

# Thailand

## ECONOMIC MONITOR

April 2011

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

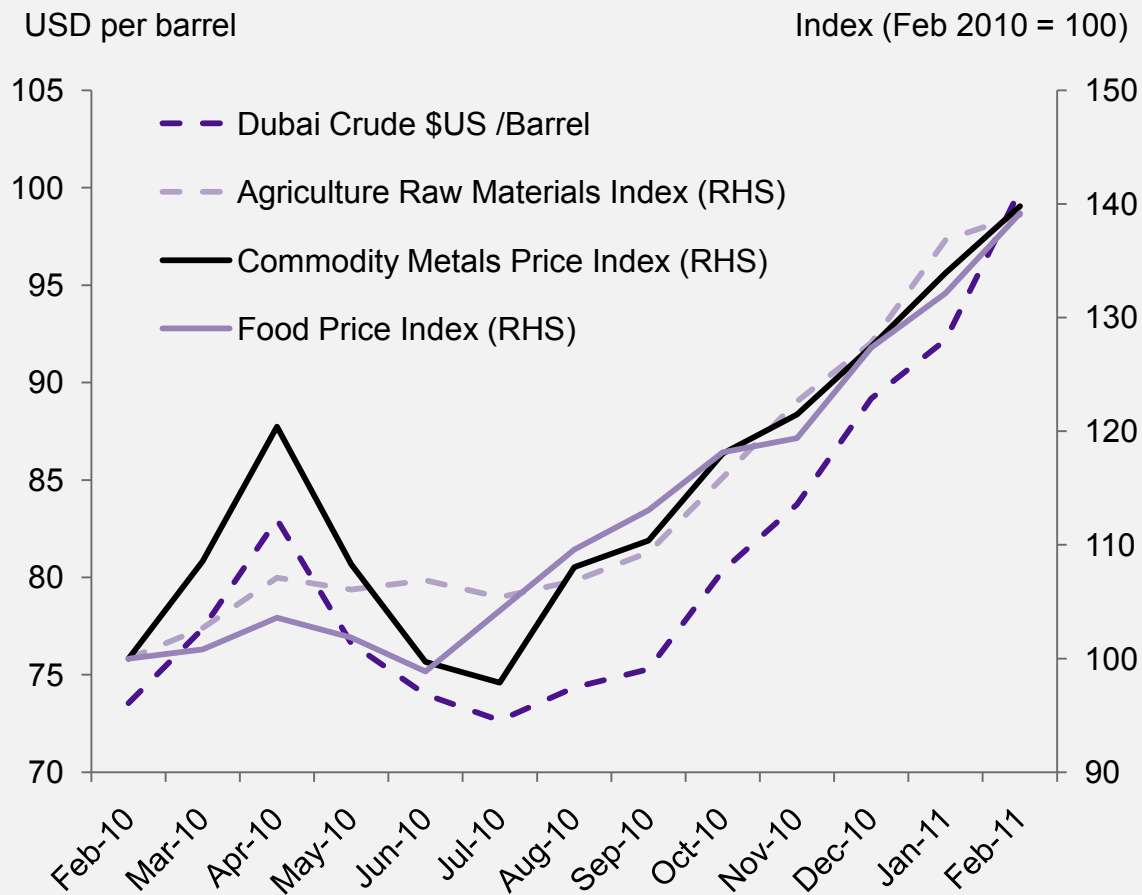
Frederico Gil Sander

April 28, 2011



## higher food and fuel prices

### Are high prices temporary or permanent?

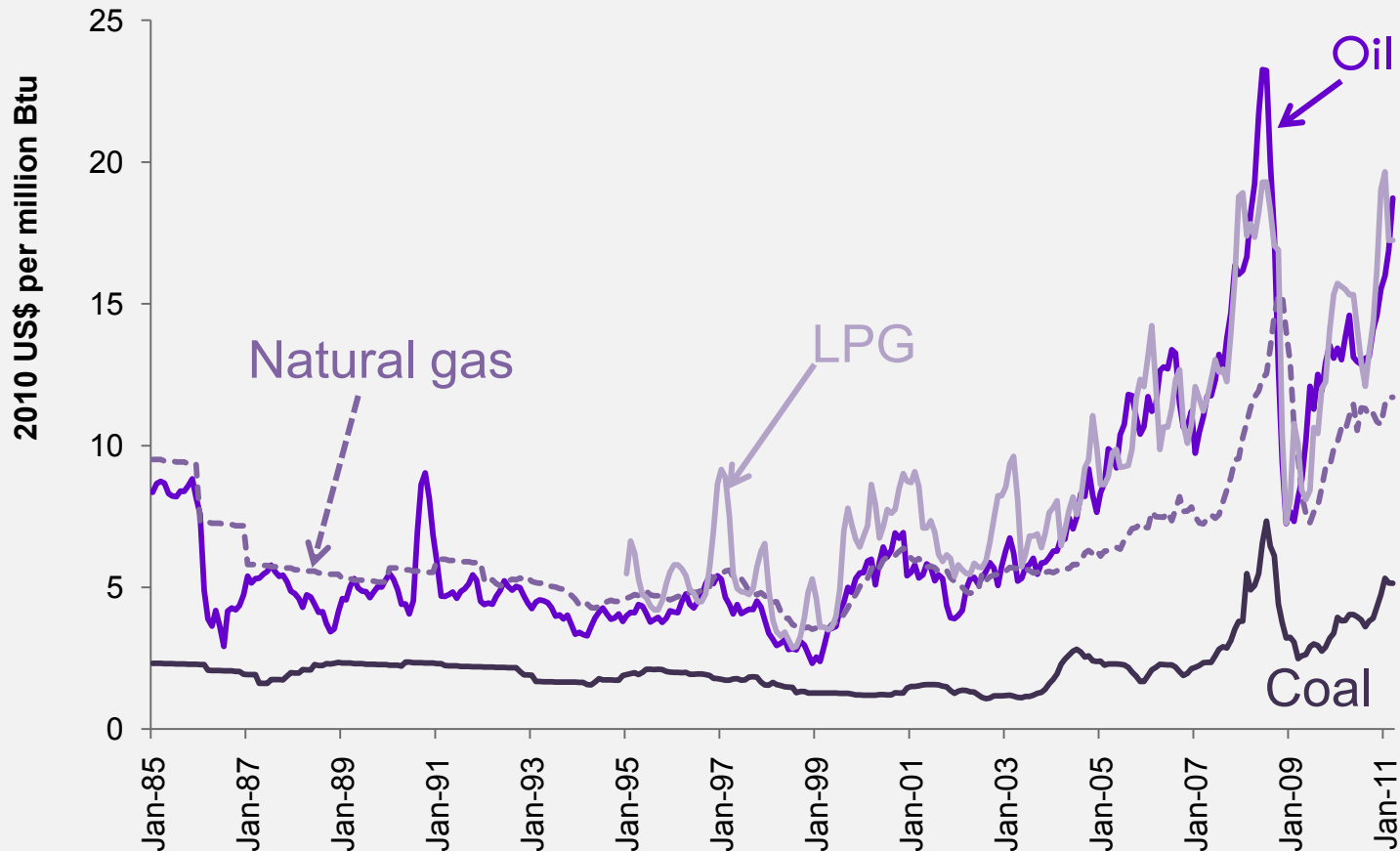


Source: World Bank Economic Prospects Group and staff calculations



higher food and fuel prices

## Are high prices temporary or permanent?



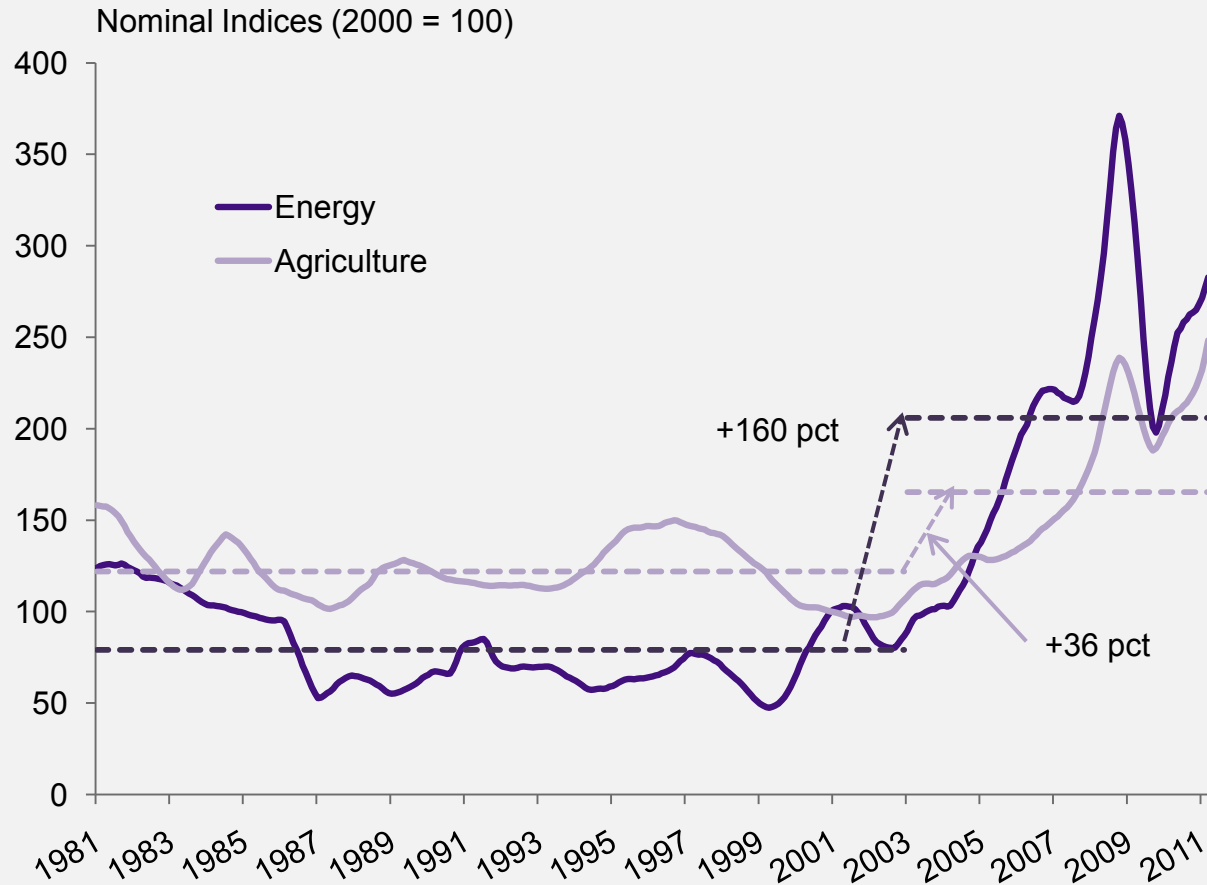
Crude oil = average of Brent, WTI, and Dubai; coal = Australia, spot; natural gas = Japan; LPG = Saudi Aramco contract price for propane

Source: World Bank



## higher food and fuel prices

### Are high prices temporary or permanent?

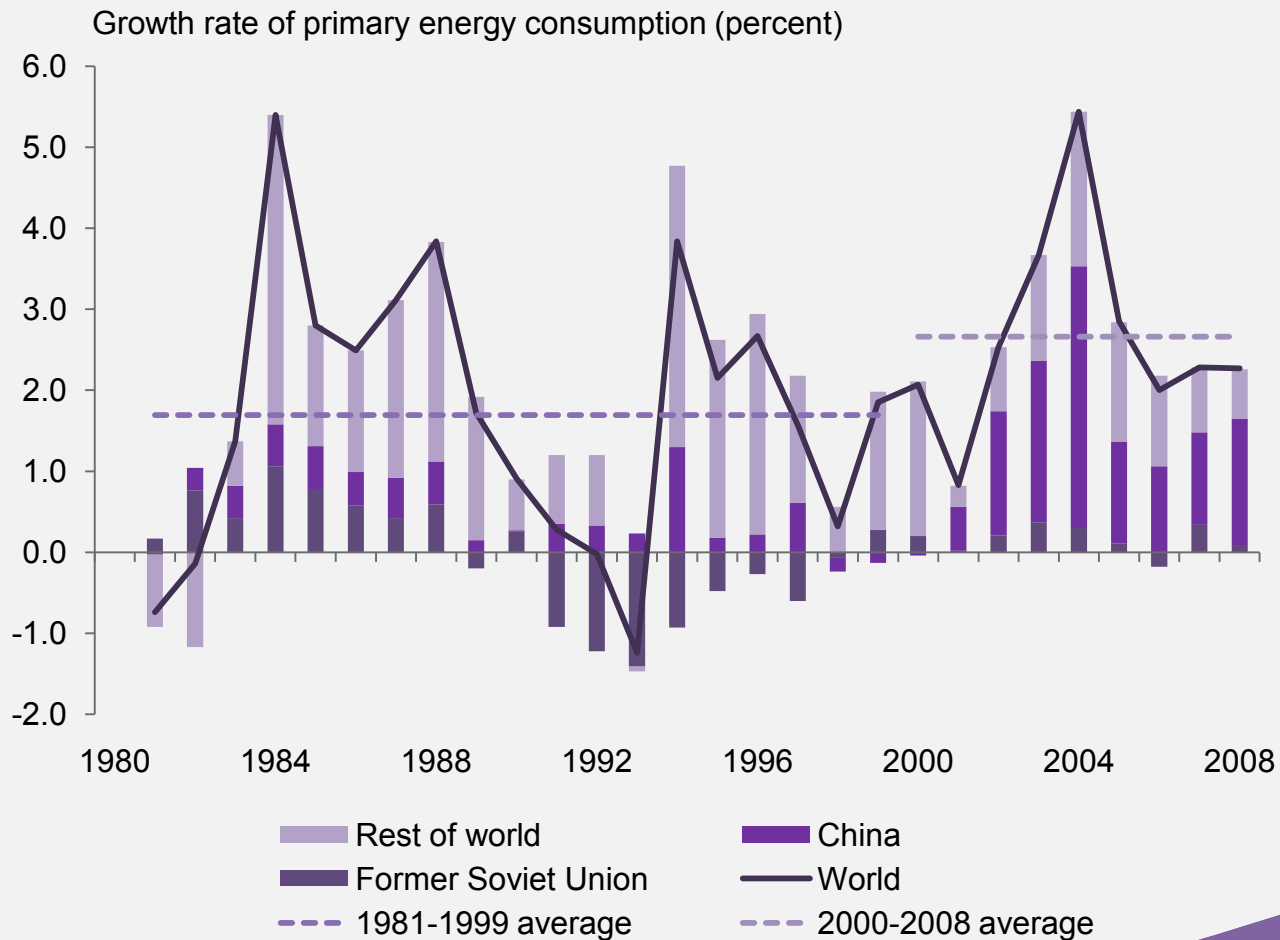


Source: World Bank Economic Prospects Group and staff calculations



## higher food and fuel prices

### Are high prices temporary or permanent?

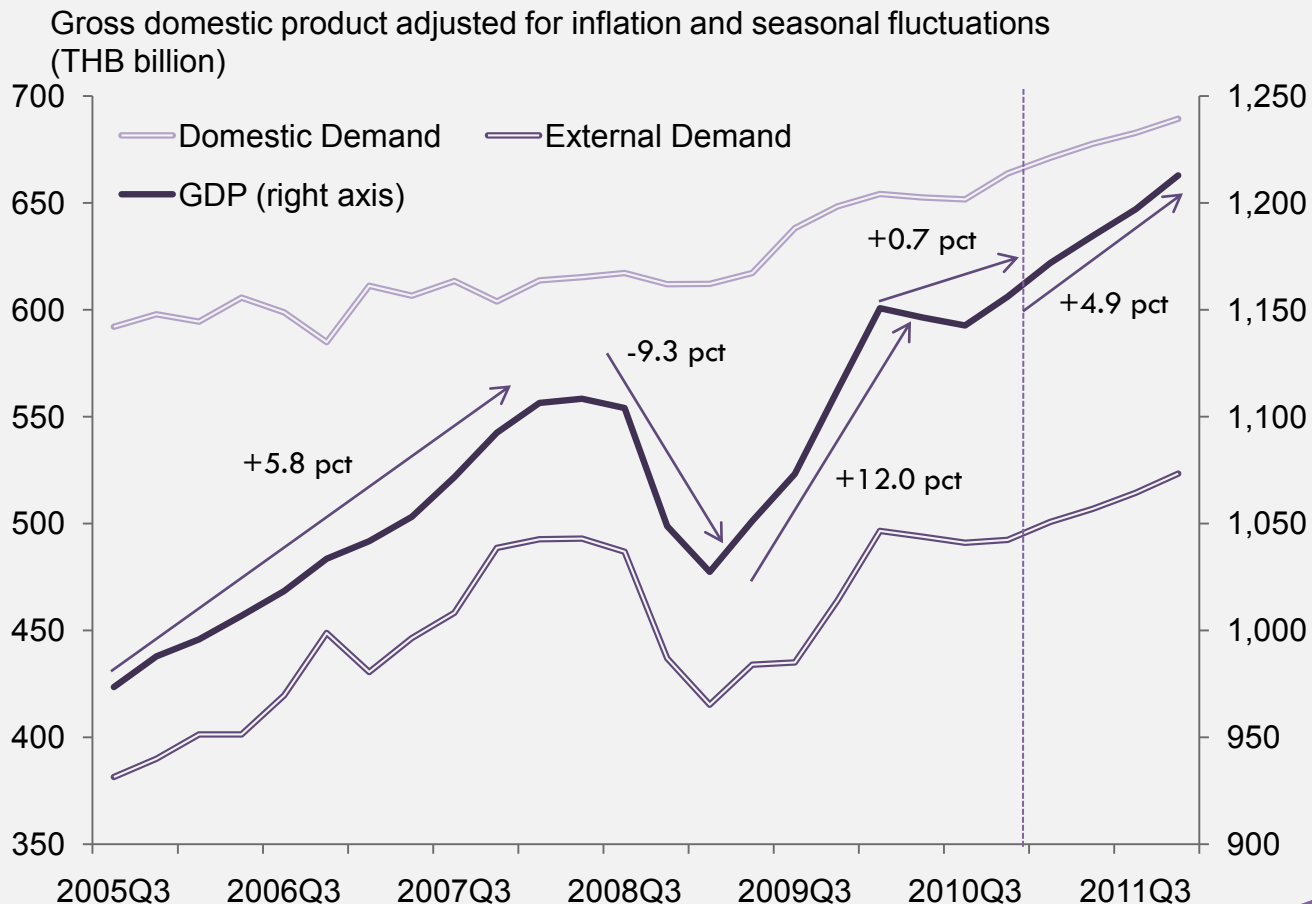


Source: IMF (April 2011 WEO)



## impact on the Thai economy: growth

### Healthy growth projected for 2012, mostly helped by domestic demand.



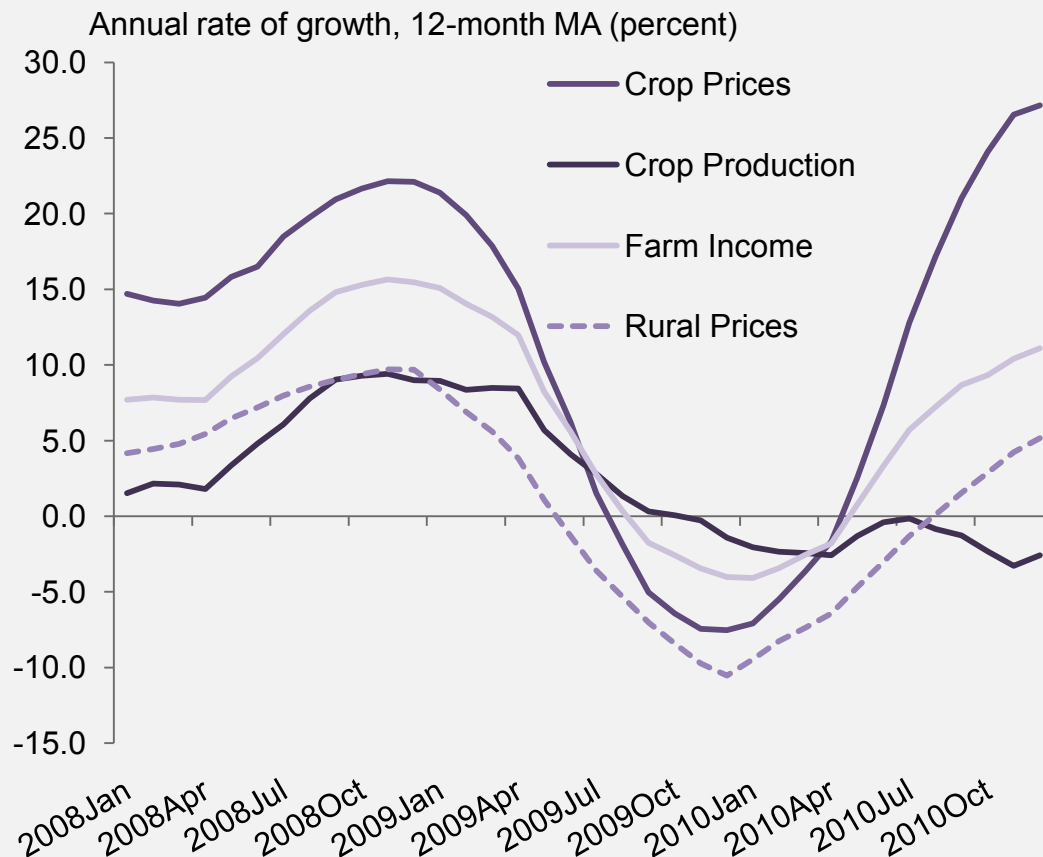
“Domestic” and “External” demand represent estimated contributions of each to absorbing domestic value-added.

Source: NESDB and World Bank staff calculations.



## impact on the Thai economy: growth

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

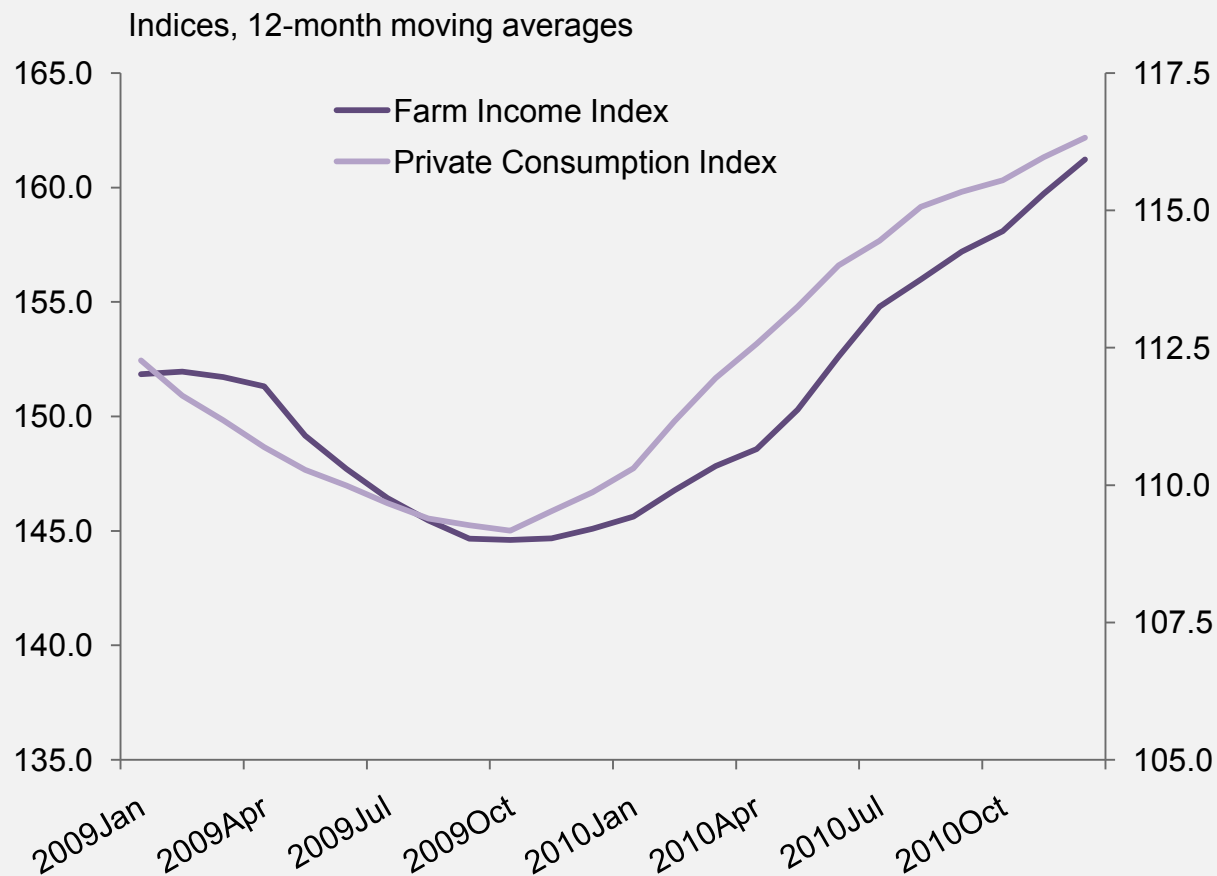


Sources: Bank of Thailand, Ministry of Commerce and World Bank staff calculations



## 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...**

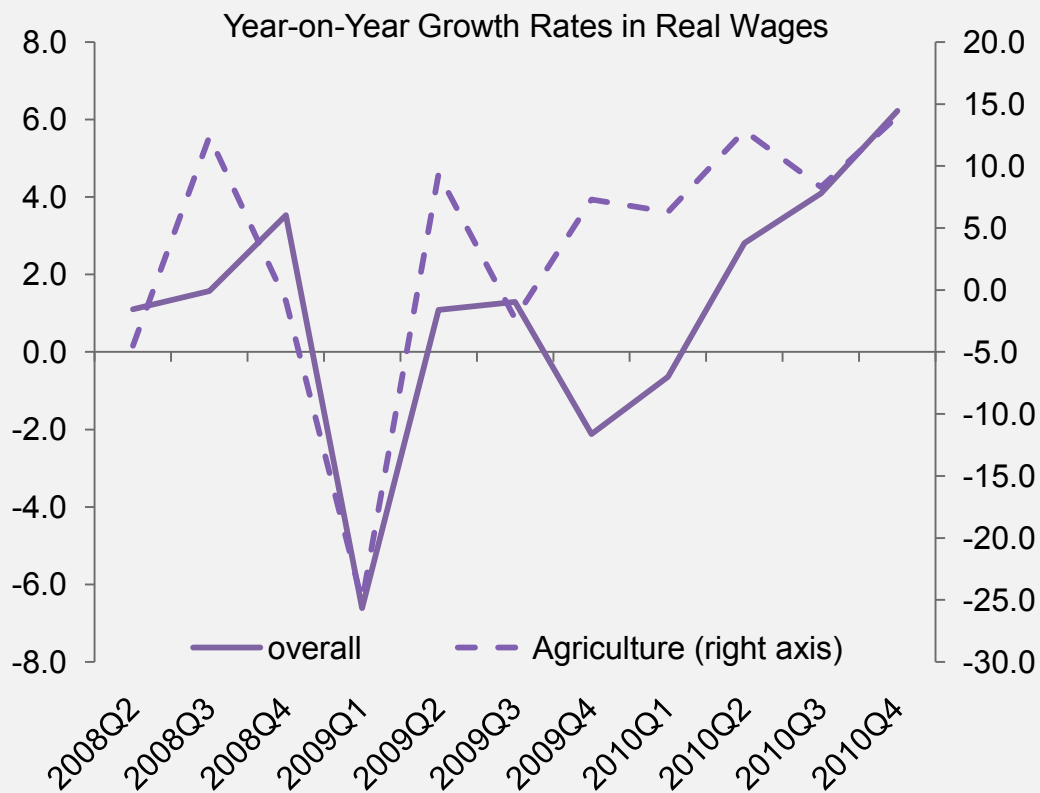


Sources: Bank of Thailand and World Bank staff calculations



## 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.



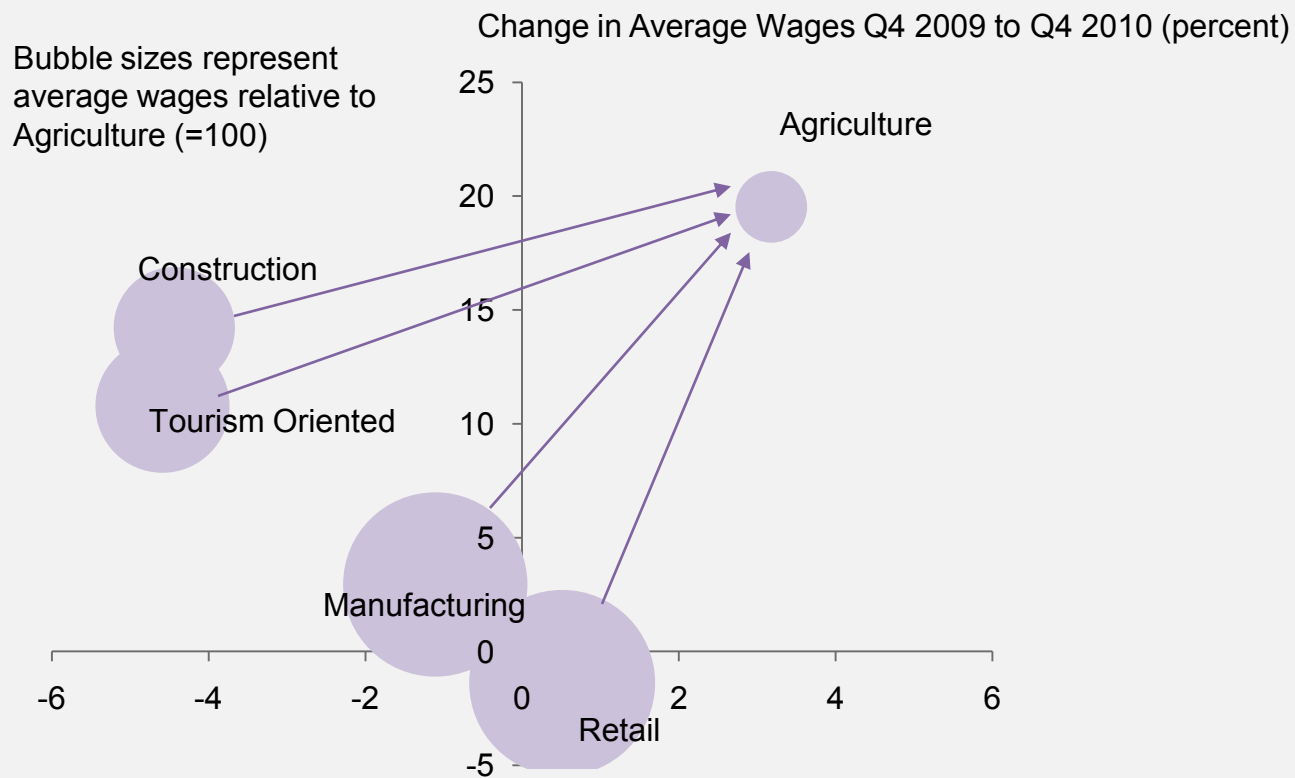
Overall wages deflated by the consumer price index; agricultural wages deflated by the rural consumer price index.

Sources: National Statistical Office, Ministry of Commerce and World Bank staff calculations



## impact on the Thai economy: growth

**When crop prices go up, agriculture draws workers from sectors with relatively low wages, which must be increased to stem the outflow.**



Change in Employment Q4 2009 to Q4 2010 (percent)

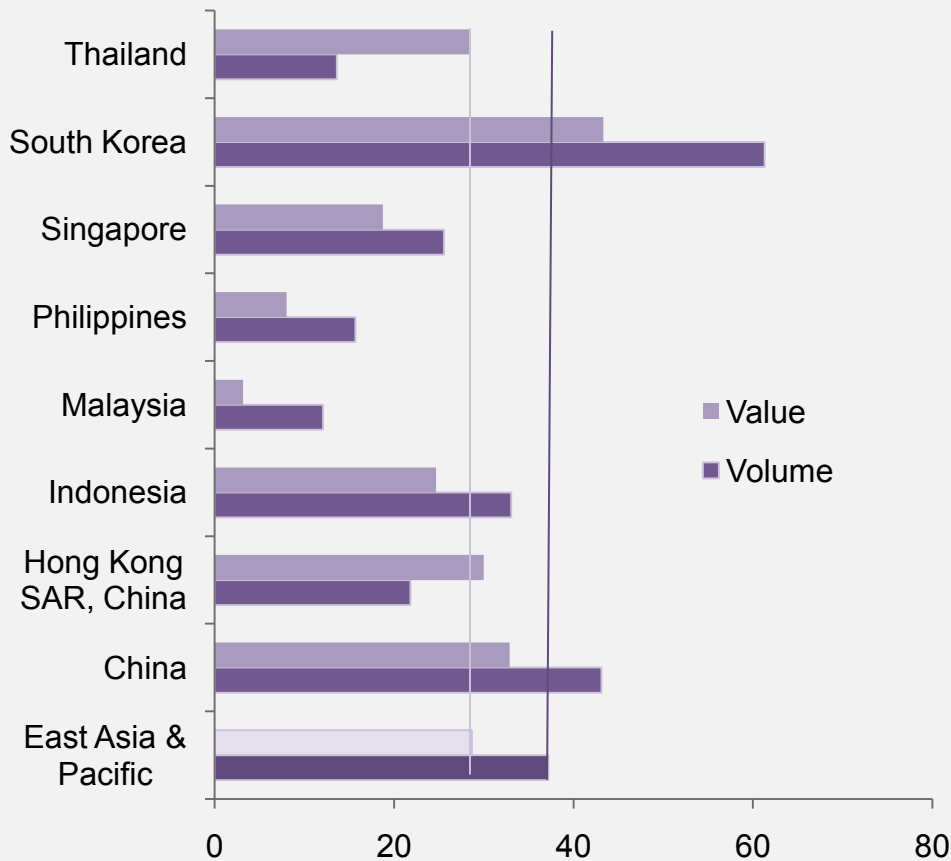
Sources: National Statistical Office and World Bank staff calculations



## impact on the Thai economy: growth

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

Changes in export value and volume from 9/2008 to 1/2011 (percent)

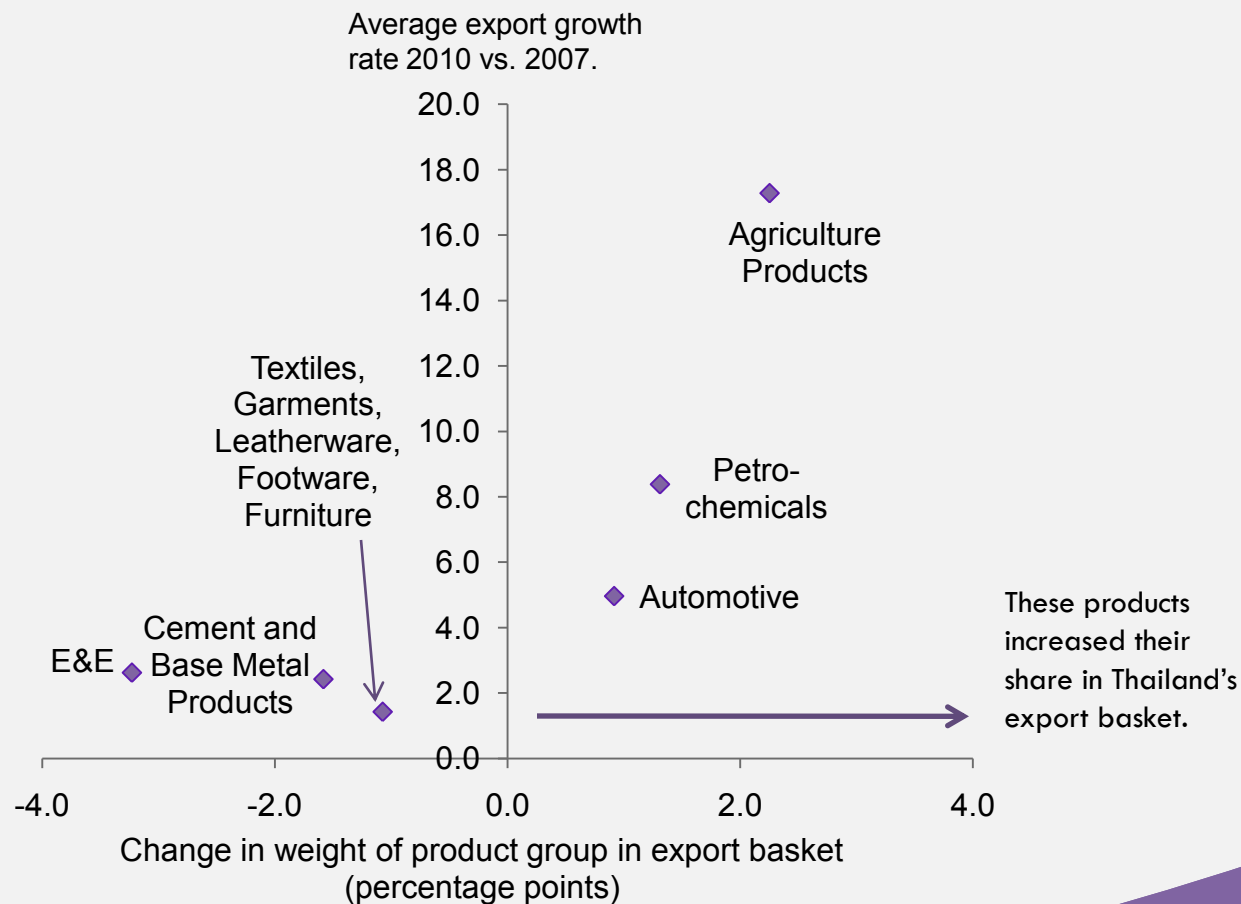


Source: World Bank.



## 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).

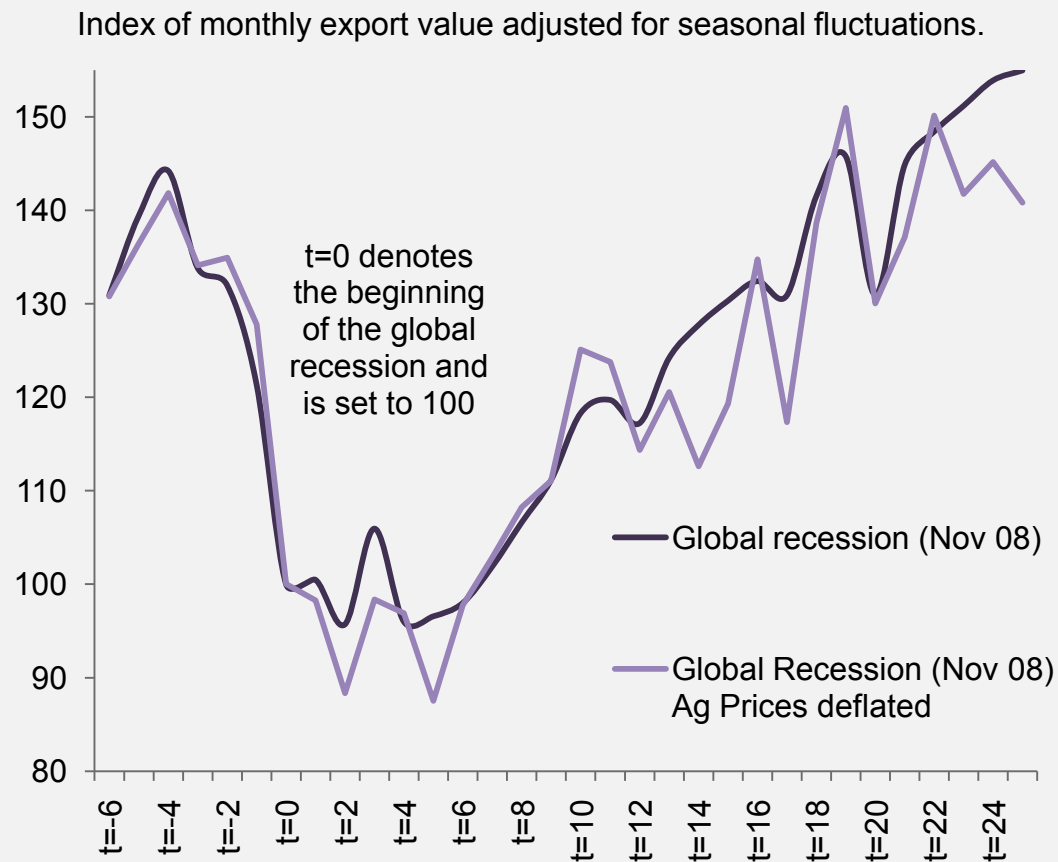


Sources: Bank of Thailand, Ministry of Commerce and World Bank staff calculations.



## impact on the Thai economy: growth

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

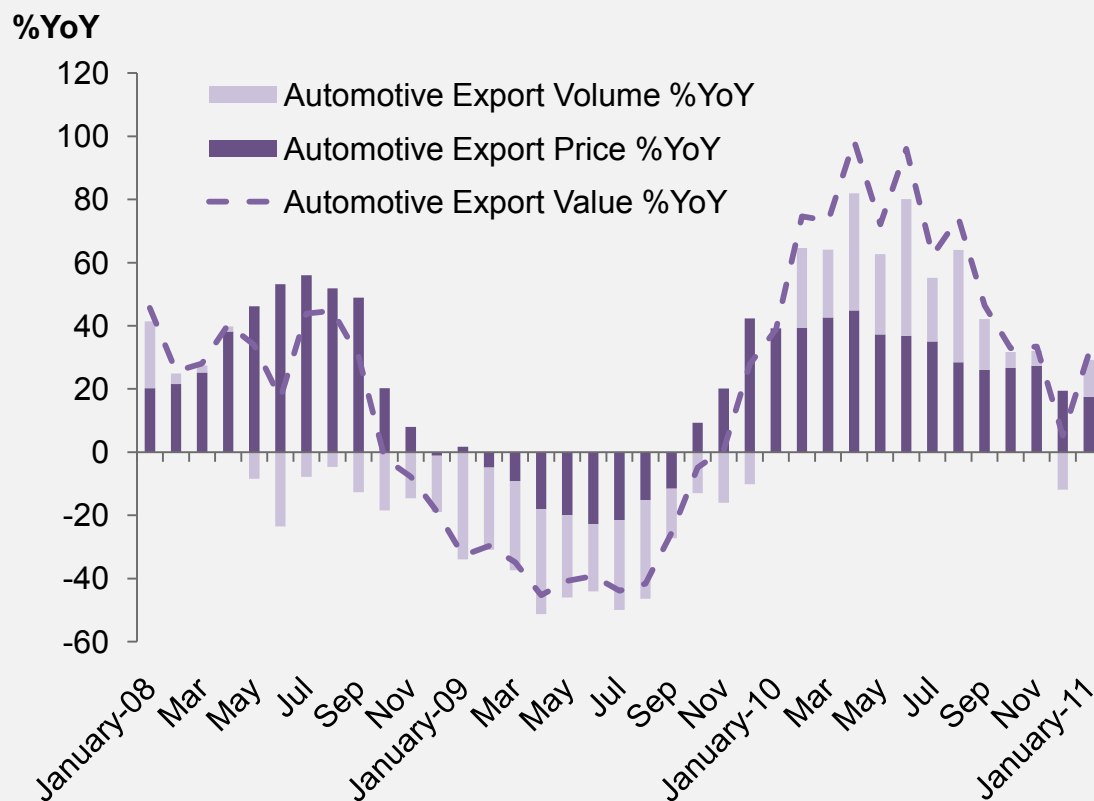


Sources: MoC, Bank of Thailand and World Bank staff calculations.



## 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.

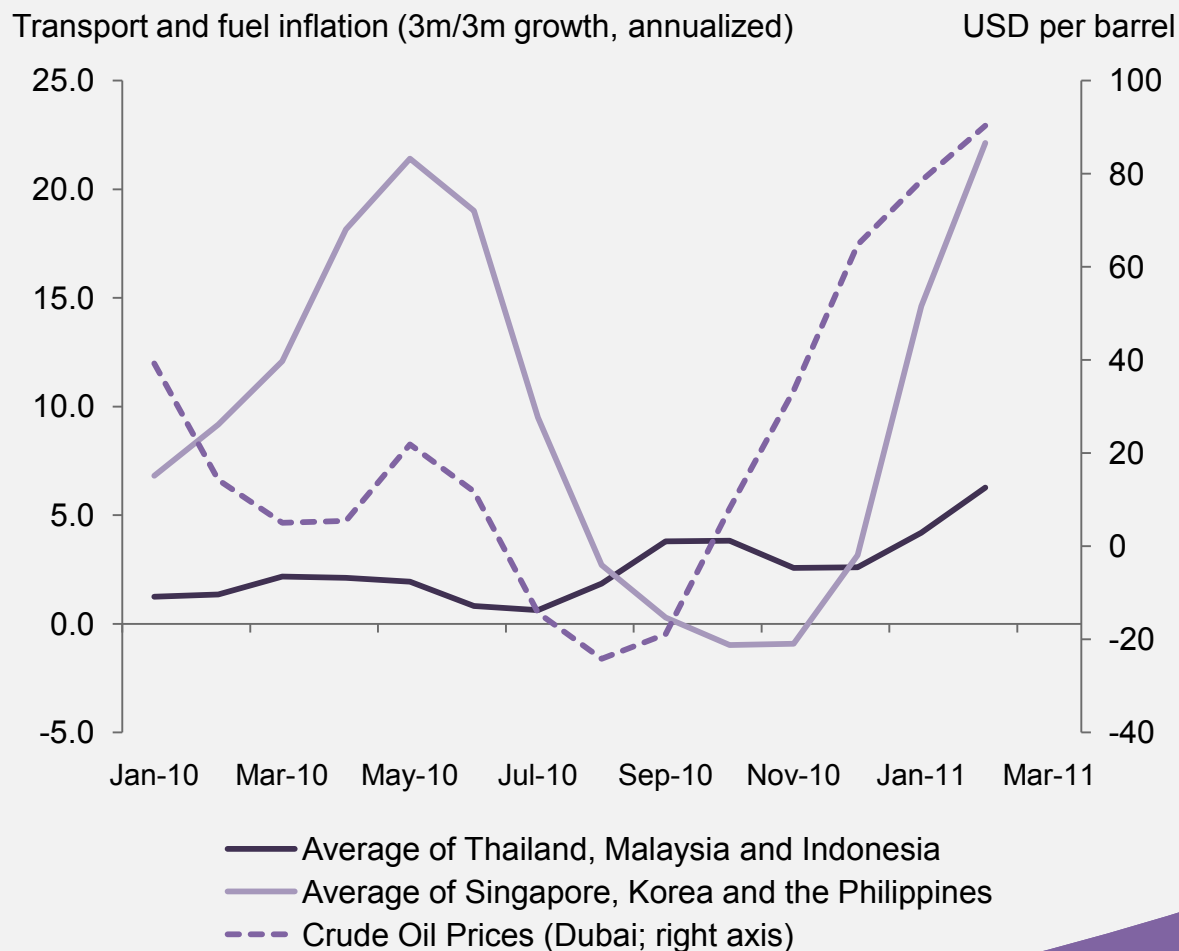


Sources: Bank of Thailand and World Bank staff calculations.



## 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.**



Source: CEIC, US Energy Information Administration.



impact on the Thai economy: inflation

**But expectations are increasing.**

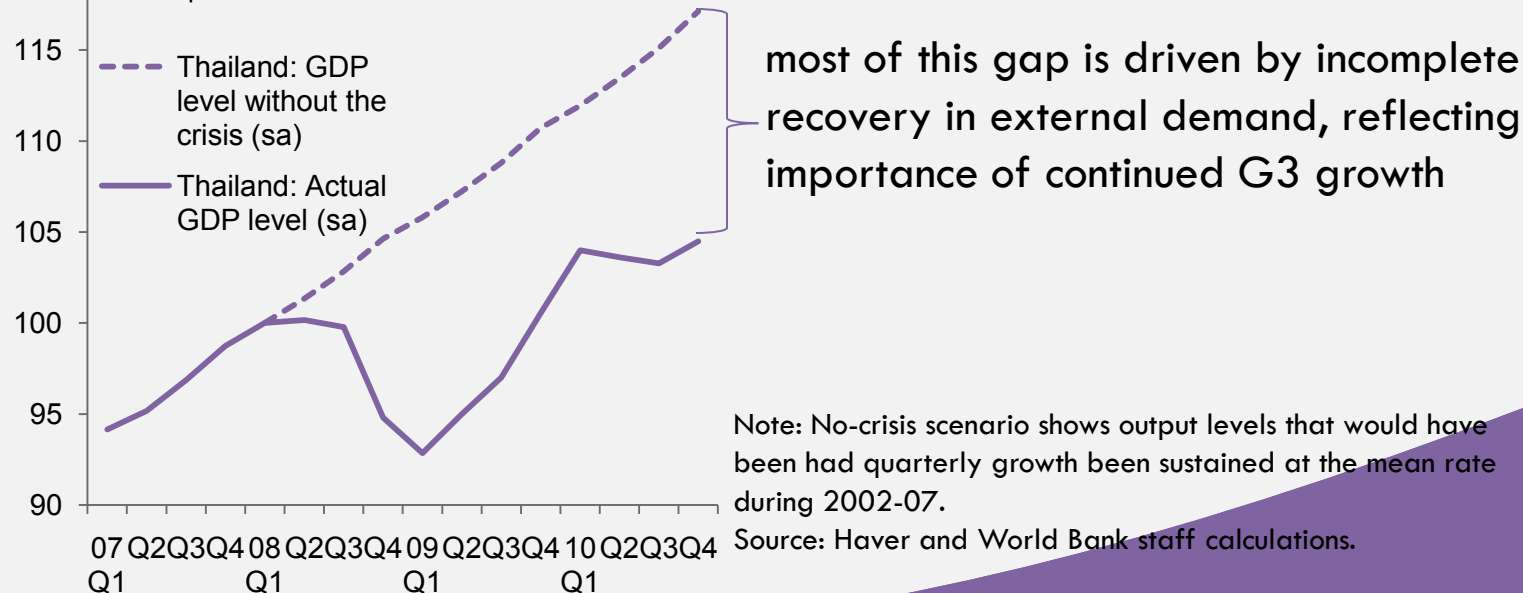


## impact on the Thai economy: risks

### Continued increases in oil prices could derail the global recovery.

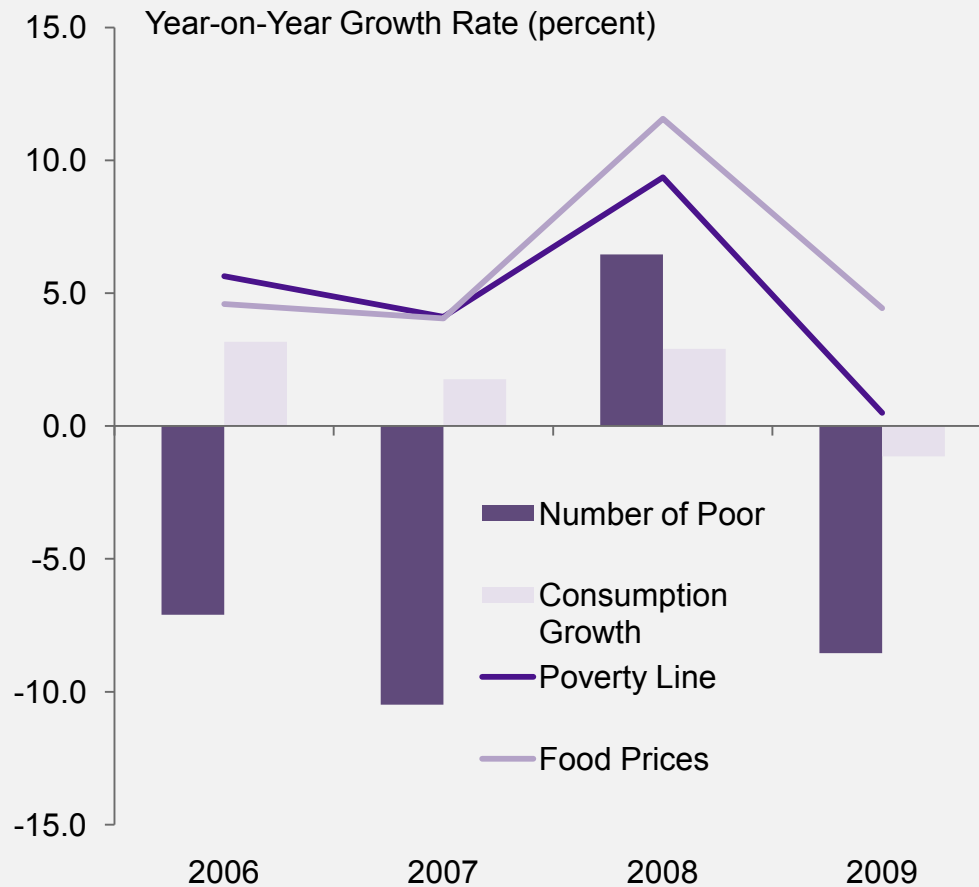
- Possible impact of Tohoku earthquake on oil demand:
  - Crisis in the Fukushima power plant will lead Japan to switch to fossil fuel sources for 10 – 12 mnKW, which will require about 0.3 percent of the world's oil supply.
  - The crisis also led to a reconsideration of nuclear power in a number of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

Actual and simulated GDP levels (sa) based on "no-crisis" assumption. Q1 2008=100



## impact on the Thai economy: risks

**Higher food prices can potentially harm the poorest in society.**

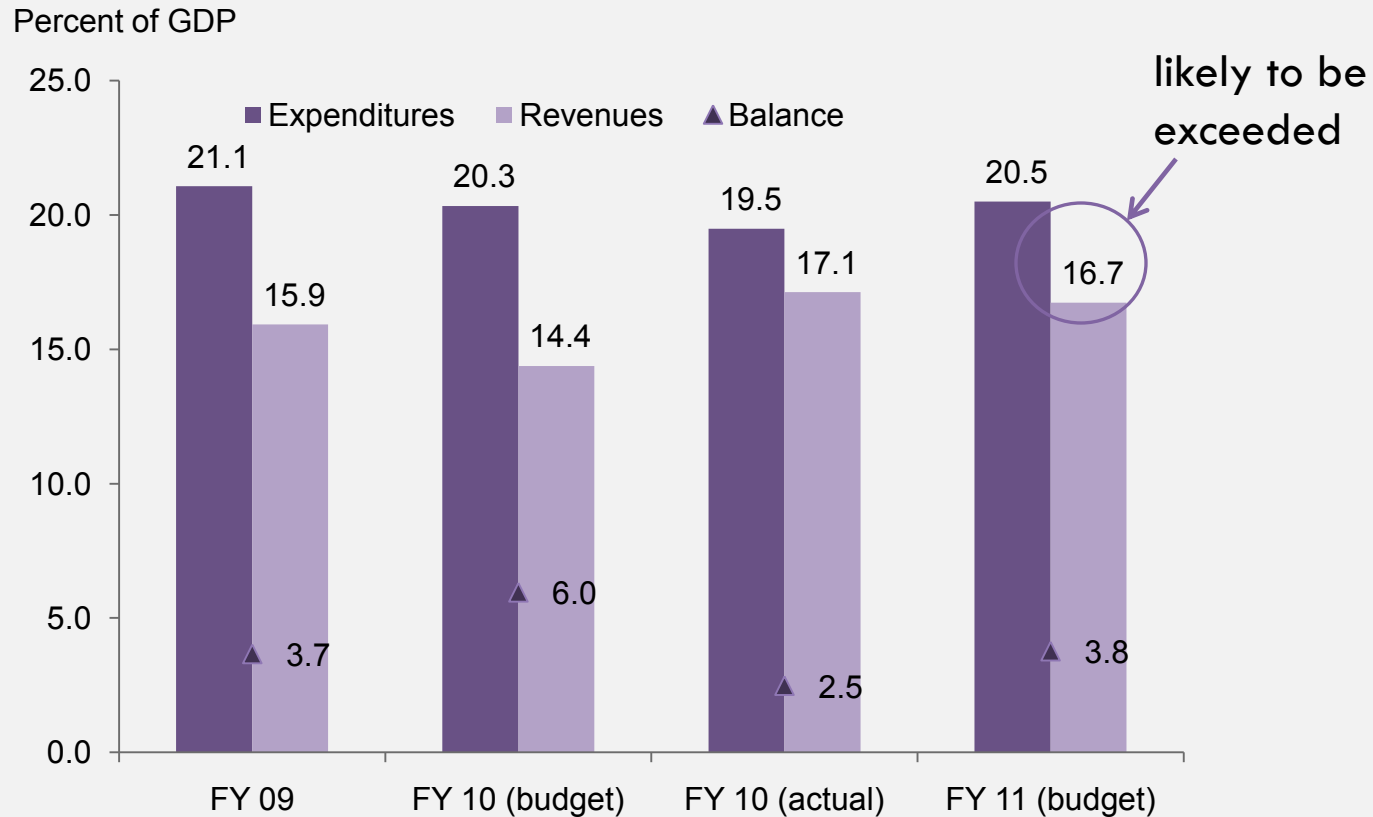


Source: NSO, NESDB, MoC and World Bank staff calculations.



## impact on the Thai economy: risks

### Fiscal risks still contained despite decrease in diesel excise tax.



Expenditures include both on and off-budget items.

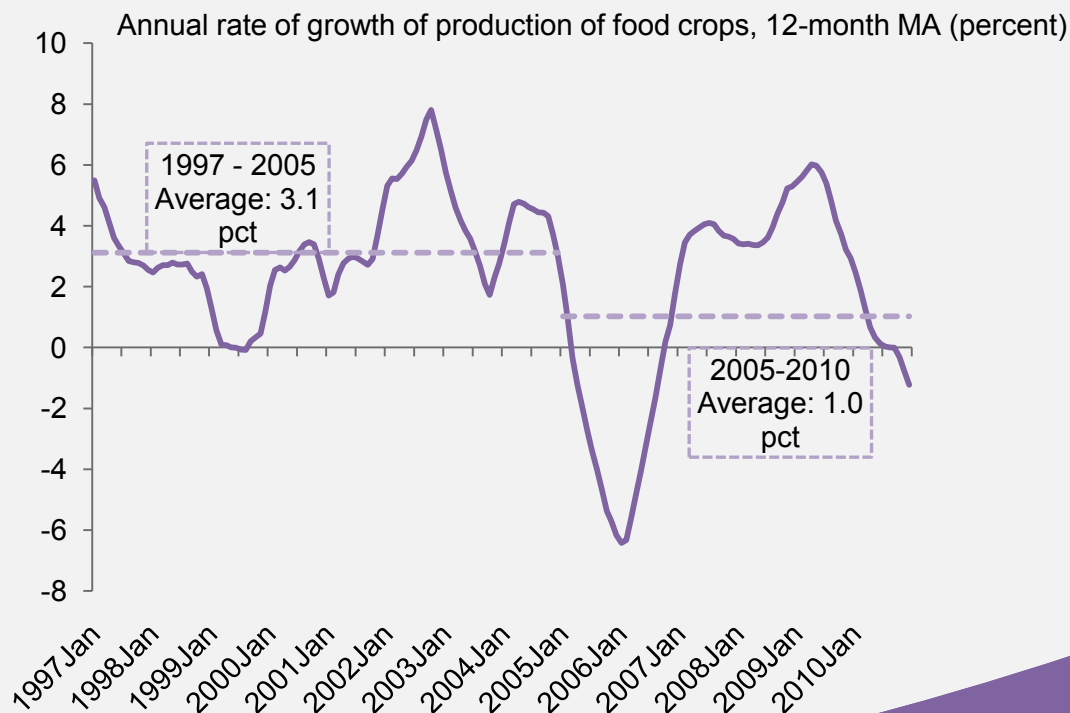
Sources: Fiscal Policy Office and World Bank staff calculations.



## 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.

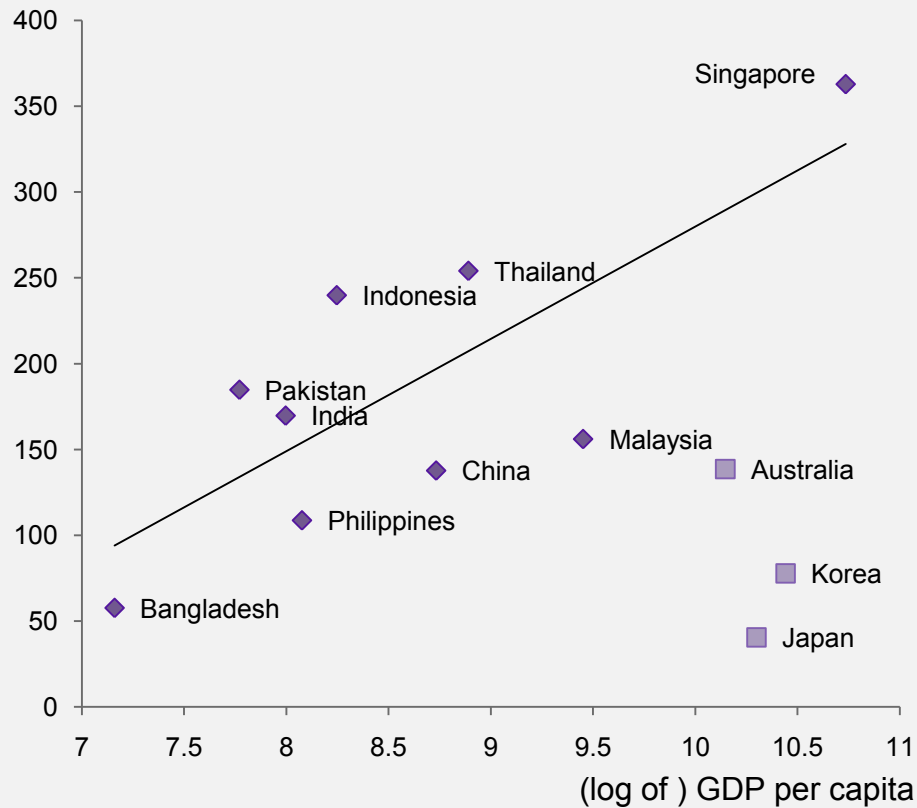


## what to do about it?

### Improve energy efficiency

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

Oil Intensity (consumption tons per \$1 million of real GDP in 2005 USD)



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





# Thank you!

ขอบคุณ!

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