

## ***Thai Economy Experiencing Hard Days with Stagnation Spreading from External to Domestic Demands***

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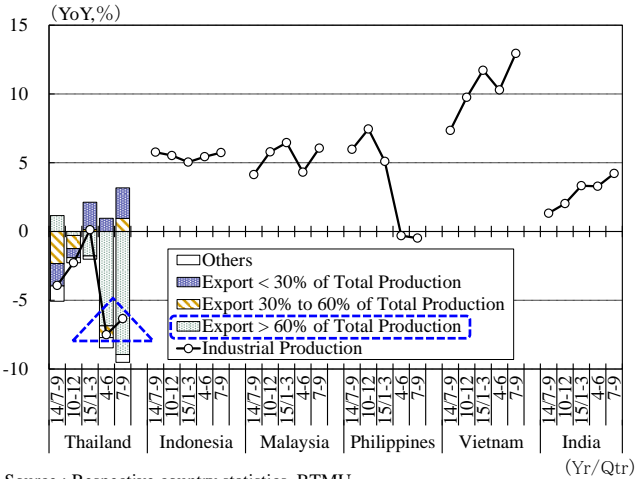
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While exports in most Asian countries are sluggish, industrial production keeps a solid pace of increase except in Thailand and the Philippines (Chart 1). Especially in Vietnam, production is strengthening its expansionary pace centering on the electronic products such as mobile phones, one of its major export items. The general robustness of their production reflects the relatively smaller decrease in their exports to the advanced countries. At the global financial crisis in 2008, production of manufacturing sector in ASEAN countries plunged sharply affected by a large drop of their exports to advanced countries, which brought about a contraction of domestic demand through a sluggish income growth. It is likely that currently the limited decrease of exports to advanced countries helps sustain the robustness of manufacturing sector, supporting the domestic demand through a stable employment and income thereof.

Meanwhile, the sluggishness of production in Thailand is outstanding. The stagnation in the production of export-bound products such as PC, TVs and electric instruments (comprising about half of the total production) has put a downward pressure on the whole production, suggesting stagnant external demand is heavily weighing on the production. Further, private consumption has been falling below the level of previous year since April-June period, and it can be seen that the stagnation in production of export-bound products is spreading to the domestic demand through a sluggish development of employment and income (Chart 2).

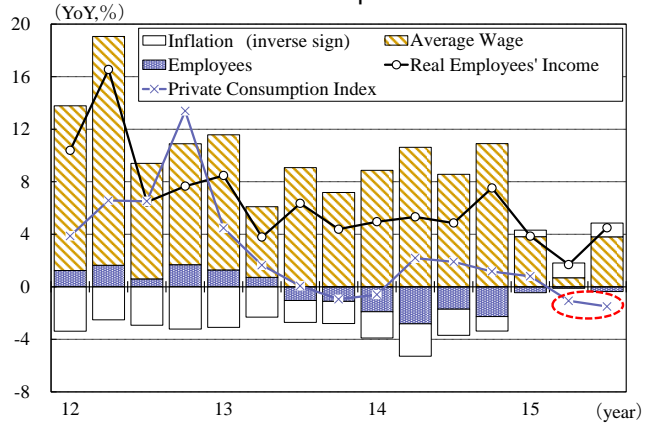
Deputy Prime Minister Mr. Somkid, who took the post after the reshuffle of the cabinet on August 19, announced the government's policy intention to take three economic stimulus measures. The government adopted at a Cabinet meeting on September 1 the first economic stimulus package to support low-income earners which included non-interest loans made through the village funds (totaling 136 bn bahts), and on September 8 the second package of financial support consisting of low-interest loans being made available to SMEs (totaling 206 bn bahts). These packages are, however, of the magnitude of less than 1% of nominal GDP for each, smaller than the stimulus package set out last October (a little more than 2%). In addition to a criticism that the first package is too accommodative to the public wish, there is a fear that non-interest loans and provision of cash allowances may only be used for repayment or refinancing of existing loans and it is unclear whether the package will contribute to boost the economy as is expected. Although measures aiming at attracting foreign investment are to be set out before long as a third package, they will have no immediate effect on the economy. In the medium-to-long run, it is to be watched whether the government will be able to work out the measures to strengthen export competitiveness through encouragement of higher value added production and other efforts.

Chart1 : Industrial Production in ASEAN+India



Source : Respective country statistics, BTMU

Chart2 : Real Employees' Income and Private Consumption in Thailand



Source : Thailand National Bureau of Trade and Economic Indices, Bank of Thailand, National Statistical Office, BTMU

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