


## 6. Conclusion

The economic recovery currently under way has gained traction since 2009 Q4. Exports have expanded in every product category and destination; private consumption has accelerated in every component; and expansionary fiscal and accommodative monetary policies have worked to support the economy. The ongoing recovery has been increasingly broad-based across manufacturing, services, and agricultural sectors. Resource utilization has consequently been increasing, as witnessed in a tightening labour market and rising industrial capacity utilization that approaches the pre-crisis level.

Despite the offsetting effects from the political strains, the MPC projects output to grow at a faster pace in 2010 than previously assessed owing primarily to the impetus from 2009 Q4. As output growth will be slightly higher than the previous projection, the attendant inflation pressure stemming from both demand and supply sides will be more pronounced, given the narrowing of the output gap that follows the recovery, among others. Core and headline inflation readings for 2011 will thus be slightly stronger than previous projections.

With the rebound in domestic and foreign economies increasingly taking a firm hold, the MPC judges that the need for extraordinarily accommodative monetary policy, as at present, has substantially diminished. Nonetheless, uncertainties in the global economy and adverse risks on the domestic front



remain. In particular, the political standoff, if prolonged and further intensifying, has the potential to weaken both consumer and business confidence, beset tourists' perceptions of safety and security which put tourism receipts at risk, and affect government disbursement - in all, inhibiting the recovery at present. As a result, the MPC has kept the policy interest rate unchanged at 1.25 per cent per annum on the 10 March and 21 April 2010 meetings, before normalizing it at an appropriate juncture in the period ahead.

*Report: “Economic/Business Information Exchange Programme  
between the Bank of Thailand and the Business Sector”*

*As of 31 March 2010*

**Overall summary**

According to the Economic/Business Information Exchange Programme between the Bank of Thailand and 204 firms nationwide during 2010 Q1<sup>1/</sup>, overall business conditions continued to improve from the previous quarter, especially in manufacturing, agricultural, tourism and real estate sectors, corresponding to increased order books from both domestic and foreign markets, soaring prices of agricultural products and improved confidence of both consumers and businesses. Looking ahead, overall business conditions would continue to improve as the fiscal stimulus packages provided support to the recovery. Nonetheless, domestic political instability, difficulties in price adjustments due to high competition, and uncertainties in economic conditions would constitute risks to businesses for the next quarter.

- **Private Consumption.** Private consumption improved continuously from the previous quarter, as reflected in increased sales of household products and durable goods such as cars and electrical appliances. Among supporting factors were improved consumer confidence and rising farm income, together with various businesses’ marketing promotion. Furthermore, the sales of real estate property also increased in this quarter due to property stimulus measures which were due to expire.
- **Tourism.** Tourism businesses recovered continuously from the previous quarter, owing to the global economic recovery and marketing promotion from both the tourism authority and businesses such as room rate discount. Hence, the number of tourists increased noticeably, particularly from Asian countries, e.g. China, Hong Kong, Taiwan and Japan. Nevertheless, at the end of the quarter, the number of tourists dropped as Asian tourists were relatively averse to domestic political instability.
- **Production and Exports.** Production and exports improved, in response to increases in order books from both domestic and foreign markets. Consequently, this led to an increase in capacity utilization in export-oriented industries, e.g. electronic parts, hard disk drives, televisions, air conditioners, vehicles and sportswear. The markedly growing export markets were ASEAN countries, China, and Australia.
- **Private Investment.** Private investment continued to expand from the previous quarter, especially in capital intensive industries such as electronics, electrical appliances, and vehicles. Investment decisions were driven by increasing demand, elevated capacity utilization, and support from both the government and business headquarters. Nonetheless, the domestic political instability and unclear prospects for resolution of problems in Mab Ta Phut remained risks to a pickup in private investment.
- **Employment.** Employment remained strong. Businesses began to experience tightened labour condition in several industries with fast growing production, particularly electronics, vehicles, and textile, corresponding to an increase in vacancies relative to unemployment. However, businesses mitigated the problem by increasing overtime work hours, outsourcing additional workers, and employing legal alien workers. Meanwhile, wages and compensation trended up as businesses sought to attract more labour.
- **Costs and Prices.** Businesses incurred higher production costs compared with the previous quarter as a result of increasing demand for raw materials and rising commodity and oil prices. Costs of marine transportation also increased as international trade quickly resumed.
- **Credit Conditions.** Demand for credit, from both large corporations and SMEs, increased from the previous quarter, owing to a better prospect of the economic recovery and a favourable impact of fiscal stimulus packages. Meanwhile, credit standards for corporate loans remained almost unchanged from the previous quarter. The overall private credit expanded, largely from mortgage loans and car leasing credits. As for the credit quality, the NPL ratio and the delinquency rate remained at a low level.
- **Business Constraints and Risk Factors.** Domestic political instability was viewed to potentially interrupt the continuity of government stimulus packages and deteriorate both consumer and business confidence. In the meantime, high competition among businesses and price controls from the authority led to difficulties in price adjustments. However, businesses perceived that the uncertainties in economic conditions had diminished.

<sup>1/</sup> Including responses from the business sentiment survey (about 520 business firms per month).