interest Rate** 3.00% (since 25/01/2011)
Exports (Dec 2011) 16.9 bil. USD growth rate -2.1% (y-o-y) **Imports** (Dec 2011) 17.1bil. USD growth rate 19.6% (y-o-y)	**Official Foreign Reserves** 180.6 bil. USD equivalent to 3.4 times short-term foreign debt **Public Debt** 40.3% of GDP
Trade Balance (Dec 2011) -0.2 bil. USD **Corporate Income Tax** 10 – 23%	**Unemployment Rate** 0.4% **Tourist Number** 1.95 mil. growth rate 8.0% (y-o-y)

Source: NESDB Economic Outlook, February 2012; Bank of Thailand Monthly Report February 2012 for January 2012.

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