

## THAILAND

In 2017, I expect a moderate economic recovery in Thailand with public spending continuing to be the engine of growth. The government will use public expenditure in areas such as infrastructure, to try and crowd in private investment. While rising farm incomes and improved confidence are likely to support private consumption. The external sector was helpful here as in other ASEAN countries; exports in USD terms grew by 6.6% in 1Q17, the highest rate in over 4 years. Inflation remains soft even though it has rebounded, and is expected to be well within the Central Bank's target range. The policy rate has been held steady since April 2015 at 1.5% and I do not foresee a change in 2017 even with rising US rates. The current account surplus should remain strong. However, given the uncertainty in the global economy, exchange rate and capital flow volatility is likely to persist in 2017. I expect the THB to end the year at close to 35 to the USD.

### **Growth stable in 2017- fiscal expenditure to be the driver of growth ▶**

- The Thai economy grew by 3.2% in 2016, edging higher from the 2.9% clip in 2015. The economy was largely supported by public expenditure, rising farm incomes, tourism, and exports. In 4Q16, economic activity saw a mild decline to 3% growth yoy compared to 3.2% in 3Q16. This was due to sluggish private consumption growth at 2.5% yoy in Q4 vs 3% in Q3, and lower private investment. A decline in tourism arrivals was also observed during the same period following the passing of King Bhumibol. In the period following the king's death consumer sentiment and business confidence slipped.
- The recently released 1Q17 GDP print came in at 3.3% yoy growth, a tad higher than the expected 3.2%. Public investment and exports continued to provide the fillip. At the same time, private consumption data has shown resilience, primarily the result of pent up demand.
- Sentiment for private investment remains weak, contracting for three consecutive months. One way to address this would be to accelerate public-private partnership schemes to increase corporate involvement in developing infrastructure.
- In 2017, a broad based expansion in economic activity is expected. Though public spending will remain an important lever, recovery in global trade and commodity prices, as well as rising domestic demand will be the other supporting factors. For the year, growth is expected to average at 3.5%.
- On the supply side, things look stable. The tourism sector remains strong having overcome the temporary slowdown of 4Q16. Rising farm incomes and agri-commodity prices are driving private consumption, while manufacturing activity is being buoyed by a recovery in exports.

### **Inflation edging up but within target ▶**

- Inflation averaged 0.2% in 2016, reversing its six-year downward spiral, largely due to a rise in global commodity prices. Bond yields have risen as inflation has turned positive, reducing the differential with US 10 year Treasuries.
- Headline inflation was 0.7% in Q416 and 1.3% in 1Q17.

- Despite higher commodity prices, inflation should be well within the stipulated target of 1-4%.

### **External position remains strong ▶**

- In 2016, Thailand recorded a current account surplus of over 10%. Exports recovered modestly, being flat in USD terms in 2016, following three consecutive years of decline.
- The recent momentum in global growth, if sustained, is positive for Thai exports. However, this is unlikely, as Chinese import demand slows. China is currently benefiting from a credit expansion that is unlikely to be sustained.
- At the same time, a rise in imports is likely as infrastructure projects will create a demand for capital and intermediate goods. Nonetheless, Thailand's trade balance is expected to stay strong providing support for the baht.

### **Rates to be on hold; currency volatility expected ▶**

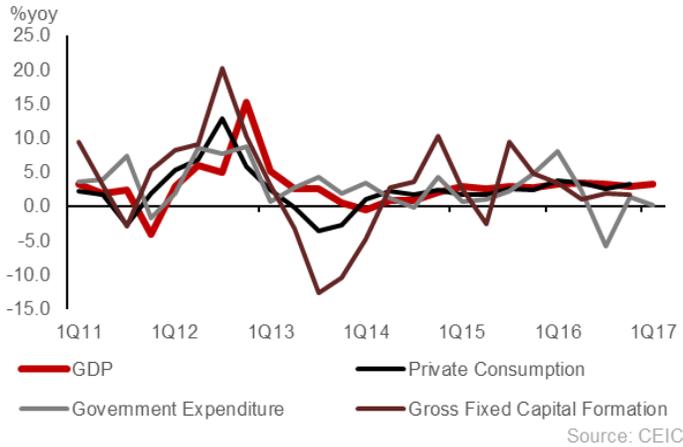
- In 2016, the Thai baht averaged 35.28 baht to a USD, depreciating by 2.9% over the previous year. The currency depreciated in 4Q16 in line with other regional currencies as the USD strengthened post the US elections.
- The baht has strengthened this year with foreign appetite for Thai debt growing, potentially presenting a problem for policymakers at a time when exports have shown signs of recovery. Foreign portfolio investors appear to be attracted to Thailand's "safe haven" status owing to its large current account surplus and sizeable foreign exchange holdings. The baht appreciated against the dollar in 1Q17 to 35.11 baht per USD.
- The policy rates have remained on hold since April 2015 at 1.5%. The central bank is unlikely to raise rates at present as inflation remains under control, demand is tepid and the external position of the country remains strong.

### **Risks and other issues ▶**

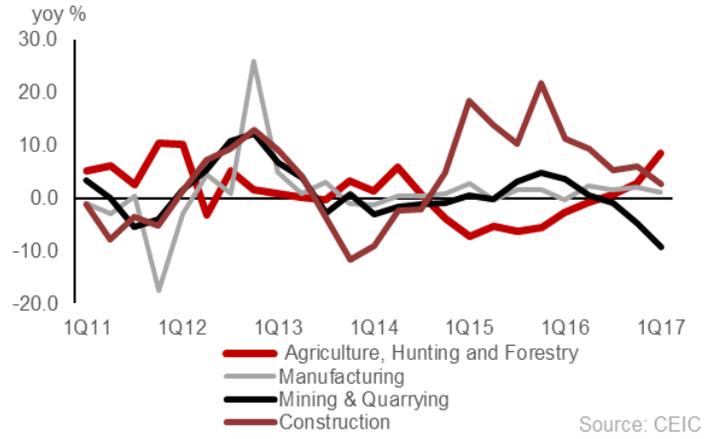
- On the external front, there is uncertainty regarding US trade and fiscal policy. With the US and China being the top two export destinations, accounting for 11.2% and 11.1% of Thai merchandise exports (55% of GDP), external demand shocks could have a dampening effect on economic recovery.
- Slower credit growth indicates that credit standards have been tightened in Thailand. According to Bank of Thailand's loan survey, financial institutions are expected to remain cautious on loan conditions for mortgage and other consumer loans, owing to concerns over sluggish economic growth and housing market prospects.
- With general elections in Thailand now postponed to mid-2018, the delayed return to civilian rule also remains a source of uncertainty.

Public expenditure has been the driver of growth in 2016. Besides, an uptick in agriculture and recovery in manufacturing have been positive developments. GDP growth is likely to be modestly higher in 2017

**Figure 1: GDP and components growth**

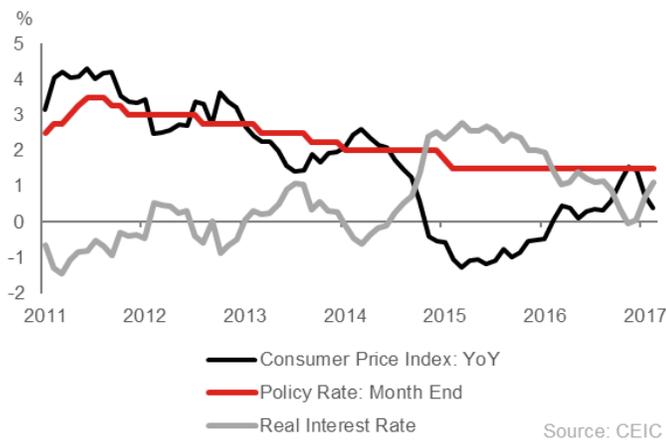


**Figure 2: GDP growth by supply components**



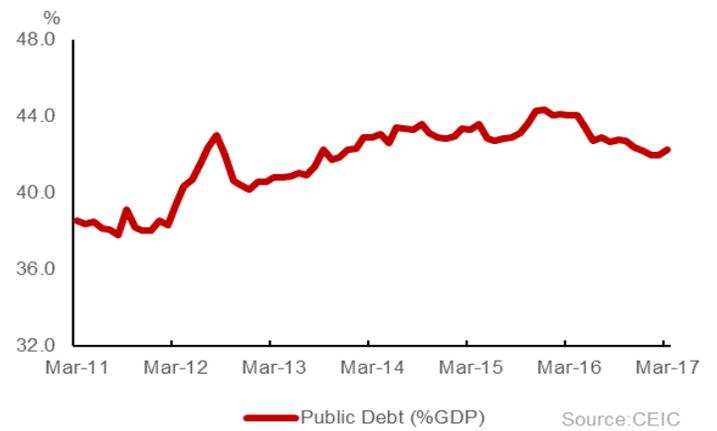
Inflation has reversed its downward spiral but still remains low

**Figure 3: Inflation and interest rate**



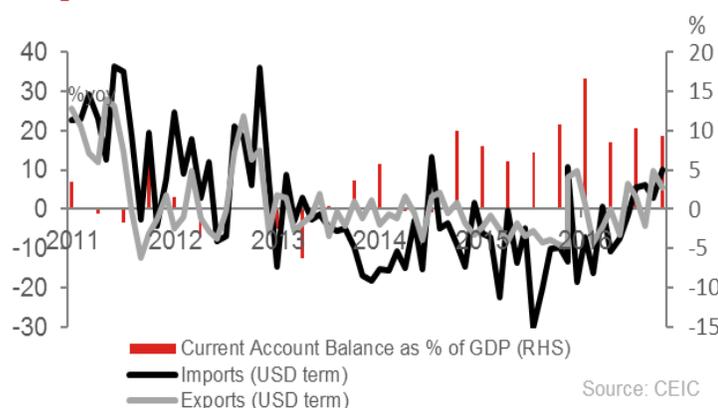
Relatively low debt levels provide fiscal space for the government to manoeuvre

**Figure 4: Public debt (% GDP)**



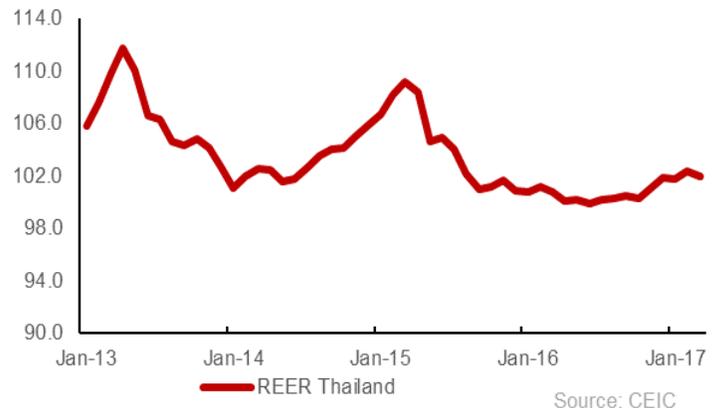
Thailand's current account balance remains strong even as both export and import growth have gone up

**Figure 5: Trade Balance**



The real trade-weighted exchange rate has modestly appreciated

**Figure 6: Real Effective Exchange Rate**



<b>Annual Data</b>	<b>2016</b>					
Nominal GDP (USD bn)	407.1					
GDP per capita (USD)	6,174.7					
Population (mn)	65.7					
	2013	2014	2015	2016	2017F	2018F
Real GDP growth (%yoy)	2.7	0.9	2.9	3.2	3.5	3.6
Real consumption growth (%yoy)	1.1	1.3	2.4	2.7	2.7	3.0
- Public consumption (%yoy)	1.8	2.8	3.0	1.6	3.3	2.2
- Private consumption (%yoy)	0.9	0.9	2.2	3.1	2.5	3.3
Real gross fixed capital formation growth (%yoy)	-1.0	-2.2	4.4	2.8	2.7	3.2
Real export growth (%yoy)	2.7	0.2	0.7	2.1	1.0	2.0
Real import growth (%yoy)	1.7	-5.3	0.0	-1.4	-0.4	2.2
Trade balance (USD bn)	0.5	17.3	27.0	35.8	37.8	39.6
- % of GDP (%)	0.1	4.2	6.8	8.8	9.1	9.3
Current account balance (USD bn)	-4.8	15.1	32.1	46.4	42.0	42.4
- % of GDP (%)	-1.2	3.7	8.1	11.4	10.0	10.3
Reserves, end of period (USD bn)	167.2	157.1	156.5	171.9	180.0	180.0
- foreign reserves to months of imports	6.5	6.7	7.4	-	-	-
- short term debt (% of total reserves)	121.8	116.2	120.7	-	-	-
Fiscal balance (% GDP)	-0.6	-1.3	-0.9	-2.0	-2.1	-1.8
Manufacturing Production Index growth, average (%yoy)	1.7	-5.0	-0.3	0.5	2.1	2.1
Narrow money (M1) growth, average (%yoy)	1.7	-5.0	-0.3	0.5	-	-
Broad money (M2) growth, average (%yoy)	4.9	4.8	3.5	5.7	-	-
Domestic credit to private sector (% GDP)	142.5	147.0	151.3	-	-	-
Consumer Price Index (CPI), end of period (%yoy)	1.7	0.6	-0.9	1.1	1.8	1.2
Consumer Price Index (CPI), average (%yoy)	2.2	1.9	-0.9	0.2	1.5	0.7
Wholesale Price Index (%yoy)	0.3	0.1	-4.1	-	-	-
Policy rates, end of period (%)	2.25	2.00	1.50	1.50	1.50	1.50
10Y government bond yield, yearly average (%)	3.80	3.57	2.73	2.18	-	-
Exchange rate vs. USD, end period	30.70	32.47	34.24	35.28	35.00	36.00
<b>Quarterly data</b>	3Q15	4Q15	1Q16	3Q16	4Q16	1Q16
GDP (%yoy)	2.9	2.8	3.2	3.2	3	3.3
CPI, average (%yoy)	-1.1	-0.9	-0.5	0.3	0.7	1.3
Policy rates, end of period (%)	1.50	1.50	1.50	1.50	1.50	1.50
10Y government bond yield, quarterly average (%)	2.83	2.65	2.19	2.12	2.46	2.756
Exchange rate vs. USD, end period	35.09	35.24	35.18	34.55	35.39	35.1

SOURCES: CEIC, CIMB Research, IMF, Bank of Thailand, World Bank



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