Higher food and fuel prices: What is the impact on the Thai economy and what to do about it?

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April 28, 2011
higher food and fuel prices

Are high prices temporary or permanent?

Source: World Bank Economic Prospects Group and staff calculations
higher food and fuel prices

Are high prices temporary or permanent?

Crude oil = average of Brent, WTI, and Dubai; coal = Australia, spot; natural gas = Japan; LPG = Saudi Aramco contract price for propane

Source: World Bank
higher food and fuel prices

Are high prices temporary or permanent?

Nominal Indices (2000 = 100)

Source: World Bank Economic Prospects Group and staff calculations
higher food and fuel prices

Are high prices temporary or permanent?

Source: IMF (April 2011 WEO)
Healthy growth projected for 2012, mostly helped by domestic demand.

“Domestic” and “External” demand represent estimated contributions of each to absorbing domestic value-added.

Source: NESDB and World Bank staff calculations.
impact on the Thai economy: growth

Farm income has risen faster than rural prices despite weak output.

Sources: Bank of Thailand, Ministry of Commerce and World Bank staff calculations
impact on the Thai economy: growth

Higher prices of agricultural commodities a net positive for growth because of the link to higher incomes for farmers…

Indices, 12-month moving averages

Sources: Bank of Thailand and World Bank staff calculations
impact on the Thai economy: growth

... as well as unskilled workers in general, as higher agricultural prices lift agricultural wages, which tends to boost all wages.

Overall wages deflated by the consumer price index; agricultural wages deflated by the rural consumer price index.

Sources: National Statistical Office, Ministry of Commerce and World Bank staff calculations
When crop prices go up, agriculture draws workers from sectors with relatively low wages, which must be increased to stem the outflow.

Sources: National Statistical Office and World Bank staff calculations
impact on the Thai economy: growth

Although export volume growth has lagged other countries, export value growth has been solid…

impact on the Thai economy: growth

... because Thailand is now exporting more of products that saw price increases (agriculture, autos, petrochemicals vs. textiles, E&E).

These products increased their share in Thailand’s export basket.

Sources: Bank of Thailand, Ministry of Commerce and World Bank staff calculations.
impact on the Thai economy: growth

Recently, higher export prices have been helped by higher prices for agricultural commodities...

Index of monthly export value adjusted for seasonal fluctuations.

$t=0$ denotes the beginning of the global recession and is set to 100

Sources: MoC, Bank of Thailand and World Bank staff calculations.
impact on the Thai economy: growth

... but in the case of autos, higher prices also reflect rising share of higher value-added passenger cars in the export mix.

Sources: Bank of Thailand and World Bank staff calculations.
impact on the Thai economy: inflation

Inflation has been low because demand-pull factors are still subdued and administrative measures have contained cost-push pressures.

Transport and fuel inflation (3m/3m growth, annualized) USD per barrel

- Average of Thailand, Malaysia and Indonesia
- Average of Singapore, Korea and the Philippines
- Crude Oil Prices (Dubai; right axis)

impact on the Thai economy: inflation

But expectations are increasing.
impact on the Thai economy: risks

Continued increases in oil prices could derail the global recovery.

- Possible impact of Tohoku earthquake on oil demand:
  - Crisis in the Fukushima power plant will lead Japan to switch to fossil fuel sources for 10 – 12 mnKW, which will require about 0.3 percent of the world’s oil supply.
  - The crisis also led to a reconsideration of nuclear power in a number of countries.

- Thailand’s recovery still dependent on the outlook for advanced economies

Note: No-crisis scenario shows output levels that would have been had quarterly growth been sustained at the mean rate during 2002-07.
Source: Haver and World Bank staff calculations.
impact on the Thai economy: risks

Higher food prices can potentially harm the poorest in society.

![Graph showing year-on-year growth rate and number of poor, consumption growth, poverty line, and food prices from 2006 to 2009.](image)

Source: NSO, NESDB, MoC and World Bank staff calculations.
impact on the Thai economy: risks

Fiscal risks still contained despite decrease in diesel excise tax.

Expenditures include both on and off-budget items. Sources: Fiscal Policy Office and World Bank staff calculations.
what to do about it?

Boost productivity in agriculture

- **Scale issues:** increase vertical integration with agribusiness to get:
  - Investment capital, advanced technology, market access, risk management tools

- **Increase R&D in agriculture to address climate change**

Source: Bank of Thailand and World Bank staff calculations.
what to do about it?

**Improve energy efficiency**

- Thailand is one of the most oil-intensive countries in the region

![Graph showing oil intensity vs. GDP per capita](image)

Source: CEIC, BP Oil and World Bank staff calculations.
Thank you!
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