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Statement of an IMF Mission at the Conclusion of the 2009 Article IV Consultations with Thailand

The following statement was issued on April 3, 2009 in Bangkok after the conclusion of an International Monetary Fund (IMF) staff mission to Thailand for the 2009 Article IV Consultation:

"Thailand's economy is set to contract sharply in 2009, mainly due to the impact of the global recession. In recent years the strong performance of the export sector helped to support growth despite a slump in domestic demand. But beginning in the fourth quarter of 2008, exports have fallen sharply, while domestic demand remains weak. Supportive fiscal and monetary policy will be needed to limit the contraction in consumption and investment. Assuming that there are no major shortfalls in policy implementation, and that political stability is maintained, the fall in GDP growth could be contained to a range of between -2 and -4 percent.

"Over the medium-term, a gradual recovery led by exports and government investment is projected, with private investment following. Public investment is expected to make a major contribution to GDP growth over the next few years, as much-needed infrastructure projects are undertaken. Over time private investment will be crowded-in and private consumption will recover in line with rising income. The investment-to-GDP ratio should rise substantially over the medium-term, while remaining well below historical highs.

"Monetary policy has reacted appropriately, with the Bank of Thailand cutting interest rates aggressively. The reduction of the policy rate by 225 basis points since last December should help to spur weak domestic demand. There remains some scope for further easing if needed. Inflation has already fallen sharply in line with energy and food prices. Headline inflation for the year is forecast at under 1 percent.

"The large planned fiscal stimulus of FY 2008/09 (October-September) is necessary. The budget framework, inclusive of the fiscal stimulus package in the supplementary budget, indicates the government's intention to run a sizeable deficit. With revenues expected to fall short of the budget target as a result of discretionary tax measures and lower GDP growth (automatic stabilizers), the central government budgetary deficit is projected to be around 4½ percent of GDP. This fiscal stance should help spur domestic demand. The challenge will be to ensure speedy and complete implementation. Thereafter, and over the medium-term, much-needed public infrastructure projects should be undertaken, in line with the government's recently announced second stimulus package. Public debt would rise as a proportion of GDP initially, but would remain on a sustainable path.

"The Thai banking and corporate sectors entered the global crisis in relatively robust health. Thai banks are well capitalized, non-performing loans (NPLs) have been falling for several years from the high levels reached during the Asian crisis, and direct exposure to the US mortgage market and structured products is low. The corporate sector has seen falling leverage and high profitability in the last few years. Nonetheless, the financial crisis will likely result in stresses to both sectors. Banks would see a rise in NPLs, while corporates—especially small and medium-sized enterprises—may see a tightening of credit conditions in addition to falling demand. In this light, the small- and medium-sized enterprise (SME) credit guarantee scheme is welcome, provided it is temporary."