

## **ECONOMICS FORECAST FOR OCTOBER 2007**

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The economy of Thailand in the past month was adversely affected by the activities of the various political parties as, some have been torn apart and some have gained more ground by joining strategic partners. Under this scenario, public opinion has switched from economy to politics and the impending general elections. Current government's tenure in office is becoming quite short so that it is not enough for the government to do anything substantial to lift the economy. The entrepreneur and the people have therefore placed their hope on the next government which is likely to be shaped up in January 2008. Meanwhile, exports sector in October is likely to expand to the rate of 11-12%. In this nexus, industries faring well are electronics and electric industries whose exports keeping rising at the rate exceeding 15%. As for the automobiles industry, it is expected to expand at 8.5%. Nevertheless, industries which are engaged in marketing locally are forecasted to slow down with total consumption remaining at the level of 1.7-2.0% while private sector total investments in real money terms should expand not more than 2.0%. Statistics of Companies seeking promotional privileges in the period of 9 months of this year amounted to 995 projects thus registering the growth factor of 23.1%. Most investments have been made by multi-nationals including Japanese, Europeans and Americans and countries in The ASEAN Bloc. This is regarded as a healthy trend as next year, money would flow into the Kingdom, with particular respect to projects in industrial estates and projects relating to metropolitan electric train which is a good sign for the economy in 2008.

### **Baht Remaining Strong and fairly stable.**

Thai Baht remains at the average of 34.12 – 34.15 baht per US dollar . These days, the Baht is rather stable because Bank of Thailand has intervened and controlled exchange rates. Since the beginning of the year to date, Baht has appreciated to the extend of 12%. This is in contrast to the Yuan whose appreciation value stood at a mere 3%. Nevertheless, global financial system faces insecurity and uncertainty. World Bank forecasts that the problems which arise out of the credit supprime in the US whose effects continue to buffet the world economy. This can be seen from Bank of America issuing a notice for retrenchment of staff by over 3,000 and Merrill Lynch & Co a leading bank of USA made an announcement about the highest net loss factor in recent memory of the Bank at 2,240 million dollars, which exceeded the forecasts by 6 times . The fallout has affected banks all over the world . For example, Nomura Holdings Financial Inc., the largest finance company in Japan , suffering net losses in the last quarter to the tune of 10,500 million Yen . Meanwhile, the Bank of England found that it necessary to inject money into the reserves for high-risk securities at a high amount of 348,000 million dollars. It is expected that the problems in the wake of US supprime are likely to continue for not less than the next 2 years and this is regarded as risk factor that is likely to have adversely bearings on the Baht.

### **Minus Factors To Bear On The Economy From 4<sup>th</sup> Quarter Until early 2008**

World economic trends enters an era of greater clarity as, next year, exports should expand but also face slowdown substantially over this year. Therefore, factors responsible for the exchange rate fluctuation are attributed to external factors and they affect the exchange rates vis-à-vis the Baht. For this reason, it is necessary to do monitoring closely because it is a variable factor of the nation economies. However, plus factors have arising from the exports sector, when JTEPA agreement shall be enforced from 1<sup>st</sup> November 2007. This means several items of commodities from Thailand enjoy tax reductions . As for minus factors, we need to look at oil prices that are rising , therefore, the end of this year, oil prices in New York market to be delivered in December has risen to tap the 90 collars per barrel mark . This phenomena partially has arisen out of financial institutions coupled with Hedge Funds that enter to earn profits . In Thailand, retail oil prices have been adjusted since 23 October 2007. **For the monetary liquidity, it is beginning to feel the tremors because money in the system to the tune of one hundred thousand million baht is being handled by Bank of Thailand.** This has made several commercial banks to feel the effects of the financial situation. This is evidenced by several commercial banks starting to compete with each other by issuing B/E , coupled with adjustment of interest rates for savings . The competition for encouraging savings and this in turn puts pressure on interest rates to rise . In this nexus, commercial banks in the past have been expanding in credit sector at a very low level. In case of interest rates are rising coupled with liquidity sufficiency of the banks decreasing, and this may present obstacles standing in the way of expansion of the economy . Businesses are still reliant on monetary assistance from the banks and this should be a minus factor to the economic expansion in the year 2008.

### **Risk Factors Having Bearings on Thai Economy in Year 2008**

**Asian Development Bank (ADB) in its economic forecast of Thailand for 2008 gave the economic expansion at 5.0 percent .** Nevertheless, forecasts issued by Office of the National Economic and Social Development Board (NESDB) and Bank of Thailand, focusing on national economy in year 2007 will expand in the region of 4.0% - 4.5%. (first quarter 4.2%, second quarter 4.4%) and in the year 2008, the economy is forecasted to grow at around 4.5% - 6.0%.

### **Risk Factors Requiring Analysis Vis-à-vis Thai economy are as follows:**

1. Political situation facing the government with adverse effects.
2. Fear of political instability.
3. Shrinking of businesses and their monetary woes.
4. Slowdown of the global economy.
5. Worries associated with exchange rates for the Baht.

All these factors are responsible for economic slowdown and economic fluctuation facing Thailand in the last quarter of this year and also next early year . Of particular interest is the eroding factor over local politics and clear cut policy expected of the new government to be formed to solve economic problems which are challenging in scope and nature, and which would confront the new government when it takes office after the general elections, in year 2008.

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