


6. Conclusion

The Thai economy shows signs of continued expansion since 2009 Q3 on the back of (1) the stronger-than-anticipated global recovery and (2) continued support from both monetary and fiscal policies. The recovery is becoming increasingly broad-based, spanning the export-driven manufacturing sectors such as electronics and hard disk drives, as well as the domestic-oriented industries such as automobiles, beverages, and petrochemicals. In addition, tourism revenue improves while farm income edges up in line with world crop prices. The recovery of the real sector has lent support to the labour market, pushing employment near the pre-crisis level, which in turn helps shore up consumer confidence and provide a boost to private spending in durable goods such as automobiles and motorcycles. In general, recent encouraging developments point towards a clearer prospect for an economic recovery going forward.

The MPC expects the Thai economy to continue to expand. The Thai economy in 2009 would contract less than anticipated in the previous *Report*, while the economic growth in 2010 and 2011 is likely to be close to the previous projection. Price pressures should rise slightly, in tandem with the economic recovery, but core inflation will continue to be within the target range. The MPC judges that the policy interest rate of 1.25 per cent per annum is currently appropriate and will continue to aid the process of economic recovery.



Therefore, the MPC decided to maintain the policy interest rate at 1.25 per cent per annum at the meetings on 2 December 2009 and on 13 January 2010.

Nevertheless, the recovery of the Thai economy is still in an early stage and fragility remains. Three important risk factors are: (1) the potentially delayed recovery in the trading partners' economies, (2) the inability of the government to disburse the budget as promptly as planned, and (3) the uncertainty surrounding the problems in the Map Ta Phut area, which could adversely affect business sentiments and interrupt the rebound of private investment. Going forward, the key challenge to policymakers therefore will be to promote a sustainable recovery and to foster a swift rebound in private consumption and investment before the role of government stimulus recedes. The MPC will continue to monitor closely the uncertainty surrounding both domestic and external economic conditions.

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

As of 30 December 2009

Overall summary

From the Economic/Business Information Exchange Programme between the Bank of Thailand and 200 business firms throughout the country during 2009 Q4^{1/}, it was revealed that overall business conditions improved from the previous quarter, on the back of higher production due to increased order books from both domestic and foreign markets. Private consumption improved noticeably, reflected by increased consumption expenditures on durable goods. Meanwhile, private investment was mostly concentrated in machinery replacement and efficiency improvement. Looking ahead, businesses perceived that overall business conditions would continue to improve in line with the global economic recovery. Fiscal stimulus packages would continue to play an active role in supporting the economy. Nonetheless, uncertainties in economic conditions, difficulties in price adjustments, and domestic political instability remained risk factors to the economic recovery.

- **Private Consumption.** Private consumption showed clearer signs of recovery relative to the previous quarter, stemming from an increase in personal consumption expenditures in durable goods, e.g., cars and electrical appliances. Among supporting factors were improved income and consumer confidence, a better overall prospect of the economic recovery, and marketing promotions, such as Motor Exposition, and launches of new car models. Consumption of necessity goods also continued to expand from the previous quarter.
- **Private Investment.** Private investment increased continuously from the previous quarter, partly from the rebound of the electronics industry as well as the vehicles and parts industry. The largest contribution to investment was concentrated in machinery replacement and efficiency improvement rather than in capacity expansion. The new investment decision was largely based on the outlook for demand, current capacity utilization, and the breakeven point. In the period ahead, risks to private investment recovery include those affecting production costs, continuity of new orders, the resolution of problems in the Map Ta Phut area, and domestic political instability.
- **Production and Exports.** Production and exports improved from the previous quarter, owing to an increase in order books from both domestic and foreign markets. The improvement was largely driven by final demand rather than inventory build-up. Fiscal stimulus packages in many countries, especially in the emerging markets, as well as a seasonal pickup in demand during year-end contributed to the production expansion. Consequently, this led to an increase in the capacity utilization rate in export-oriented industries, e.g., electronics and electrical appliances in 2009 Q4.
- **Employment.** Employment conditions remained stable compared to the previous quarter, as shown by unchanged numbers of employed persons and average overtime working hours. Wage rate was stable and close to the pre-crisis level. Some industries, such as electronics, vehicles and construction, reported shortages of skilled labour, with some migrating to other sectors such as agricultural and services.
- **Costs and Prices.** Businesses incurred higher production costs, given rises in commodity and oil prices following the global economic recovery. Despite higher cost pressure, an increased competition among businesses kept the overall price level unchanged, compared to the previous quarter, resulting in a decline in profit margins for businesses.
- **Credit Conditions.** Corporate demand for credit, from both large corporations and SMEs, increased slightly from the previous quarter, owing to the economic recovery and fiscal stimulus packages. In addition, most of the businesses reported that they had sufficient access to credits from financial institutions. Meanwhile, the credit standards for corporate loans remained unchanged from the previous quarter. It was notable that an expansion of overall private credits in this quarter was due mainly to the household sector, especially from mortgage and car leasing credits.
- **Business Constraints and Risk Factors.** Uncertainties in economic conditions, difficulties in price adjustments resulting from high competition in both domestic and foreign markets, and domestic political instability which could potentially interrupt the continuity of government stimulus package, remained the key business concerns and risk factors to the economic recovery in the period ahead.

^{1/} Including responses from the business sentiment survey (about 520 business firms per month).