

6. Conclusion

In 2008 Q4, the impact of the global financial crisis began to be felt in the real sectors of major industrial economies. This subsequently had an adverse impact on exports of countries in the region. Thailand's exports contracted, compared to the same period in the previous year. The ongoing domestic political conflict, which culminated in the closure of important airports at the end of November until early December, further eroded the already fragile confidence of consumers and investors. This incident also led to a drastic contraction of income from tourism. As a result, the Thai economy in 2008 Q4 was unlikely to exhibit growth, and could possibly contract slightly compared to the same quarter of last year. This led to a lower-than-expected expansion of the Thai economy in 2008 and slower growth than forecasted in the previous *Report*. Additionally, going forward, risks to growth increased considerably from the MPC's assessment in the previous *Report*, reflecting in the fact that the MPC noticeably adjusted downward the forecast for economic growth for both 2009 and 2010.

Inflation decelerated considerably as a result of the rapid reduction in oil prices. This was in tandem with the slowdown of the world economy as well as softer domestic demand, which also helped reduce inflationary pressure. The MPC was of the view that the overall risks to inflation were expected to decline dramatically. This was in accordance with the downward adjustments of the forecast of core and headline inflation for the next eight quarters.

Given the aforementioned economic prospects, the MPC deemed that inflation was expected to stay fairly low for some time. As such, monetary policy could be eased further to support economic recovery, particularly as fiscal policy would take time to implement and show its efficacy. The MPC therefore decided to reduce the policy interest rate by 1.00 per cent from 3.75 to 2.75 per cent per annum at the meeting on 3 December 2008 and further reduced the policy interest rate by 0.75 per cent per annum to 2.00 per cent per annum at the meeting on 14 January 2009.

Report: “Economic/Business Information Exchange Program Between the Bank of Thailand and the Business Sector”

As of 30 December 2008

Overall summary

From the Economic/Business Information Exchange Program between the Bank of Thailand and 137 business firms throughout the country during 2008 Q4*, it was revealed that overall economic conditions continued to slow down. The deterioration of world economic conditions and domestic political uncertainties significantly affected business operations and investment decisions. Businesses' capacity utilization began to fall while signal of labour market weakening started to surface. If the deterioration in economic conditions was to be prolonged and businesses could not adapt to new conditions without shedding labour, more workers might be laid off in the next period. As for the economic outlook for the first quarter of 2009, businesses expected that private domestic demand, both consumption and investment, would continue to slow down as a result of fragile consumer confidence and a continued decline in overall exports, although demand from emerging economies were still on the rise.

- **Private consumption.** Private consumption slowed down progressively from the previous quarter due to the deteriorating economic conditions and fragile consumer confidence, as reflected by lower sales of goods and services particularly in the food and drinks, steel, cars and motorcycles, leather, textile and garment, electronic, chemical products, and real estate industries.
- **Private investment.** Private investment contracted from the previous quarter as political problems intensified, and world economic conditions weakened, which caused a decline in business sentiment. Furthermore, financial institutions continued to tighten credit standards for corporate loans, which caused businesses to postpone investment.
- **Exports.** Overall exports began to shrink in 2008 Q4, following a considerable fall in demand from major trading partners. It was noted that small and medium-sized (SMEs) exporters were more severely affected by the decline in export activities than large exporters.
- **Employment.** In 2008 Q4, businesses affected by the deteriorating economic conditions attempted to sustain operations by reducing working hours and the number of sub-contract workers, not by retrenching permanent workers. Workers that had been laid off from closed-down factories could be reemployed by new factories. Besides, some of those workers who became unemployed could find employment in the agricultural sector.
- **Costs and prices.** Business operating costs decreased from the previous quarter mainly due to sharply falling oil prices and businesses' success at operating cost reduction. However, prices of goods and services had not been significantly adjusted downward because businesses had been saddled with the cost burden in the previous period and could not afford to reduce prices significantly.
- **Real estate.** Demand slowed down marginally in the real estate sector, with worsening overall economic conditions and declining consumer confidence. Supply also contracted. The number of new housing project launches in the second half of 2008 started to decline, as compared to the previous year, in line with cement sales that had been dropping continuously since 2007. On credit standard, financial institutions were more cautious in making loans to real estate developers.
- **Credit.** Both the demand for long-term loans and large corporate loans in 2008 Q4 remained at almost the same level as in the previous quarter while the demand for short-term loans and loans to small and medium enterprises (SMEs) expanded slightly from the previous quarter. Nonetheless, financial institutions continued to tighten their credit standard from the level experienced in the previous quarter, resulting in a decrease in overall approval of all types of loans.
- **Business limitations and risk factors.** Businesses had become more concerned with the decrease in demand from both domestic and foreign markets even though production costs had dramatically subsided, thanks to falling oil prices. This led some businesses to try to reduce production costs further through enhanced efficiency, search for new markets, diversification of export destinations or concentrating more on domestic market.

* Including responses from business sentiment index survey and special surveys from more than 572 businesses.