

**FOR
AGENDA**

SM/08/134
Correction 1

May 16, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Thailand—Selected Issues**

The attached corrections to SM/08/134 (5/5/08) have been provided by the staff.

Typographical Errors

Page 1, Table of Contents, line 1: for “Much Ado Without” read “Much Ado About”

Page 3, Title: for “Much Ado Without” read “Much Ado About”
first para., line 3: for “next year” read “this year”

Questions may be referred to Mr. Aiyar, APD (ext. 38638).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (2)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

THAILAND

Selected Issues

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Approved by the Asia and Pacific Department

May 2, 2008

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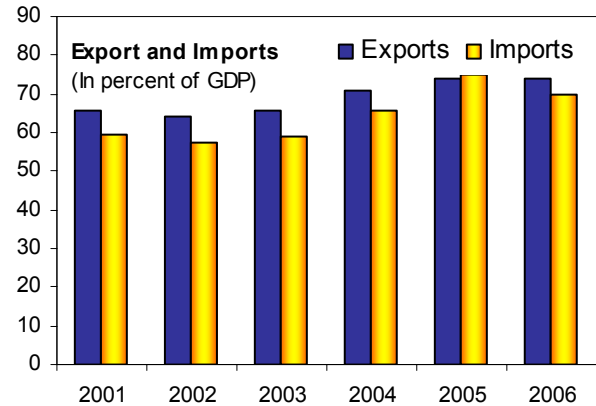
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I. MUCH ADO ABOUT NOTHING? ESTIMATING THE IMPACT OF A U.S. SLOWDOWN ON THAI GROWTH¹

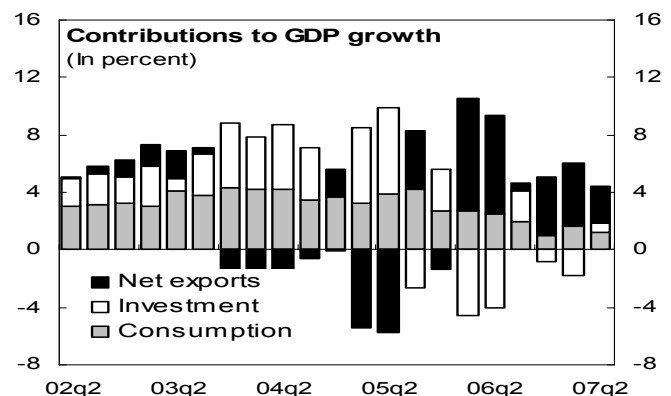
External demand has been the main driver of growth in Thailand in 2006 and 2007. However, recent IMF World Economic Outlook (WEO) projections indicate moderating foreign demand this year, with U.S. growth being revised downwards to reflect the turmoil in housing and credit markets, and high oil prices. While the share of Thai exports to the US has fallen in recent years, the US remains Thailand's largest export destination. We use a small structural model and Bayesian estimation to assess the possible impact of a U.S. slowdown on Thai growth. We find that a 1 percent slowdown in U.S. growth in 2008—relative to the baseline forecast—could have an upper-bound impact on Thai GDP growth of 0.9 percentage points.

A. Introduction

1. **Thailand is a very open economy, and as such, its domestic fortunes are strongly linked to external demand conditions.** The share of trade in GDP has been increasing steadily over time, and stood at over 140 percent in 2006. Exports of goods and services accounted for about 74 percent of GDP. Moreover, over the last two years, Thai growth has been driven to a very large extent by net exports. The unsettled political situation and some market-unfriendly policy measures have weakened domestic demand, with the contribution of domestic investment to growth being negative for four out of six quarters since the beginning of 2006. The strong performance of net exports has therefore been the engine of growth.



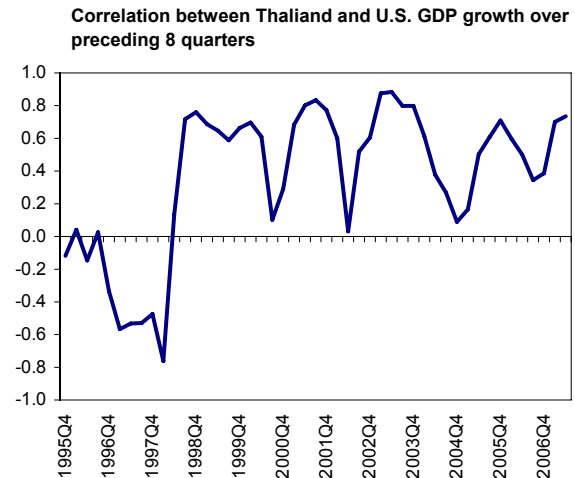
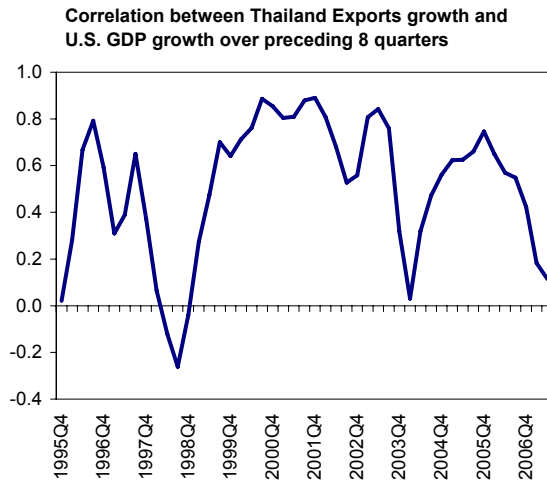
2. **Net exports have performed exceptionally well over the last two years.** Partly, this is because depressed domestic demand has led to a fall in imports. Imports grew at an anemic 7 percent in 2006 and 6.4 percent in 2007 (H1), after registering average growth of about 14 percent over the previous five years. But it is also because of surging



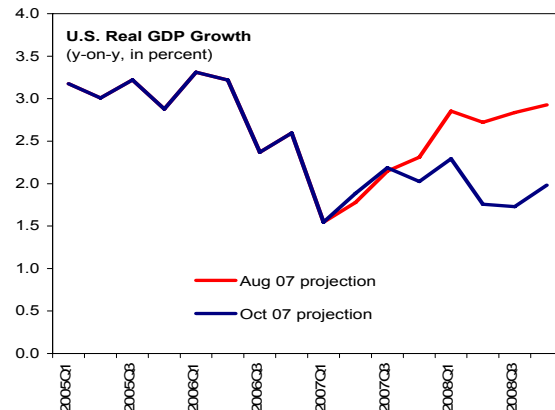
¹ Prepared by Shekhar Aiyar and Ivan Tchakarov.

exports, which grew at 17.4 percent and 18.4 percent in 2006 and 2007 (H1) respectively, after registering average growth of about 10.5 percent over the previous five years.

3. **In these circumstances, any slowdown in external demand could have a potentially strong impact on the Thai economy.** Thailand's most important export market is the US, accounting for 15 percent of Thai exports in 2006. Moreover, the correlation between U.S. growth and Thai exports, and between U.S. growth and Thai growth, has been positive over a long time period.²



4. **There is a strong consensus that the US is headed toward a slowdown in economic growth, which may be exacerbated by the recent woes in the subprime mortgage market, in housing and credit markets more broadly, and by high oil prices.** WEO forecasts suggest that growth in 2007 will fall to 1.9 percent from 2.9 percent the previous year, and remain at



² Is there evidence of “decoupling”? Different data suggest different answers. On the one hand, the U.S. share of Thai exports has been declining steadily over time, with the trade shares of China, the Middle East, and other Asian countries rising. On the other hand, looking at the three preceding U.S. recessions—in 1990–91, 1995, and 2001—it is evident that the largest impact on Thai growth and exports was in 2001. This is because the magnitude of the U.S. slowdown in 2001 was much larger than the earlier episodes, and because the collapse of the information technology bubble led to a sharp decline in imports of information processing equipment, in which Thailand (along with other Asian countries) has been increasingly specializing. Thus both the magnitude and the sectoral composition of a future U.S. slowdown would be relevant to the impact on Thailand.