

Development in Partnership

the World Bank's activities in Thailand and other news related to development

Global Slump and Political Uncertainty to Continue to Weigh on the Thai Economy in 2009



The latest Thailand Economic Monitor

BANGKOK – The global economic downturn and domestic political uncertainty may continue to weigh on Thailand's growth in 2009. The World Bank now predicts that the country's economy will expand by just 2 percent next year – the lowest rate since 1998.

In addition, the Bank revised its forecast on Thailand's growth in 2008 to 3.9 percent – down from the 5 percent it projected in April, said **Mathew A. Verghis**, the World Bank's Lead Economist for Southeast Asia.

"The revision from 5 percent to 3.9 percent now just shows how much change the world, including Thailand, has seen since April," said Verghis. *"The previous forecast was made before the fall of Lehman Brothers in September. It was certainly before all the street protests and the recent shutdown of Bangkok airports that had a significantly impact on investor confidence and tourism."*

This economic outlook is captured in a new World Bank report, **Thailand Economic Monitor** – a review of the Thai economy prepared twice yearly by the World Bank. The first Economic Monitor for 2008 was released in April. The second is available for download at www.worldbank.or.th. On December 10, 2008, journalists were given a preview to the second Economic Monitor, which included World Bank recommendations to Thailand on coping with the challenges in 2009 and beyond.

Amid the political uncertainty of the last two years, Thailand has been banking on robust, double-digit export growth to drive the country's economy, compensating for the sluggish domestic consumption and private investments. With the threat of a global recession looming, robust export growth may not continue in 2009. The Bank expects world trade to decline in 2009 for the first time since 1982.

"The impact of the global downturn on Thailand's real sector will be severe," said **Kirida Bhaopichitr**, the Bank's Senior Country Economist for Thailand.

The World Bank predicts that exports will grow by only 8 percent next year, compared with 19.5 percent in 2008 and 17 percent in 2007. In addition, both private consumption and investment are expected to continue decreasing.



Mathew A. Verghis (left), Lead Economist, Southeast Asia, and Kirida Bhaopichitr (right), Senior Country Economist, Thailand, in a media briefing on the World Bank's economic forecasts for Thailand in 2009



Thai exports are expected to slow in 2009 due to sluggish world trade

Fortunately, Thailand's banking sector has not been heavily impacted by the U.S.-born global crisis. Since 1997, Thailand has taken significant steps to limit its exposure to external shocks. Over the past decade, Thai regulators have also implemented many reform measures to clean up the financial sector and strengthen the health of financial institutions. As a result, the country's banking sector remains stable today despite the global uncertainty. In addition, Thailand has high foreign reserves and a low debt burden, which help to reduce its vulnerability to external financial shocks.

With relatively little impact thus far from the global financial crisis, as well as relatively stable macroeconomic conditions, Thailand has room to adjust to the changing global environment. If Thailand properly manages this opportunity, it will be well placed to take good advantage when international growth resumes, the World Bank said.

"Both the Thai government and private sector should take this opportunity to improve competitiveness and prepare Thailand to take full advantage of the global recovery, which is expected to be in 2011 or 2012," Kirida said.

The World Bank recommends that Thailand invest; in improving public infrastructure – to attract investment and reduce the cost of logistics; in human capital – to ensure that workers have the skills needed by industries; and in research and development – to increase the value-added of Thai products. In addition, the government should continue to work on improving regional trade integration and modernizing business. These steps would reduce the cost of doing business, encouraging businesses to expand and provide jobs for the Thai people.

Such improvements may not be possible without strong commitment from all sides, both in government and in the private sector. In addition, political uncertainty and unclear policy direction, if continued in 2009, will further weigh on the Thai economy, the World Bank warned.

"It is crucial to encourage more private investment, but investors may still be reluctant to invest," said Verghis. "Investors normally want to see a stable political environment and clear policy direction before they gain enough confidence to start investing again."

East Asia Won't Be Spared Impacts of Global Economic Storm, Says World Bank Report

TOKYO – While East Asian countries have entered the current crisis substantially better prepared than they were for the 1997 Asian financial crisis, none have been spared the full fury of the global economic storm, says the World Bank's latest six-monthly assessment of the East Asia & Pacific region's economic health.

In the face of weakening export growth and reduced levels of investment and consumption, the latest

East Asia & Pacific Update, released on December 10, 2008, forecasts that real GDP growth in developing East Asia* will slow to 6.7 percent in 2009 from 8.5 percent in 2008. And the GDP growth forecast for East Asia as a whole (that includes all developing economies as well as Korea, Singapore, Hong Kong and Malaysia) will be down to 5.3 percent in 2009 from 7.0 percent this year.



No country is spared the full fury of the global economic storm, the World Bank says

The report notes that the downside risks to East Asia are substantial in the near term but highlights that countries will be better positioned to deal with the crisis if they are able to maintain macroeconomic stability, shift exports to faster growing regions in the world, substitute external with domestic demand, and continue with structural reforms to strengthen competitiveness.

World Bank Vice President for the East Asia and Pacific region **Jim Adams** applauded East Asian governments for their swift and effective policy interventions to avert the worst impacts of the global crisis so far.

"Thanks to the quick action of policy makers from virtually every East Asian country, banking systems have been able to deal with the crisis so far and in a number of countries, economic stimulus packages are being put in place," Mr. Adams said. "These actions are helping East Asia continue to play a key stabilizing role and act as a growth pole for the global economy."

Mr. Adams said despite the global downturn, the World Bank projects that East Asia will contribute about a third of total global growth in 2008.

While sobering in its forecast for 2009, the report states that the countries which have entered this crisis with low debt burdens, surpluses in their fiscal and external current accounts and large external reserves will have the most room to maneuver as the crisis unfolds.

*"Despite the difficult road ahead, those countries that sustain the sound policies pursued thus far and tackle new challenges decisively will be the ones to emerge in a strengthened position when the global economy begins to recover," said **Vikram Nehru** – the World Bank's Chief Economist for East Asia and the Pacific.*

The report warns that the region's most vulnerable countries are those with more open capital accounts, large non-resident holdings of equities, and a strong reliance on foreign portfolio investment.

Low income countries (Lao PDR, Cambodia, PNG, Timor-Leste, and small island states in the Pacific), on the other hand, have not been affected as much from the financial turbulence because their banking systems are less exposed to global markets, but they too will be impacted by lower commodity export earnings, tourism receipts, and remittances from overseas workers.

Poverty rates are likely to fall further in 2009, declining to 10.68 percent for developing East Asia as a whole, compared with the 10.36 percent projected earlier this year. While the number of poor people in the region will continue to decline, an estimated 5.6 million more people would have emerged from poverty next year if not for the slump.



Countries that are able to maintain macroeconomic stability, find new markets, spur domestic consumption, and continue with structural reforms to strengthen competitiveness will be better positioned to deal with the crisis

* Developing East Asia includes China, Indonesia, the Philippines, Thailand, Vietnam, Cambodia, Lao PDR, Mongolia, Papua New Guinea and the island economies of the Pacific.

Recent Events



November 13 – Dr. Johannes Heister, the World Bank’s Climate and Carbon Finance Coordinator for East Asia and Pacific, presented **“Carbon Finance at the World Bank and the Negotiations for a Future Climate Change Regime”** to more than 50 government officials, academic researchers and professors, and representatives of the private sector in a seminar at the World Bank office, Bangkok.

Dr. Heister has worked on the methodologies for many greenhouse gas mitigation projects supported by the World Bank. He was involved in the design of international policy on trading of greenhouse gas emission reductions and has played a significant role in designing the Carbon Partnership Facility. His presentation is available for download at www.worldbank.or.th.

November 21 – Students and lecturers from Ubon Ratchathani University listened to **Shabih Ali Mohib**, a World Bank economist and public financial management specialist, during the World Bank Open House. The Open House is a regular event, organized by the World Bank Public Information Center, to help visitors learn more about issues in international development and about World Bank support to Thailand’s social and economic progress. All universities are welcome to visit the Bank. To arrange a visit, please contact the Bank’s Public Information Assistant, Buntarika Sangarun, at (02) 686-8300 or email bsangarun@worldbank.org. Otherwise please log on to the World Bank website for future announcement on Open House events.



For comments or questions about this newsletter,

please contact Mr. Tinnakorn Sareenun

The World Bank Office, Bangkok

Siam Tower, 30th Floor, 989 Rama I Road, Pathumwan, Bangkok 10330

Tel.: +66 (0) 26868300

Fax: +66 (0) 26868301

Email: tsareenun@worldbank.org

Website: <http://www.worldbank.or.th>