



BANK OF THAILAND

# Thailand's Economic Conditions in 2017

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## Summary of Global and Thai Economies in 2017

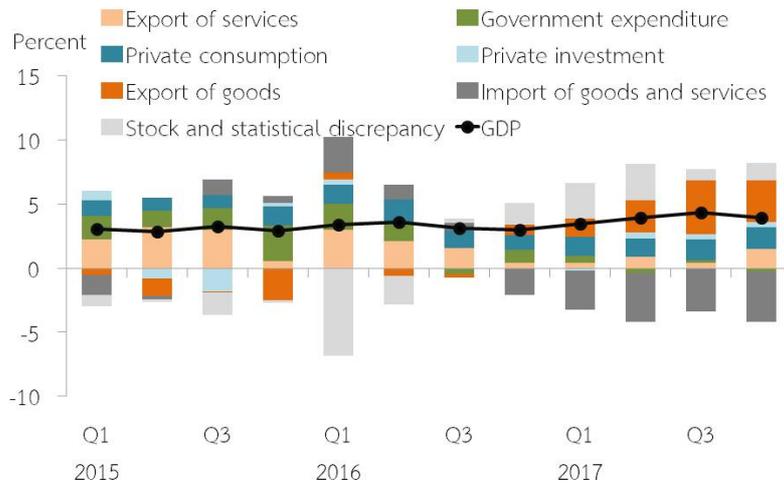
The global economy in 2017 continued to expand well and more broad-based on the back of improvement in major industrial (G3) economies, mainly through consumption and stronger labor markets. Meanwhile, private investment started to show signs of more robust recovery. These overall improvements of G3 economies consequently supported the recovery of Asian economies through continued growth in merchandise exports, especially electronics. Correspondingly, Chinese economy expanded at the similar pace to the previous year supported by growth in merchandise exports and manufacturing sectors in line with the global economy. However, private investment growth slowed down as a result of the government's economic structural reforms and financial stability measures, particularly in the real estate sector.

In the periods ahead, global economic growth would continue to grow following improving economic performance of the G3 economies as well as Asian economies (excluding China), while Chinese economy would slow down during the structural reforms. However, there remains risks that needed to be monitored including (1) the ability of the Chinese government to maintain the balance between economic growth and financial stability, particularly high corporate debt problem, (2) uncertainties surrounding the U.S. economic policies such as international trade and infrastructure policies, (3) impact of G3 monetary policy normalization, and (4) geopolitical risks that could undermine recovery path of the global economy as well as increase volatility in the financial markets.

The Thai economy in 2017 expanded at 3.9 percent from the last year mainly driven by growth in both merchandise and service exports. The merchandise exports improved across most product categories and destinations, especially the exports of electronics, auto parts, and agro-manufacturing products. This was contributed from (1) a recovery in external demand in line with an expansion of trading partners' economies and global trade volumes, (2) a recent production capacity expansion and relocation of production base to Thailand of several industries. Moreover, higher crude oil prices also increased the value of petroleum-related products. Correspondingly, exports of services expanded in accordance with increasing tourist numbers in almost all nationalities. Particularly, the Chinese tourists recovered rapidly and registered higher number than that seen prior to the implementation of measures to curb illegal tour operations. These were also made up of the better quality visitors with higher spending per head. Meanwhile, number of Asian and European tourists improved in line with their expanding economic conditions.

**Figure 1** Contribution to Thailand's GDP Growth<sup>1/</sup>

(Change compared to the same period last year)

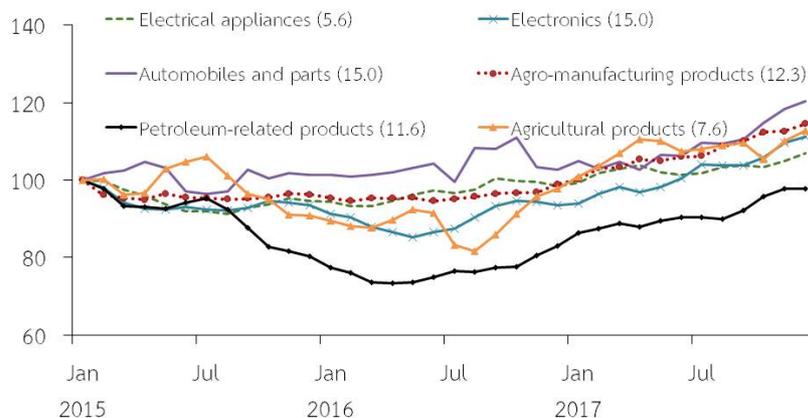


Note : <sup>1/</sup> GDP calculated by Chain Volume Measure (CVM) approach

Source: Office of the National Economic and Social Development Board, calculations by Bank of Thailand

**Figure 2** Value of Thai merchandise exports classified by product categories

Seasonally adjusted index, 3-month moving average  
(Jan 2015 = 100)



Note: Number in ( ) denotes share of total exports in 2017.

Source: Customs Department and calculations by Bank of Thailand

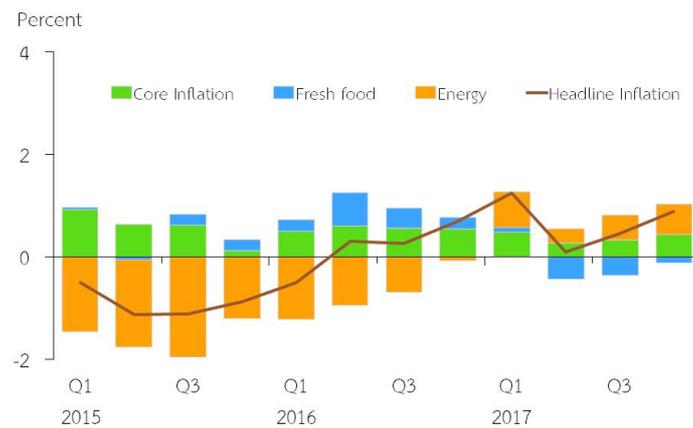
Public spending continued to drive the economy through public consumption despite a contraction in investment expenditures due to the delays in certain central government projects which were constrained by limited disbursement efficiency of some agencies, problems over site access, as well as heavy rain which affected construction. Private consumption gradually expanded mainly on the back of durable good spending, namely automobiles. This was supported by (1) an increase in purchasing power of high-income non-agricultural households, (2) favorable growth of agricultural households' income in the first half of the year, and (3) an improvement in consumer confidence. Nevertheless,

fundamental factors supporting overall private consumption were not yet robust as household debt remained high. In addition, non-agricultural household income was affected by decreasing hiring partly due to the structural transformations toward less labor intensive outputs, for instance, an adoption of automation in some industries. Moreover, income of some agricultural households were affected by declined agricultural prices due to the excess in agricultural supplies. Private investment gained a better momentum from last year. Still, the overall level remained low due to the remaining excess production capacity in some industries. However, going forward, the government's infrastructure investments and more certain developments of the Eastern Economic Corridor (EEC) projects, after the approval of the EEC bill by the National Legislative Assembly on 8 February 2018, would stimulate private investment.

### **Economic and Financial Stability**

Headline and core inflation annually averaged at 0.66 and 0.56, respectively. Headline inflation increased from the previous year due mainly to the higher domestic retail petroleum prices, while fresh food prices slightly decreased owing to excessive agricultural outputs from a favorable weather conditions compared to last year. Core inflation remained low as improvement in domestic demand was not sufficiently strong. Unemployment rate remained low. However, the rate slightly increased in tandem with lower employment due to (1) skill mismatch in the labor market, (2) an adoption of automation in some industries, and (3) an increase in unemployed persons who never worked before, especially new graduates who had to take longer time to find jobs. Overall stability of the corporate sector stayed sound. Meanwhile, stability of small and medium enterprises and low-income households remained fragile as the positive spillovers of economic growth was not yet sufficiently broad-based. The stability of financial institutions continued to be sound thanks to high levels of loan loss provisions and capital buffers to cushion against risks stemming from credit quality deterioration.

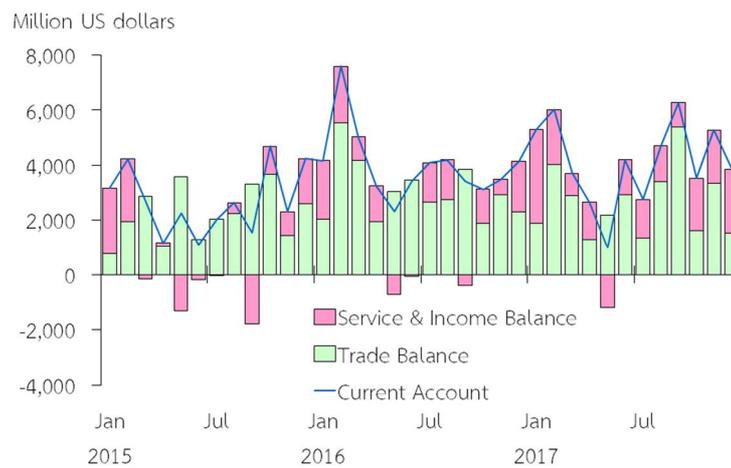
Figure 3 Contribution to Headline Inflation



Source: Bureau of Trade and Economic Indices, Ministry of Commerce, calculations by Bank of Thailand

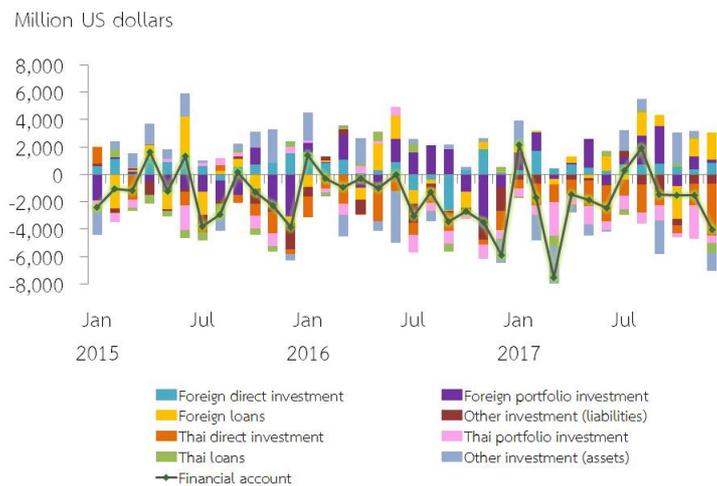
Current account registered a surplus as contributed from growth in the value of merchandise exports and tourisms receipts. The capital and financial accounts post a deficit mainly from (1) investments abroad by Thai corporates through both direct and portfolio investments, mostly from Foreign Investment Funds (FIF), and (2) trade credits provided by Thai exporters to their corresponding trading partners in line with the ongoing expansion of export value. However, foreign investors continued to be net purchasers of Thai securities, especially in debt securities, in line with regional flows of capital. In addition, there were foreign direct investment flows into Thailand constantly. Meanwhile, the Thai baht against the U.S. dollar appreciated compared to the end of the previous year, consistent with other regional currencies, due to external factors including (1) investors' concerns about the direction of the U.S. economic policy, particularly the tax reform which showed no sign of clear progress until the end of 2017, and (2) continual improvement of developing countries' economic conditions. Consequently, as of the end of 2017, the real effective exchange rate (REER) appreciated from the end of last year, in accordance with better economic fundamentals, and was moderate relative to other regional currencies. External stability remained strong due to a high level of foreign exchange reserves relative to short-term debt and a low level of external debt to GDP, which would provide cushion against volatilities in the global financial markets.

**Figure 4** Current account balance



Source: Bank of Thailand

**Figure 5** Financial flows classified by types



Source: Bank of Thailand

### Financial conditions remained accommodative and conducive to economic growth.

Short-term money market rates remained close to the policy rate that was kept stable at 1.50 percent per annum throughout the year. Meanwhile, long-term government bond yields rose from the previous year due to (1) the external factors, especially expectations on the U.S. economic and monetary policies, and (2) an increase in bond supplies at the end of the year. The accommodative financial conditions allowed overall private credit outstanding to expand, particularly mortgage and auto loans. Corporate loan growth, on the other hand, slowed down due to debt repayments of large corporates. Although an expansion in merchandise exports had induced loans growth to SMEs in certain industries, the growth was concentrated mostly in working capital loans.

Looking ahead in 2018, the Thai economy is expected to gain further traction with more balancing drivers of growth.

The exports of merchandises and services are expected to grow constantly supported by robust improvements of trading partners' economies. Private spending improves continually and more inclusively. In addition, the stimulation from the public spending, which is expected to expand at a faster pace owing to the infrastructure investment projects, would further promote growth of private investment. And the inflation would edge up gradually on the back of the improved growth outlook, increased cost following the higher oil prices together with the impact from an increase in excise tax at the end of 2017<sup>1</sup>.

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<sup>1</sup> such as liquor, beer, sugar-sweetened beverages, and tobacco

Table 1 Thailand's Economic Conditions

	Thailand's Economic Conditions						
	2015	2016		2017			
	Year	H1	H2	Year	H1	H2	Year
<i>(Annual percentage change, unless specified otherwise)</i>							
<b>Gross Domestic Product<sup>1/</sup></b>	<b>3.0</b>	<b>3.5</b>	<b>3.1</b>	<b>3.3</b>	<b>3.7</b>	<b>4.1</b>	<b>3.9</b>
<b>Demand (expenditure)</b>							
Private consumption expenditure	2.3	3.5	2.5	3.0	3.0	3.4	3.2
General government consumption expenditure	2.5	5.4	-0.6	2.2	-0.1	1.0	0.5
Gross fixed capital formation	4.3	4.1	1.6	2.8	1.0	0.8	0.9
- Private	-2.1	1.2	-0.2	0.5	0.9	2.5	1.7
- Public	28.4	12.8	6.5	9.5	1.4	-3.7	-1.2
Exports of goods and services	1.6	3.7	1.9	2.8	3.8	7.1	5.5
Imports of goods and services	0.0	-3.3	2/	-1.0	6.6	7.0	6.8
<b>Supply (production)</b>							
Agriculture	-6.3	-3.4	-1.5	-2.5	10.4	2.5	6.2
Manufacturing	1.7	1.9	2.7	2.3	1.5	3.6	2.5
Construction	17.1	10.8	6.4	8.6	-1.4	-3.3	-2.3
Services and others	4.8	5.0	4.0	4.5	4.2	5.3	4.7
<b>Domestic stability</b>							
Headline Consumer Price Index	-0.90	-0.09	0.47	0.19	0.67	0.66	0.66
Core Consumer Price Index (excluding raw food and energy)	1.05	0.73	0.75	0.74	0.56	0.55	0.56
Unemployment (percent of total labor force)	0.9	1.0	1.0	1.0	1.2	1.2	1.2
Public debt (end of period, billion baht) <sup>2/</sup>	6,005	5,924	5,922	5,922	6,185	6,371	6,371
Share of GDP (end of period, percent) <sup>2/</sup>	43.9	42.3	41.2	41.2	41.8	41.8	41.8
<b>External Stability (billion U.S. dollars)</b>							
Trade balance	26.8	20.2	16.3	36.5	15.2	16.6	31.9
Current account balance	32.1	25.8	22.5	48.2	22.8	26.4	49.3
Capital account balance <sup>2/</sup>	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1
Financial account balance	-16.8	-1.1	-19.9	-21.0	-12.8	-6.3	-19.1
Balance of payments	5.9	17.7	-4.8	12.8	10.2	15.8	26.0
Gross international reserves (end of period)	156.5	178.7	171.9	171.9	185.6	202.6	202.6
External debt (end of period) <sup>2/</sup>	131.1	143.7	132.2	132.2	140.3	149.9	149.9
International reserves to short-term debt (ratio)	3.0	2.9	3.2	3.2	3.4	3.3	3.3
External debt to GDP (percent)	32.0	35.5	32.5	32.5	34.0	35.4	35.4
External debt to export value (percent)	46.6	51.3	47.2	47.2	49.5	51.8	51.8
Short-term debt to external debt (percent)	40.1	43.1	41.2	41.2	39.4	41.4	41.4
<b>Monetary statistics (end of period) (billion baht)</b>							
Monetary base	1,710.1	1,639.8	1,816.4	1,816.4	1,705.0	1,937.2	1,937.2
Annual percentage change	2.6	5.8	6.2	6.2	4.0	6.7	6.7
Narrow money	1,778.1	1,742.3	1,864.2	1,864.2	1,871.1	2,061.0	2,061.0
Annual percentage change	5.7	7.6	4.8	4.8	7.4	10.6	10.6
Broad money	17,551.7	17,835.2	18,289.4	18,289.4	18,603.5	19,247.0	19,247.0
Annual percentage change	4.4	4.3	4.2	4.2	4.3	5.2	5.2
Financial institutions' deposits including bills of exchange <sup>3/</sup>	17,269.4	17,575.3	17,931.5	17,931.5	18,300.2	18,847.8	18,847.8
Annual percentage change	5.3	4.8	3.8	3.8	4.1	5.1	5.1
Financial institutions' private credits <sup>3/</sup>	16,154.4	16,350.1	16,720.7	16,720.7	16,913.2	17,401.0	17,401.0
Annual percentage change	5.5	4.5	3.5	3.5	3.4	4.1	4.1
<b>Interest rates (end of period) (percent per annum)</b>							
- Repurchase rate, one-day	1.50	1.50	1.50	1.50	1.50	1.50	1.50
- Overnight interbank rates (mode)	1.40	1.40	1.40	1.40	1.40	1.40	1.40
- Time deposit rate, one year <sup>4/</sup>	1.39	1.37	1.37	1.37	1.37	1.37	1.37
- Prime rate (MLR) <sup>4/</sup>	6.58	6.33	6.33	6.33	6.28	6.28	6.28
<b>Exchange rate (end of period) (baht per U.S. dollar)</b>	<b>36.00</b>	<b>35.13</b>	<b>35.80</b>	<b>35.80</b>	<b>33.96</b>	<b>32.57</b>	<b>32.57</b>
<b>Nominal Effective Exchange Rate<sup>5/</sup> (end of period) (2012=100)</b>	<b>106.07</b>	<b>105.11</b>	<b>108.13</b>	<b>108.13</b>	<b>110.34</b>	<b>112.90</b>	<b>112.90</b>

หมายเหตุ: 1/ Chained volume measures

2/ Preliminary data as of 19 February, 2018

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

4/ Average rate of five largest commercial banks

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

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