



The Political Crisis and Thailand's Macroeconomic Outlook*

TDRI's Macroeconomic Policy Program

In December 1991, TDRI presented two scenarios for the Thai economic outlook in 1992, depending on the political situation after the March 1992 elections.** If political stability emerged after the March elections, economic growth was expected to pick up from last year, with GDP growth for 1992 reaching 8.9 percent. However, if political turmoil was the outcome after the March elections (low case scenario), then growth was expected to be lower than in 1991, reaching only 7.3 percent (in 1991 GDP growth was about 7.7 percent).

However, political conflict progressively intensified after the March elections, leading to the tragic events in May. The situation adversely affected the moral of the people and the image of Thailand in foreign eyes. The outcome is worse than what was expected even in the low case scenario that was presented in December. In particular, even in the low case scenario, we had expected that income from tourism in 1992 would increase by 16.1 percent from the 1991 level. Instead, it is likely that income from tourism in 1992 will be significantly lower than last year. Thus, it is necessary to revise the economic forecasts.

THE IMPACT OF THE POLITICAL CRISIS ON THE THAI ECONOMY

The impact of this year's political crisis on the Thai economy is widespread. A number of factors can be highlighted.

The adverse impact on the morale of the Thai people. This is most important, as the past successful economic and social development of the country was mainly due to the ingenuity and industriousness of the Thai people. If the Thai people devote this ingenuity and industriousness more and more to political protests, rather than to their day-to-day work, then the future development of the country will be badly affected.

The adverse impact on the image of the country. The immediate impact is obviously on the tourist-related sectors. Foreign exchange earned from tourism has continually grown in importance compared to the size of the economy, and is a major item in filling the foreign trade deficit ([Table 1](#)).

Delay in the upturn of investment growth. The private investment index has been on the decline since the latter part of 1988 ([Figure 1](#)). This is reflected in the trend in GDP growths-13.2 percent in 1988, 12.0 percent in 1989, 10.0 percent in 1990, and 7.7 percent in 1991. From what has happened, it is almost certain that investment growth in 1992 will be lower than that in 1991, even if some upturn in investment activities occur in the latter part of the year.

Greater risks in the economic system. This affects both investment projects that are at the planning stage, and, more importantly, those that have already started. For projects which are already underway, many of these were planned at a time when the Thai economy was still showing very strong growth. A portion of them were obviously based on the assumption that economic growth and market demand would continue to be strong. The relatively unexpected slowdown will create pressures on many projects in certain sectors, particularly hotels and some types of real estate development. As the risks of such projects increase, so do the risks to the institutions financing these projects. The situation will need careful monitoring, as the amount of loans that have gone into real estate projects has increased very rapidly over the last decade ([Table 2](#)).

Foreigners will also inevitably view Thailand as a riskier place to do business. The impact of recent events on the current account deficit and the balance of payments will be of concern, as these relate to some extent to likely exchange rate policy.

THE MACROECONOMIC OUTLOOK

Khun Anand Panyarachun's appointment as Prime Minister on June 10 has obviously, in the short term, helped reduce both political and economic risks for the country, and has restored much of the lost morale to the people. To expect that this political solution will restore the economic situation to that anticipated before the political turmoil and tragedy would be to expect too much. What is, however, of the utmost importance is that this political solution has put a stop to the further downward slide of the economy. If most people now accept that the worst is over, then gradual economic recovery will become a reality.

Outlook for 1992

Some downward adjustments were made to the low case scenario of December 1991 to reach the current revised estimates. The forecast is presented in [Table 3](#), giving the old low case as well as the 1993 estimates-which will be discussed below.

Income from tourism is now expected to decline by 9.6 percent from last year, compared to a previous increase of 16.1 percent. Earnings from tourism is now expected at 100,000 million baht, compared to the old estimate of 129,000 million baht. The difference of 29,000 million baht is substantial. This by itself implies that GDP growth will be lower than previously forecasted by about 0.5 percent.

Investment growth is also expected to be slightly lower. Real private sector investment growth is now expected to be 6.2 percent (compared to the 8.1 percent previously forecasted), and real public-sector investment growth is expected at 10.4 percent (previously 10.7 percent).

Export growth is still expected to be high, reaching 16.9 percent, but this is slightly lower than the 18.3 percent previously expected. The slight downward revision is based on figures in the early part of the year, as well as some possible slight adverse impact on export orders for shipment in the latter part of the year as an outcome of what has happened.

GDP growth is now expected at 6.5 percent (compared to 7.3 percent previously). Agriculture is not likely to be much affected from the recent events. Services will suffer the most, with growth expected at 6.5 percent-1.1 percent lower than the previous estimate. Inflation is expected at 4.7 percent. This figure is lower than last year (and also what was previously expected), due mainly to the slower growth in aggregate demand.

The trade deficit is expected to be 264.4 billion baht (10.4 percent of GDP), which is lower than the previous estimate, due to lower import growth as a result of slower investment growth and slower economic growth in general. Because of a decline in income from tourism compared to last year, the current account deficit will continue to be high, reaching 217.2 billion baht (8.5 percent of GDP).

Outlook for 1993

Clearly, the outlook for 1993 will depend on a number of conditions, both political and economic. For the estimates here, it has been assumed that political tension remains low from now on, appropriate monetary and fiscal policies are followed, and that the good image of Thailand is restored.

Under these conditions, it is expected that the economy will pick up sharply in 1993, with the key stimulus from expected strong growth in tourism income and real private-sector investment.

Tourism income is expected to increase by 18.6 percent from the 1992 level, reaching 119 billion baht. It should be noted, however, that even with strong growth, the level of tourism income will still be lower than

what was previously expected for 1992.

Various investment indices should turn around by the end of this year or early next year. First, the economic climate in general should now be on an uptrend. Second, some major infrastructure projects should be truly underway by next year. And, third, after a downturn for a number of years, the natural cyclical movement of investment is due for an upturn. Real private-sector investment growth is expected to reach 10 percent in 1993. This will be higher than the growth rate in 1992 by almost four percentage points.

With the upturn, GDP growth is expected to jump to 8.4 percent in 1993. The leading sector is expected to be services, due for a recovery after the various unfortunate events over the past two to three years that have adversely affected tourism growth (the Middle East crisis, the AIDS problem, the February 1991 coup, and the recent tragedy). Services growth is expected to be 9.4 percent, with the growth for industry reaching 8.9 percent. By its very nature, agricultural growth is not expected to be very high, reaching 3.4 percent. Inflation is expected to be higher than in 1992 as a result of the economic upturn. The CPI growth of 5.7 percent (the same as in 1991) is not regarded as a problem.

On foreign trade, export growth is still expected to be strong, reaching 16.3 percent. While lower than recent export growths, it must be remembered that the export level is now much larger than before. With a significant increase in investment growth, and an upturn in the economy, a more rapid growth in imports is expected, reaching 17.1 percent. This should lead to a trade deficit of 316 billion baht, or 10.8 percent of GDP. The current account deficit is expected to be 253 billion baht (8.7 percent of GDP). One important reason why the current account deficit will remain high is that, while tourism growth is expected to be strong, the recent setbacks to tourism will lead to lower levels of earnings compared to previous trends.

KEY CONDITIONS

The forecasted uptrend in the economy in 1993 will depend on a number of important conditions.

The Political Situation

It is clear that political risks still remain. Risks of a future coup or mass protest can not be eliminated. These risks would have to be very low for the economic forecasts presented above. It is important that the *next government* be broadly acceptable-acceptable to the general public, acceptable to various business and professional groups, and also acceptable to various institutions, including the armed forces. It is not important, and certainly too much to hope for, that the next government be "outstanding." As long as it is simply broadly acceptable, this will minimize the risks of major political conflicts, which could seriously undermine the economy.

Macroeconomic Policy

With a large amount of money in the government coffers, it could be tempting to inject a lot of money into the economy on the grounds of "economic revival." This would be a major mistake. Key reasons for the Thai economy's past success have been political and economic stability. If Thailand had faced a serious foreign debt crisis after the second oil shock and throughout the world recession in the early part of the 1980s, it is inconceivable that the Thai economy could be as healthy as it is today. Prudent monetary and fiscal policies at this time are, therefore, essential. There are already signs that the savings-investment gap is likely to become a major issue over the next few years, so public policy must avoid exacerbating the problem. Here, both the Bank of Thailand and the Ministry of Finance should be commended for recent statements of their intentions to continue along the paths of prudent monetary and fiscal policies.

The large treasury reserves should be maintained, as economic risks still exist. This would be an important reserve fund, in the case that economic crises occurred with potentially harmful impacts on financial institutions.

Revival of Thailand's Foreign Image

A number of innovative schemes will probably emerge from both the public and private sectors to help revive Thailand's foreign image. With cooperation from all parties, it should be possible to restore foreign confidence in Thailand after a short time. The success of these schemes will, however, crucially depend on the previous two conditions. If serious political instability returns, or economic stability were to diminish, it would be difficult to convince foreign countries that Thailand is again an ideal place to do business or to visit.

Given these various conditions, it is clear that political developments over the next few months have to be closely followed. If necessary, TDRI's economic forecasts will again be revised. It is hoped, however, that future events will not lead to further major adjustments to the economic outlook, unless, of course, the adjustments are for the better.

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