



BANK OF THAILAND

Thailand's Economic Conditions in 2018



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Summary of Global and Thai Economies in 2018

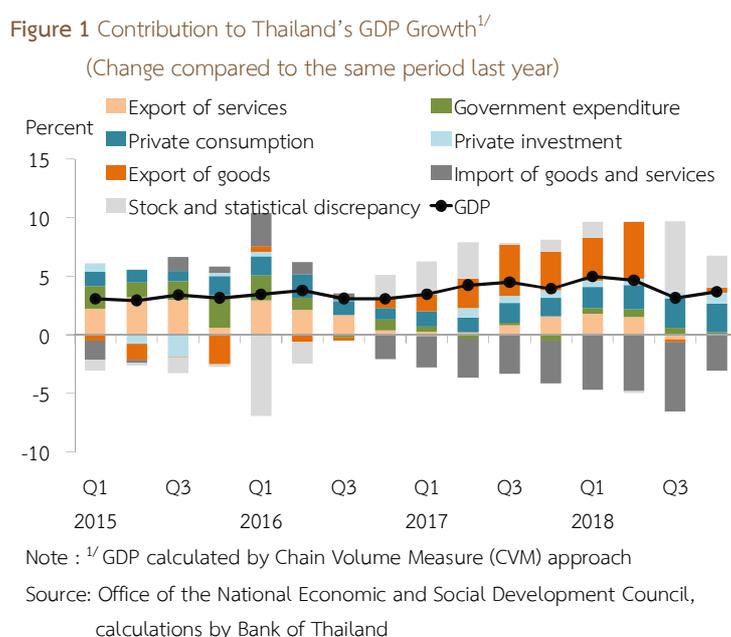
The overall global economy in 2018 expanded at a slower rate after an acceleration in the previous year, especially in the second half of the year. This was due partly to impacts of the U.S. trade protectionism measures and retaliatory measures by its trading partners. The euro area economic growth slowed down mainly from slower private consumption due to concerns on political uncertainties in various countries. The Japanese economy expanded at a slower rate pertaining to natural disaster. The Chinese economy expanded at a slower pace as financial conditions were tightened because banks tightened credit standards according to a series of the Chinese government's financial stability measures to curb debt levels in the economy. Moreover, the Chinese economic slowdown was attributable to increasingly prominent U.S. trade protectionism measures, especially in the end of the year. Asian economies, excluding China and Japan, expanded at a slower rate. This was due to impacts from tightening financial conditions in some countries, slumping confidence following the U.S. trade protectionism measures, and lower fiscal stimulus in some countries. However, the U.S. economy continued to expand in line with economic fundamentals as reflected by robust labor market and continued fiscal stimulus. On the monetary policy front, 2018 was a year of policy rate normalization for a number of central banks, especially the U.S. Federal Reserve (FED).

Looking ahead, the pace of the global economic expansion was expected. Further moderate to potential growth. Risks that would warrant monitoring included (1) the uncertainty of the U.S. trade protectionism measures and retaliatory measures by its trading partners, (2) the uncertainty of Brexit, and (3) geopolitical risks that might affect the global economic growth.

The Thai economy in 2018 continued to gain further traction at 4.1 percent growth, mainly driven by an expansion in private spending, both consumption and investment. Private consumption continued to expand thanks to the fading effect of the first-car scheme with its five-year car holding requirement, more broad-based improvement in non-farm income, high consumer confidence, and supportive government policies. Private investment increased in order to improve efficiency and increase production capacity. The investment growth was also supported by high business confidence and relocation of production base of certain industries to Thailand in late 2018. Government spending continued to boost the

economy, especially investment in rail system development projects, although some projects faced delays.

Merchandise exports expanded at a slower pace from last year, in line with slower trading partners' economic growth and global trade volume which experienced some impacts from trade disputes between the U.S. and China and the down cycle of electronic products. Moreover, exports of some products, such as washing machines, solar cell panels and integrated circuit boards, were affected directly and indirectly from the U.S. trade protectionism measures. However, exporters of some products, such as electrical appliances and vehicle tires, benefitted from an increase in redirected orders to Thailand. Exports of services growth decelerated mainly due to the number of Chinese tourists, whose confidence in safety standards was lowered after Phuket tour boat sinking incident in July. Moreover, Chinese tourists were additionally affected by China's economic slowdown. Nonetheless, tourist arrivals from other countries continued to expand well.

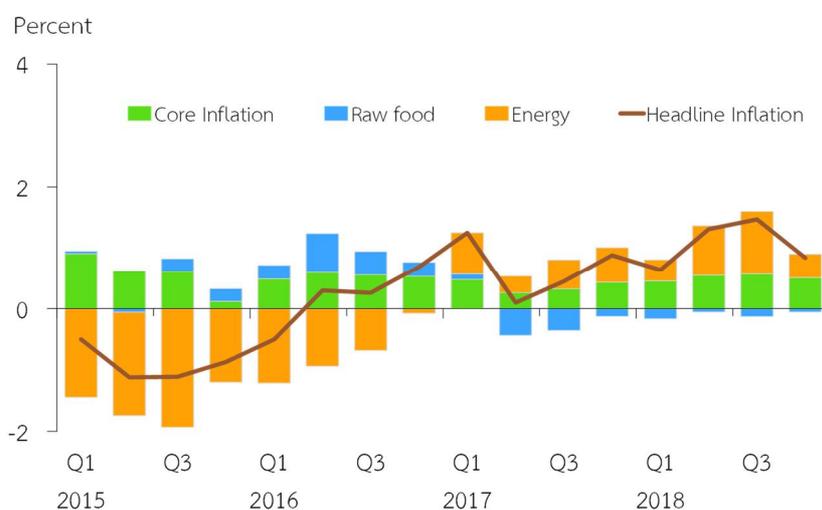


Economic and Financial Stability

Headline and core inflation in 2018 averaged at 1.07 and 0.71 percent, respectively, increased from the previous year but remained low. Headline inflation trended up in line with energy price, while raw food prices still declined owing to excessive vegetables, fruits, and meats outputs from favorable weather condition. Core inflation edged up slightly from the effect of excise tax increases on tobacco and alcoholic beverages that has been enforced since the end of 2017. Prices of other items trended up in line with the continued economic expansion. Nonetheless, the prices increased in a gradual pace due to structural factors such

as higher business competition that led to difficulty in raising prices. Unemployment rate declined from the previous year as employment picked up in agricultural and non-agricultural sectors. However, there remained issues that warranted monitoring including skill mismatch in the labor market and automation adoption trend. Overall stability of the corporate sector remained sound in line with continued economic growth. However, stability of small and medium enterprises remained fragile partly due to structural factors such as impact of e-commerce on trade sector. The stability of financial institutions stayed sound with high levels of loan loss provisions and capital buffers. In addition, non-performing loans remained low.

Figure 2 Contribution to Headline Inflation



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

In 2018, Thai baht against U.S. dollar moved in two way direction mainly due to movements of the U.S. dollar. At the end of the year, the rate closed at 32.56, close to the end of previous year. Comparing to regional currency, Thai baht appreciated more than its trading partners and competitors. The baht's relative strength was supported by Thailand's external stability which continued to be strong, as indicated by the current account surplus, though lower than last year due to decreased trade balance, low external debt to GDP ratio compared to an international benchmark, and a high level of foreign exchange reserves relative to short-term debt. The strong external stability helped Thai economy to be more resilient than neighboring countries against uncertainties in the global economy, such as a currency crisis in emerging market economies. Consequently, the real effective exchange rate (REER) at the end of a year appreciated from the previous year. The capital and financial accounts posted a deficit mainly from direct investments abroad by Thai corporates.

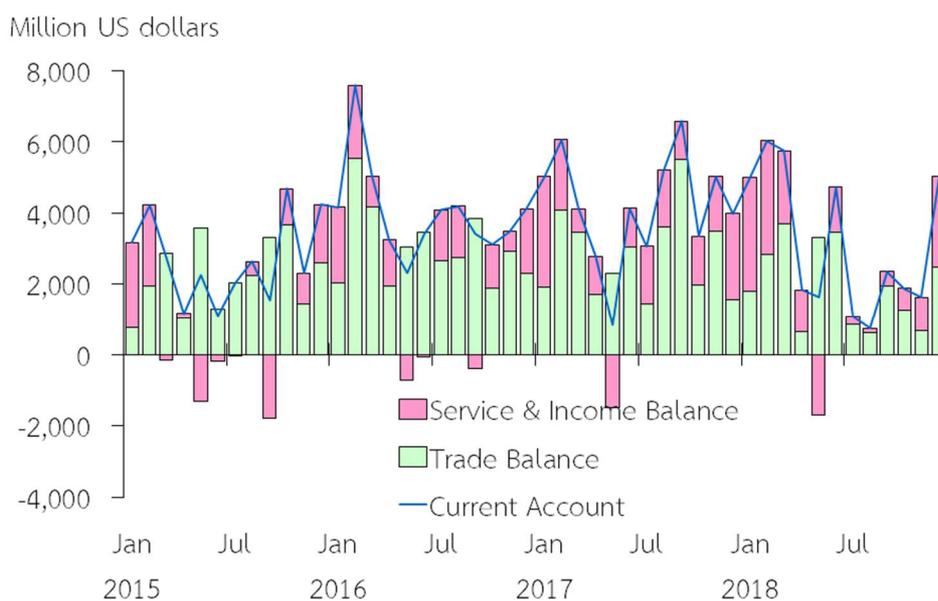
However, there were still inflows in direct investment and portfolio investment in debt securities, by foreign investors.

Figure 3 Policy interest rate and Government bond yields



Sources: Bank of Thailand and ThaiBMA

Figure 4 Current account balance



Source: Bank of Thailand

Financial conditions remained accommodative and conducive to economic growth.

The policy interest rate continued to stay at a low level throughout the year which remained accommodative and continued to provide support to the economic growth. The policy interest rate was also lower than neighbor countries' rates, although at the meeting

on December 2018, the Committee raised the policy rate by 0.25 percentage point to 1.75 percent to curb financial stability risks and to start building policy space. The Committee viewed the need for extra accommodative monetary policy as in the previous period had reduced. Corporate's financing costs remained low although government bond yields, particularly short-term government bond yield and corporate bond yields, increased slightly. In addition, cost of financing through commercial banks, reflected by the new loan rate (NLR), also remained low. This low cost of financing facilitated continuity of private sector financing. Some commercial banks gradually raised regular saving rates to promote retail depositors and to underpin economic on target growth.

Looking ahead in 2019, the Thai economy was projected to record slower growth but remained close to the potential growth. Exports of some merchandises could be affected by further global economic slowdown due to the impact from the greater clarity on U.S.-China trade dispute. However, continued domestic demand expansion from private and public spending would cushion the fall in external demand. Headline inflation would slow down following the downward trend of global crude oil prices.



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Thailand's Economic Conditions

	2016	2017			2018		
	Year	H1	H2	Year	H1	H2	Year
<i>(Annual percentage change, unless specified otherwise)</i>							
Gross Domestic Product^{1/}	3.4	3.8	4.2	4.0	4.8	3.4	4.1
Demand (expenditure)							
Private consumption expenditure	2.9	2.6	3.3	3.0	4.0	5.3	4.6
General government consumption expenditure	2.2	-0.3	0.5	0.1	2.0	1.6	1.8
Gross fixed capital formation	2.9	1.9	1.7	1.8	3.5	4.0	3.8
- Private	0.6	2.1	3.8	2.9	3.1	4.7	3.9
- Public	9.5	1.4	-3.7	-1.2	4.4	2.2	3.3
Exports of goods and services	2.8	3.3	7.6	5.4	8.8	-0.2	4.2
Imports of goods and services	-1.0	5.8	6.7	6.2	9.0	8.2	8.6
Supply (production)							
Agriculture	-1.3	8.4	-0.5	3.7	8.2	1.9	5.0
Manufacturing	2.3	2.0	3.9	2.9	3.5	2.5	3.0
Construction	7.9	-1.8	-4.0	-2.8	1.5	4.0	2.7
Services and others	4.4	4.6	5.7	5.2	5.3	4.3	4.8
Domestic stability							
Headline Consumer Price Index	0.19	0.67	0.66	0.66	0.97	1.16	1.07
Core Consumer Price Index (excluding raw food and energy)	0.74	0.56	0.55	0.56	0.69	0.74	0.71
Unemployment (percent of total labor force)	1.0	1.2	1.2	1.2	1.2	1.0	1.1
Public debt (end of period, billion baht) ^{2/}	5,922	6,185	6,371	6,371	6,532	6,834	6,834
Share of GDP (end of period, percent) ^{2/}	41.2	41.3	41.2	41.2	40.7	41.8	41.8
External Stability (billion U.S. dollars)							
Trade balance	36.5	16.6	17.6	34.2	15.8	7.8	23.6
Current account balance	48.2	23.0	27.2	50.2	25.0	12.7	37.7
Capital account balance ^{2/}	0.0	0.0	-0.1	-0.1	-0.6	0.0	-0.6
Financial account balance	-20.8	-9.9	-2.6	-12.4	-13.1	-8.5	-21.6
Balance of payments	12.8	10.2	15.8	26.0	7.6	-0.4	7.3
Gross international reserves (end of period)	171.9	185.6	202.6	202.6	206.8	205.6	205.6
External debt (end of period) ^{2/}	132.2	142.0	155.2	155.2	154.3	161.8	161.8
International reserves to short-term debt (ratio)	3.2	3.3	2.9	2.9	3.1	3.3	3.3
External debt to GDP (percent)	32.5	34.4	36.7	36.7	35.1	35.3	35.3
External debt to export value (percent)	47.2	50.1	53.6	53.6	51.3	52.2	52.2
Short-term debt to external debt (percent)	41.2	40.1	44.3	44.3	43.0	38.8	38.8
Monetary statistics (end of period) (billion baht)							
Monetary base	1,816.4	1,705.0	1,937.2	1,937.2	1,805.3	2,000.7	2,000.7
Annual percentage change	6.2	4.0	6.7	6.7	5.9	3.3	3.3
Narrow money	1,864.2	1,870.9	2,038.9	2,038.9	1,970.4	2,095.1	2,095.1
Annual percentage change	4.8	7.4	9.4	9.4	5.3	2.8	2.8
Broad money	18,295.7	18,617.8	19,212.9	19,212.9	19,571.1	20,117.0	20,117.0
Annual percentage change	4.2	4.4	5.0	5.0	5.1	4.7	4.7
Financial institutions' deposits including bills of exchange ^{3/}	17,938.2	18,307.5	18,825.6	18,825.6	19,217.1	19,688.7	19,688.7
Annual percentage change	3.8	4.1	4.9	4.9	5.0	4.6	4.6
Financial institutions' private credits ^{3/}	16,812.2	17,005.7	17,520.4	17,520.4	17,924.5	18,492.2	18,492.2
Annual percentage change	3.7	3.7	4.2	4.2	5.4	5.5	5.5
Interest rates (end of period) (percent per annum)							
- Repurchase rate, one-day	1.50	1.50	1.50	1.50	1.50	1.75	1.75
- Overnight interbank rates (mode)	1.40	1.40	1.40	1.40	1.40	1.75	1.75
- Time deposit rate, one year ^{4/}	1.37	1.37	1.37	1.37	1.37	1.37	1.37
- Prime rate (MLR) ^{4/}	6.33	6.28	6.28	6.28	6.28	6.28	6.28
Exchange rate (end of period) (baht per U.S. dollar)	35.80	33.96	32.57	32.57	33.12	32.56	32.56
Nominal Effective Exchange Rate^{5/} (end of period) (2012=100)	108.13	110.34	112.90	112.90	113.38	117.28	117.28

หมายเหตุ: 1/ Chained volume measures

2/ Preliminary data as of 20 February, 2019

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 Council, Ministry of Commerce, National Statistical Office, Public Debt Management Office and Bank of Thailand