

Thai surge in Q4 exceeded all forecasts

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LAST MONDAY, the Office of the National Economic and Social Development Board released Thailand's official GDP figures for the year 2009. Overall, the Thai economy contracted by 2.3 per cent, its first contraction since 1998. A closer look at quarterly developments however reveals a strong comeback in the making.

Aggregate output expanded at a solid pace in the fourth quarter of 2009. Since late 2008 when the adverse effects of the global financial crisis hit Thailand, GDP growth on a year-on-year basis turned positive for the first time.

The Thai economy grew 5.8 per cent in the fourth quarter compared with the same period a year ago, having contracted 7.1, 4.9, and 2.7 per cent in each of the first three quarters of 2009. In other words, the overall economy was on course for recovery - shrinking less and less and finally surging in the last quarter.

One of the key messages of the 2009 Q4 GDP out-turn is that the forward momentum owes primarily to the firming in the global economic recovery. on the expenditure side, net exports and domestic demand respectively contributed about 7.1 and 0.5 percentage points, while inventory destocking subtracted 1.8 percentage points - a total of 5.8 per cent. In other words, external demand was the main driver of growth.

On the supply side, whereas agricultural production took 0.3 percentage points off this quarter's growth rate, non-farm production added 6.1 percentage points by way of increased manufacturing production of export-oriented products and from growing hotel and restaurant services as a result of foreign tourists. In short, increased activity when viewed from the production side also reflected the ongoing global recovery.

Incidentally, the year-on-year growth rate of 5.8 per cent in the fourth quarter exceeded the expectation of 2.9 per cent according to the Asia-Pacific Consensus Forecasts as of December

2009. Virtually no professional forecasters anticipated the recovery to turn robust to this extent. On a quarter-on-quarter basis, output expanded 3.6 per cent, which is a record high since the third quarter of 1999.

Nevertheless, it is important to note that a sustained recovery will also depend on continued growth in private domestic demand.

As heavy dependence on external demand can be precarious, excessive reliance on the public sector can also be perilous.

Both a low interest-rate environment for an unduly extended period of time and excessive fiscal boosts risk creating economic imbalances such as over-indebtedness by either households or the government, over-leverage by firms and financial institutions, speculative asset price bubbles, or an acceleration of the aggregate price level. Consequently, one implication for monetary and fiscal policies is that economic stimulus needs to be phased out in a timely manner, but the wind-down process must be carried out carefully so as to avoid the risk of disrupting the recovery.

(The views expressed are the author's own.)

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