IMF Staff Completes 2016 Article IV Mission to Thailand

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End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

An International Monetary Fund (IMF) mission, led by Ana Corbacho, visited Bangkok from March 3–18, 2016, to conduct the 2016 Article IV Consultation discussions. The mission exchanged views on recent economic developments and the outlook with officials in the government, the Bank of Thailand (BOT), and other public institutions. It also met with private sector analysts and academics. At the conclusion of the visit, Ms. Corbacho issued the following statement:

"The Thai economy recovered in 2015 after a slowdown induced by political uncertainty. Output grew by 2.8 percent, while headline inflation dropped to -0.9 percent, undershooting the BOT's target of 2.5±1.5 percent, mostly due to a fall in energy prices. Core inflation and inflation expectations also declined. The current account surplus rose to 8.8 percent of GDP, thanks to a sizable improvement in the terms of trade, soaring tourism, and import compression associated with tepid domestic demand. Thailand's financial markets weathered relatively well repeated episodes of global financial volatility.

"The recovery is expected to strengthen moderately, with real GDP growth projected at 3 percent in 2016 and 3.2 percent in 2017. A slight improvement in confidence and low energy prices foreshadow a pickup in private consumption. Public investment would remain a key driver, rising over the next few years and crowding in private investment. Headline inflation is projected to turn positive in 2016, but may take time to reach the mid-point of the inflation target band. The current account surplus is projected to decline over the medium term as the positive shocks to terms-of-trade partially reverse and domestic demand improves.

"Important risks cloud the outlook. On the external front, rebalancing in China may result in a faster slowdown or larger negative spillovers. A bout of global financial volatility could accelerate capital outflows and further tighten financial conditions. On the domestic front, slower-than-expected execution of mega projects would reduce domestic demand. Negative inflation could linger longer than expected, resulting in higher real interest rates and a rising real debt burden. Household debt overhang could create headwinds to consumption and, in an adverse scenario, affect financial institutions' balance sheets.

"Against the lackluster outlook and downside risks, Thailand's strong fundamentals provide room for maneuver to lift economic prospects in both the near and the long run. The mission’s recommendations focus on three main areas: (i) deploying an expansionary macroeconomic policy mix that aligns short- and long-term goals; (ii) safeguarding financial stability; and (iii) enhancing potential growth.

“The mission supports the planned expansionary fiscal stance in the context of a sustainable medium-term fiscal framework. The government’s ambitious investment plans are essential to upgrade infrastructure, support the recovery, crowd in private investment, and boost potential growth. Embedding these plans in a medium-term fiscal framework would strengthen policy formulation, transparency, and credibility. This framework should underpin a strategy to build fiscal buffers over time and prepare for the fiscal implications of the aging population. In particular, the mission recommends gradually increasing the VAT rate to 10 percent once the recovery is on sound footing. In addition, developing social safety nets better aligned with structural challenges, including on-budget well-targeted cash transfers and skill upgrading programs, would facilitate the transition to higher productivity sectors.

“There is also room for further monetary easing, given the lingering negative output gap, negative headline inflation, low core inflation and expectations, and downside risks. As policy rates approach the zero lower bound, anchoring expectations through clear and credible communication is critical. In this context, the mission recognizes that Thailand’s monetary policy framework has achieved a high standard of transparency. The recent adoption of an explicit medium-term inflation target is welcome and could be featured more prominently in communications by the BOT. The flexible exchange rate should remain the first line of defense against external shocks, although judicious intervention can be used to avoid excessive volatility.

“Macroprudential policies can be employed to guard against systemic risks in a low-interest-rate environment. While financial stability risks are contained overall, it is crucial to maintain strong vigilance and continue upgrading the financial stability framework. In this respect, completing the transfer of Specialized Financial Institutions (SFIs) to the supervisory umbrella of the BOT and fostering effective coordination between the BOT and other regulators are steps in the right direction. Expanding the macroprudential toolkit would also help strengthen financial stability.

“Escaping the middle-income trap will require concerted action on several fronts. The mission notes the government’s drive to encourage higher value-added activities via revised incentives and to take advantage of Thailand’s location via Special Economic Zones. Periodic evaluation, careful coordination, and clear communication can enhance the cost-effectiveness of these incentives. The adverse impact of aging on potential output and the fiscal position can be mitigated by reforming pension schemes and facilitating migration. Improving the quality of education and aligning it with the needs of the modern economy would help raise labor productivity. Trade integration could enhance external competitiveness and catalyze structural reforms.

“The mission would like to thank the authorities and private sector counterparts for excellent support, warm hospitality, and constructive dialogue. The IMF’s Executive Board is tentatively scheduled to discuss the Staff Report in May.”

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