

Economic News (January 2 - 4, 2008)

Focus on productive investment : BOT

The Bank of Thailand (BOT) recommended that the newly elected government continue productive investment projects rather than concentrate on boosting consumption. It pointed out that sound economic growth and stability had already been delivered.

Senior director Amara Sriphayak said the Kingdom's economic growth this year would not be less than 4.5 per cent, considering the economic indicators over the past 11 months. The central bank earlier forecast this year's economic growth at 4.3-4.8 per cent. Moreover, economic stability has been strong with a current account surplus of US\$ 13.3 billion (Baht 449 billion) for the first 11 months, significantly higher than the previous projection of \$ 8.5 billion to \$ 9.5 billion.

She said the new government was expected to conduct a budget deficit as endorsed during political campaigning. The new government, however, should focus mainly on boosting investment rather than consumption. If the new government continued policies such as infrastructure projects, that would encourage private investment. However, the economy continued to face risk factors like oil price hikes and the US subprime mortgage crisis.

The BOT said domestic demand had gradually picked up since the third quarter, while exports had registered fresh record highs several times, growing at a higher than expected pace. The Private Consumption Index had gradually picked up, with 3.7 per cent growth last month, compared with 2.7 per cent in October. However, the index for the first 11 months rose only 1.3 per cent, lower than 2.4 per cent for the last entire year. The newly adjusted Private Investment Index expanded 3.5 per cent last month, higher than 2.3 per cent in October. It contracted 1 per cent in the first 11 months, compared with 2 per cent growth for all of last year.

In the first 11 months, exports rose 18 per cent year on year, higher than the 17 per cent growth for all of last year and a 13-15 per cent projection for this entire year. Amara said exports could grow at higher pace next year, depending on the global economy and the new government's policies.

Inflation forecast at 3-4 per cent

Authorities hope oil prices do not stay above the US\$ 100 (Baht 3,360) mark for too long, otherwise inflation will push beyond the predicted level of 3-4 per cent this year.

Finance Ministry spokesman Somchai Sajjapongse said the ministry had pinned inflation at 4 per cent this year, based on crude oil at \$ 83 a barrel. Inflation could be extremely high if oil rose to \$ 120 a barrel. However, it was unlikely to stay at that level for a long period as the high price would encourage more supplies, while alternative fuels would also help.

Yangyong Phuangrach, director-general of the Internal Trade Department, said the Commerce Ministry's inflation target of 3.0-3.5 per cent for this year was based on the Dubai crude price of \$ 80-85 a barrel. If the oil price soars to \$ 120 a barrel in the next six months, the ministry closely monitor product prices to cushion the blow on consumers. It would look into cost-control measures at factories as well as the retail prices of goods.

Tax restructuring plan ready

The Fiscal Policy Office will submit its tax restructuring plan to the new government for consideration. The proposal affects personal, corporate and value-added taxes.

Panee Stawarodom, the director-general of the FPO, said that the restructuring plan included a proposal reducing personal income tax rates to four steps from five now. She said the marginal rate, 37 per cent, would also be reduced.

The 37 per cent rate was currently applied to personal income of over four million baht, with income from one million to four million being taxed at 30 per cent, income from 500,001 to one million at 20 per cent, and income from 100,000 to 500,000 at 10 per cent. Taxes were waived for the first 100,000 baht of income.

Mrs.Panee said the reforms were based on the philosophy that tax rates should be reduced, particularly for middle-class, white-collar workers. At the same time, authorities hoped that lower tax rates would encourage more people to enter the tax system.

For corporate taxes, Mrs.Panee said the current system included a number of different rates based on different incentives set by the government. For instance, while the base corporate tax rate was 30 per cent, newly listed companies on the Stock Exchange of Thailand could qualify for a special 25 per cent rate and MAI listings 20 per cent for three accounting periods.

The new government would also have to consider the most suitable rate for value-added taxes based on economy and the state of public finances. Since 1997, the law has set the VAT rate at 10 per cent, but through special dispensations, successive governments have steadily maintained the 7 per cent rate.