



BANK OF THAILAND

Thailand's Economic Conditions in 2019

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Summary of Global and Thai Economies in 2019

The overall global economy in 2019 expanded at a slower pace from the previous year. Several countries were affected by the slowdown in global trade volume partly due to intensifying trade tensions between the US and China. As a result, exports and manufacturing production in various countries contracted. Business sentiment and investment were affected by uncertainties throughout the year such as international trade protectionism measures, Brexit and geopolitical risks. Nonetheless, private consumption remained an important growth driver in many countries.

Looking ahead¹, the global economy was expected to recover gradually in line with the improvement in international trade situation after the U.S. and China reached an agreement on the phase one trade deal and the recovery of the electronic cycle. However, there remained risks that warranted close monitoring, including (1) the spreading and severity of the COVID-19 outbreak, (2) trade tensions between the U.S. and China that could become intensified and (3) geopolitical risks in many areas.

The Thai economy in 2019 expanded at 2.4 percent from the previous year, expanding at a lower pace and below its potential level, due to the impact of the continued contraction in external demand on domestic demand becoming more pronounced. Merchandise exports continued to contract in various categories as a result of the slowdown in both trading partner economies and global trade volume following the increased trade tensions between the U.S. and China. Nevertheless, exports of some products benefitted from the relocation of production base to Thailand and substitution for Chinese products in the U.S. market such as electrical appliances and tires. On the service exports front, the tourism sector expanded at a slower pace, both in terms of the number of foreign tourists and their spending per trip, caused by the global economic slowdown and intensified competition in international tourism especially from neighboring countries. Consequently, the number of European tourists contracted for the first time in four years, while Chinese tourist figures recovered slowly following improved sentiment after the tour boat incident in Phuket in 2018. However, the exemption of the visa on arrival

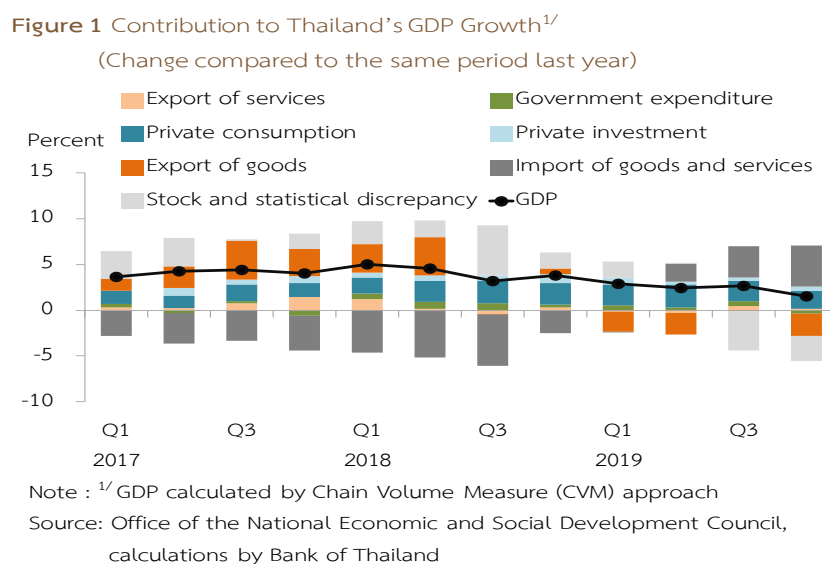
¹ Assessed as of January 2020 when the spread of the COVID-19 virus was still confined to China

fee helped support the recovery of Chinese tourists and also boosted the number of visitors from India and Taiwan.

On the domestic demand front, private consumption, while remaining robust, expanded at a slower pace, consistent with weakening supporting factors – income and consumer confidence affected by the continued contraction in exports. Coupled with tightening credit standards for auto loans after credit quality deteriorated, this contributed to a significant contraction in spending on durable goods especially for motor vehicles. Nevertheless, spending on non-durable goods expanded at a higher rate, supported by government welfare card and short-term fiscal stimulus measures implemented in the fourth quarter of the year. Private investment expanded at a slower pace due to the slowdown in domestic and external demand. Businesses, therefore, delayed their investment as production capacity was sufficient to accommodate future demand and their sentiment also deteriorated. Meanwhile, public spending softened, especially for capital expenditure mainly due to the delayed enactment of the FY2020 budget.

Economic and Financial Stability

The annual average of headline and core inflation in 2019 stood at 0.71 and 0.52 percent,



respectively, decelerating from the previous year. Headline inflation declined on the back of lower energy prices as a result of falling global crude oil prices and the Thai baht appreciation that helped reduce costs of energy imports. On the other hand, fresh food prices accelerated, especially from vegetable, fruit and rice prices, partly due to the drought. Core inflation decreased owing to lower production costs and subdued domestic demand, attributable to difficulty in raising prices of goods and services. This was together with structural changes

such as the expansion of e-commerce and heightened price competition. The unemployment rate remained stable from the previous year, whereas the number of employed persons declined especially in manufacturing sector as a result of the continued contraction of exports and the slowdown in domestic demand. Moreover, firms tended to adjust their employment by reducing monthly and increasing daily employees.

Overall stability of the corporate sector remained sound with strong financial position of large corporates. However, stability of small and medium enterprises (SMEs) should be monitored after their debt serviceability deteriorated as a result of the economic slowdown together with structural factors affecting SMEs competitiveness. Stability of the household sector remained fragile as the ratio of household debt to GDP remained high and edged up from last year owing mainly to the slowdown in GDP growth. Consequently, household debt serviceability deteriorated as reflected by an increase in non-performing loans (NPLs) of consumer loans. Nevertheless, stability of financial institutions remained strong with high levels of capital fund and loan loss provision to withstand a potential adverse impact from economic uncertainty despite the increase in NPLs of consumer and SME loans.

On exchange rates, the annual average of the Thai baht against dollar in 2019 appreciated from the previous year owing mainly to domestic factors. This included strong external stability, with high levels of current account surplus and the ratio of international reserves to external short-term debt as well as low external debt to GDP, and Thailand's sovereign credit rating that was upgraded by credit rating agencies due to improved political stability following the election and new government formation. Coupled with investor's concerns over risks from intensified and prolonged trade tension between the U.S. and China as well as the global economic slowdown, the Thai baht, perceived as a safe asset by many investors, appreciated at a higher rate than competitor's currencies, resulting in the Real Effective Exchange Rate (REER) appreciation.

Financial conditions remained accommodative and conducive to economic growth.

In 2019, the Monetary Policy Committee (MPC) voted to cut the policy interest rate twice to 1.25 percent to support the economic growth and the rise of headline inflation toward the target. The policy rate cuts helped reduce interest burdens and financing costs of corporates, as reflected by the decline in government bond yield, financial institutions' reference lending rates and new loan rates (NLR) of commercial banks.

Looking ahead², the Thai economy in 2020 was expected to record a lower growth as the COVID-19 outbreak took toll on the tourism sector.

Private consumption would also be dragged by weakening household income and consumer confidence as well as a high level of household debt. At the same time, there remained risks to monitor closely, including the spreading of the COVID-19 outbreak, the FY2020 budget, and the drought. On the inflation front, it was expected to remain at a low level following subdued cost-push and demand-pull inflationary.

² Assessed as of January 2020 when the spread of the COVID-19 virus was still confined to China



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	2017	2018		2019			
	Year	H1	H2	Year	H1	H2	Year
<i>(Annual percentage change, unless specified otherwise)</i>							
Gross Domestic Product^{1/}	4.1	4.8	3.5	4.2	2.7	2.1	2.4
Demand (expenditure)							
Private consumption expenditure	3.1	4.1	5.0	4.6	4.7	4.2	4.5
General government consumption expenditure	0.1	2.6	2.5	2.6	2.5	0.4	1.4
Gross fixed capital formation	1.8	3.5	4.1	3.8	2.5	1.8	2.2
- Private	2.9	3.3	4.8	4.1	3.2	2.5	2.8
- Public	-1.4	3.9	1.9	2.9	0.7	-0.3	0.2
Exports of goods and services	5.2	6.5	0.3	3.3	-3.7	-1.5	-2.6
Imports of goods and services	6.2	9.2	7.4	8.3	-1.7	-7.1	-4.4
Supply (production)							
Agriculture	4.7	9.3	1.9	5.5	0.2	0.0	0.1
Manufacturing	2.1	3.0	2.4	2.7	1.0	-1.0	0.0
Construction	-3.0	1.4	3.6	2.4	3.2	0.6	2.0
Services and others	5.5	5.4	4.3	4.9	4.0	4.2	4.1
Domestic stability							
Headline Consumer Price Index	0.66	0.97	1.16	1.07	0.92	0.50	0.71
Core Consumer Price Index (excluding raw food and energy)	0.56	0.69	0.74	0.71	0.58	0.46	0.52
Unemployment (percent of total labor force)	1.2	1.2	0.9	1.1	1.0	1.0	1.0
Public debt (end of period, billion baht) ^{2/}	6,371	6,532	6,834	6,834	6,883	6,954	6,954
Share of GDP (end of period, percent) ^{2/}	41.2	41.0	41.9	41.9	41.39	41.19	41.19
External Stability (billion U.S. dollars)							
Trade balance	32.6	13.8	8.6	22.4	12.7	13.9	26.6
Current account balance	44.0	18.4	10.1	28.5	17.7	19.6	37.3
Capital account balance ^{2/}	-0.1	-0.6	0.0	-0.6	0.0	0.0	0.0
Financial account balance ^{2/}	-12.5	-11.4	-3.6	-14.9	-7.6	-5.0	-12.6
Balance of payments	26.0	7.6	-0.4	7.3	5.6	8.0	13.6
Gross international reserves (end of period)	202.6	206.8	205.6	205.6	215.8	224.3	224.3
External debt (end of period) ^{2/}	155.2	154.2	162.4	162.4	166.7	170.7	170.7
International reserves to short-term debt (ratio)	2.9	3.1	3.2	3.2	3.5	3.8	3.8
External debt to GDP (percent)	36.6	35.0	35.4	35.4	34.7	34.0	34.0
External debt to export value (percent)	54.6	52.4	53.5	53.5	53.5	53.5	53.5
Short-term debt to external debt (percent)	44.3	42.9	39.0	39.0	37.5	34.8	34.8
Monetary statistics (end of period) (billion baht)							
Monetary base	1,937.2	1,805.3	2,000.7	2,000.7	1,905.1	2,071.5	2,071.5
Annual percentage change	6.7	5.9	3.3	3.3	5.5	3.5	3.5
Narrow money	2,038.9	1,970.4	2,095.2	2,095.2	2,103.8	2,215.8	2,215.8
Annual percentage change	9.4	5.3	2.8	2.8	6.8	5.8	5.8
Broad money	19,212.9	19,571.1	20,109.6	20,109.6	20,218.8	20,853.3	20,853.3
Annual percentage change	5.0	5.1	4.7	4.7	3.3	3.7	3.7
Financial institutions' deposits including bills of exchange ^{3/}	18,814.1	19,217.1	19,681.5	19,681.5	19,921.6	20,450.1	20,450.1
Annual percentage change	4.9	5.0	4.5	4.5	3.7	3.9	3.9
Financial institutions' private credits ^{4/}	22,565.8	23,227.2	24,085.6	24,085.6	24,570.0	24,905.1	24,905.1
Annual percentage change	4.1	5.6	6.7	6.7	5.8	3.4	3.4
Interest rates (end of period) (percent per annum)							
- Repurchase rate, one-day	1.50	1.50	1.75	1.75	1.75	1.25	1.25
- Overnight interbank rates (mode)	1.40	1.40	1.75	1.75	1.65	1.15	1.15
- Time deposit rate, one year ^{5/}	1.37	1.37	1.37	1.37	1.46	1.33	1.33
- Prime rate (MLR) ^{5/}	6.28	6.28	6.28	6.28	6.28	6.08	6.08
Exchange rate (average) (baht per U.S. dollar)	33.92	31.74	32.90	32.32	31.04	31.60	31.05
Nominal Effective Exchange Rate^{6/} (average) (2012=100)	110.62	115.00	120.35	115.56	120.35	125.90	123.17

หมายเหตุ: 1/ Chained volume measures

2/ Preliminary data as of 17 February, 2020

3/ Financial institution consist of all deposit-taking institutions except the Bank of Thailand

4/ Including (1) loans extended to household, NPISH, and other non-depository financial institutions;

(2) loans extended to non-financial corporates (excluding state enterprises) issued by other depository financial institutions, other non-depository financial institutions, and external sources; and (3) bonds issued by non-financial corporates (excluding state enterprises)

5/ Average rate of five largest commercial banks

6/ Higher NEER means that the baht appreciated compared to trading partners' and competitors' currencies

Sources: Office of the National Economic and Social Development Council, Ministry of Commerce, National Statistical Office, Public Debt Management Office and Bank of Thailand

Footnote

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