INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/143

THAILAND

June 2018

2018 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THAILAND

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2017 Article IV consultation with Thailand, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 21, 2018 consideration of the staff report that concluded the Article IV consultation with Thailand.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 21, 2018, following discussions that ended on March 20, 2018, with the officials of Thailand on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 3, 2018.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Thailand.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

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INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 18/215
FOR IMMEDIATE RELEASE
June 4, 2018

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2018 Article IV Consultation with Thailand

On May 21, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Thailand.

A cyclical recovery is underway in Thailand but has yet to become broad based. GDP growth is estimated at 3.9 percent in 2017, boosted by strong tourism services and manufacturing exports. Domestic demand remained sluggish amid structural challenges, and export gains failed to trickle down to household incomes and investments in other sectors. Headline inflation averaged 0.7 percent, below the target band for the third year in a row, reflecting low food prices and weak core inflation. The current account surplus remained large, at about 10.6 percent of GDP. Financial system stability continued to strengthen.

The growth momentum is expected to continue in 2018 and 2019, supported by sustained export dynamism. A rebound in public investment, in line with the government's infrastructure plans, is expected to crowd in private investment. The current account surplus is projected to gradually decline over the medium term, as investor and consumer confidence strengthen, and domestic demand gathers speed. Inflation is expected to remain below the 2.5 percent target. Risks to the near-term outlook arise from potential weaknesses in the external environment, including protectionism, as well as domestic structural challenges. On the other hand, a stronger than projected rebound in investment provides an upside risk to growth, and greater dynamism in regional trade could further boost Thai exports.

Executive Board Assessment[2]

Executive Directors welcomed Thailand's improving economic prospects, which are supported by strong global and regional trade. Directors noted, however, that the recovery has yet to become broad-based, as structural challenges continue to be a drag on domestic demand, while

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

inflation dynamics remain weak. Against this backdrop, they encouraged the authorities to calibrate the policy mix and use available space to support domestic demand and external rebalancing, and implement structural reforms to boost growth potential.

Directors welcomed the enactment of the fiscal responsibility law, and ongoing efforts to anchor fiscal policy in a medium-term fiscal framework, which are key to safeguarding fiscal sustainability. They agreed that scaling up macro-critical infrastructure projects would crowd in private investment, stimulate domestic demand, and facilitate external rebalancing. Directors emphasized the importance of fiscal reforms aimed at strengthening public investment implementation capacity and better targeting of social expenditures to boost demand on a sustained basis. They concurred that additional growth-friendly revenue mobilization will be needed in the medium to long term, as part of a broader strategy to prepare for aging-related expenditure pressures.

A number of Directors agreed that monetary easing, within a broader expansionary policy mix, could help steer inflation back to target, with macroprudential policy used to address financial stability concerns. A number of other Directors considered the current monetary stance to be sufficiently accommodative, and that monetary policy should balance support for inflation against financial stability risks. Directors noted that enhanced communication would improve the effectiveness of monetary policy transmission by strengthening the expectations channel. They emphasized the importance of exchange rate flexibility, with intervention limited to avoiding disorderly market conditions. A number of Directors encouraged publication of the intervention data with appropriate lags to improve transparency and communication. A few other Directors, noting the potential sensitivity of the data, supported a more cautious approach.

Directors agreed that the financial system remains sound, and commended the authorities for measures taken to strengthen financial system stability. While not expected to pose systemic risks, they called for close monitoring of vulnerabilities in the nonbank financial sector. Directors broadly concurred that strengthening macroprudential policy should help ensure continued containment of systemic risks. They looked forward to the forthcoming FSAP, which will conduct a more comprehensive assessment of risks in the financial sector.

Directors called for a comprehensive package of reforms to boost potential growth and improve inclusiveness. They underscored the need to increase productivity and address the impact of aging through pension reform, human capital development, higher female labor force participation, and improvements in the business environment. Directors welcomed the authorities' plans to expedite investment in infrastructure and logistics as part of a broader strategy to deepen economic integration within the ASEAN region.

Most Directors agreed that Thailand's external position is substantially higher than warranted by medium-term fundamentals and desirable policies. Some Directors called for a more cautious interpretation of the external balance assessment citing Thailand-specific issues as contributing factors.

Thailand: Selected Economic Indicators 2014–19

	2014	2015	2016	Prel. 2017	Proj. 2018	Proj. 2019
Real GDP growth (y/y percent change) 1/	1.0	3.0	3.3	3.9	3.9	3.8
Consumption	1.2	2.3	2.8	2.6	3.7	4.4
Gross fixed investment	-2.2	4.3	2.8	0.9	6.8	7.4
Inflation (y/y percent change)						
Headline CPI (end of period)	0.6	-0.9	1.1	0.8	0.8	1.0
Headline CPI (period average)	1.9	-0.9	0.2	0.7	1.4	0.7
Core CPI (end of period)	1.7	0.7	0.7	0.6	1.2	1.3
Core CPI (period average)	1.6	1.1	0.7	0.6	0.9	1.3
Saving and investment (percent of GDP)						
Gross domestic investment	23.9	22.3	21.1	22.8	24.2	24.7
Private	19.4	18.2	17.6	17.2	17.4	17.6
Public	5.2	6.3	6.4	6.0	6.8	7.1
Change in stocks	-0.7	-2.2	-2.9	-0.3	0.0	0.0
Gross national saving	27.7	30.3	32.8	33.4	33.2	33.1
Private, including statistical discrepancy	23.0	23.2	25.6	28.2	27.9	27.6
Public	4.7	7.1	7.2	5.3	5.3	5.4
Foreign saving	-3.7	-8.0	-11.7	-10.6	-9.0	-8.3
Fiscal accounts (percent of GDP) 2/						
General government balance 3/	-0.8	0.1	0.6	-0.6	-0.9	-0.9
SOEs balance	-0.5	0.7	0.8	0.7	0.2	0.0
Public sector balance 4/	-1.3	0.9	1.4	0.1	-0.8	-0.9
Public sector debt (end of period) 4/	43.3	42.5	41.8	41.9	41.6	41.6
Monetary accounts (end of period, y/y percent change)						
Broad money growth	4.6	4.4	4.2	5.1	4.5	5.3
Narrow money growth	1.3	5.7	4.8	9.4	4.5	5.3
Credit to the private sector by depository corporations	4.7	5.3	3.9	4.5	4.5	4.3
Balance of payments (billions of U.S. dollars)						
Current account balance	15.2	32.1	48.2	48.1	43.4	43.3
(Percent of GDP)	3.7	8.0	11.7	10.6	9.0	8.3
Exports, f.o.b.	226.6	214.0	214.3	235.1	255.0	274.6
Growth rate (dollar terms)	-0.4	-5.6	0.1	9.7	8.4	7.7
Growth rate (volume terms)	0.8	-2.0	0.1	5.6	5.9	5.6
Imports, f.o.b.	209.4	187.2	177.7	203.2	224.9	243.0
Growth rate (dollar terms)	-7.9	-10.6	-5.1	14.4	10.7	8.0
Growth rate (volume terms)	-6.3	0.2	-2.3	8.5	6.1	7.4
Capital and financial account balance 5/	-16.4	-26.3	-35.4	-22.0	-33.7	-43.3
Overall balance	-1.2	5.9	12.8	26.1	9.7	0.0
Gross official reserves (including net forward position, end of period) (billions of U.S. dollars)	180.2	168.2	197.6	239.3	249.0	249.0
(Months of following year's imports)	11.6	11.4	11.7	12.8	12.3	11.4
(Percent of short-term debt) 6/	257.7	280.2	273.8	326.8	352.5	321.9
(Percent of ARA metric)	187.4	203.9	211.2	221.2	...	...
Forward position of BOT (end of period)	-23.1	-11.7	-25.8	-36.7	...	...
Exchange rate (baht/U.S. dollar)	32.5	34.2	35.3	33.9	...	...
NEER appreciation (annual average)	-3.0	4.4	-3.2	4.3	...	...
REER appreciation (annual average)	-3.2	2.5	-4.0	3.4	...	...
External debt						
(Percent of GDP)	34.8	32.7	32.1	32.7	33.7	33.3
(Billions of U.S. dollars)	141.7	131.1	132.2	149.0	162.9	173.4
Public sector 7/	25.3	20.6	22.6	31.1	41.6	45.5
Private sector	116.4	110.5	109.6	117.9	121.3	127.9
Medium- and long-term	60.4	58.3	56.8	59.5	60.8	64.3
Short-term (including portfolio flows)	56.0	52.2	52.8	58.4	60.5	63.7
Debt service ratio 8/	4.9	6.3	5.8	5.7	6.0	6.3
Memorandum items:						
Nominal GDP (billions of baht)	13,230	13,747	14,533	15,450	16,150	17,003
(Billions of U.S. dollars)	407.3	401.4	411.8	455.3	…	…

Sources: Thai authorities; CEIC Data Co. Ltd.; and IMF staff estimates and projections.

1/ This series reflects the new GDP data based on the chain volume measure methodology, introduced by the Thai authorities in May 2015.

2/ On a fiscal year basis. The fiscal year ends on September 30.

3/ Includes budgetary central government, extrabudgetary funds, and local governments.

4/ Includes general government and SOEs.

5/ Includes errors and omissions.

6/ With remaining maturity of one year or less.

7/ Excludes debt of state enterprises.

8/ Percent of exports of goods and services.

INTERNATIONAL MONETARY FUND

THAILAND

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

May 2, 2018

KEY ISSUES

Context: A cyclical recovery is underway though it is yet to be broad-based. Domestic demand remains sluggish amid structural challenges, inflation continues to show weak dynamics, and the current account surplus remains large. The authorities have taken important measures to strengthen financial stability, and enacted reforms that bode well for medium-term fiscal management and credibility. Under the 12th National Development Plan, the government's program aims to address the impediments to growth and scale up infrastructure to enhance Thailand's position in global value chains and propel the economy into the digital age.

Outlook: Staff expects the growth momentum to carry over into 2018 and 2019, with a moderate slowdown in the medium term. Exports would be the main growth engine in the next two years, while domestic demand is expected to recover in the medium term. Inflation is projected to remain below the 2.5 percent target throughout the projection period. Risks to the outlook are broadly balanced in the near term, but tilted to the downside in the medium term.

Policy recommendations: Staff recommends an expansionary policy mix including fiscal stimulus, monetary easing, and structural reforms which would help steer the economy toward a more balanced growth path and external rebalancing. Specifically:

- *Thailand should use available fiscal space judiciously to spur domestic demand and support potential output*. Staff supports implementation of macro-critical public infrastructure projects, which would also crowd in private investment.
- *Monetary easing would help steer inflation to target*. It would complement the fiscal stimulus, curtail risks of low inflation, and help balance capital flows. FX intervention should be limited to avoiding disorderly market conditions.
- *Macroprudential policy should ensure continued containment of systemic risks from search-for-yield behavior*. This would provide monetary policy the necessary space to effectively target inflation.
- *Structural reforms would help address the challenges that currently hamper domestic demand and potential growth, and prepare the country for longer-term demographic challenges*. Recommended policies include strengthening public investment implementation capacity, improving social safety nets, supporting labor force participation and education, and improving the business environment.

Approved By
Markus Rodlauer and Zuzana Murgasova

Discussions took place in Bangkok during March 7–20, 2018. The staff comprised Mr. Leigh (head), Messrs. Craig, Garcia, Saenz, Wu (all APD), Mr. Fukunaga (SPR) and Ms. Riad (COM). Mr. Rodlauer (APD) participated in the first three days of the discussions. Messrs. Agung and Sumawong (OED) accompanied the mission. Ms. Dao (APD) provided analytical inputs. Mr. Landicho (APD) coordinated the production of the report.

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APPENDICES

CONTEXT: CYCLICAL RECOVERY AMID LONG-TERM CHALLENGES

1. **Thailand's economic outlook is improving.** Growth is benefitting from stronger global and regional trade and greater clarity on the political transition. Trade in ASEAN+3 countries grew in dollars terms by 11.6 percent in 2017, and the outlook is for continued buoyant trade, although trade protectionism poses a downside risk. On the domestic side, the government indicated that national elections would now be held in early 2019, which should help reduce political uncertainty.

2. **Domestic demand remains sluggish reflecting structural challenges.** Household debt is still high and weighs on consumption, particularly in the rural sector, which has been hit by weather shocks and a decline in commodity prices. Other structural factors may also be keeping growth from trickling down to household income: (i) the contraction in the working age population tends to reduce household income; (ii) automation in the manufacturing sectors can increase output without raising hours worked; and (iii) the ongoing structural transformation of the economy as services expand and manufacturing contracts may contribute to slow wage growth.

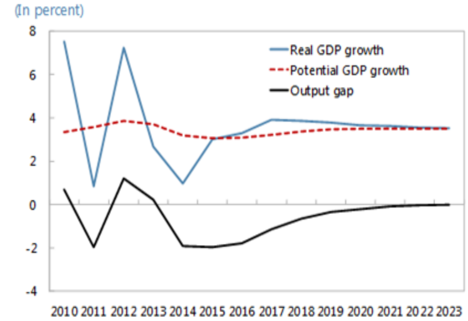
3. **Against this backdrop, discussions focused on a strategy to support domestic and external rebalancing and raise potential growth in the long run.** During 2017, the fiscal stance was slightly contractionary, and monetary policy could have been more supportive (Appendix I). In the discussions, staff recommended an expansionary policy mix based on: (i) an infrastructure-driven fiscal stimulus to support domestic demand, including by drawing in private investment; (ii) monetary easing to help steer inflation back to target, with macroprudential policy geared to preserving financial stability; and (iii) structural reforms to address the long-term demographic challenges, increase productivity, and enhance inclusive growth.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

4. **While growth gained momentum in 2017, it has yet to be broad-based.** Real GDP growth is estimated at 3.9 percent in 2017, boosted by strength in tourism services and manufacturing exports led by improving economic performance in the United States and the region. However, growth is not broad-based, with export gains failing to trickle down to household incomes and investment opportunities in other sectors.

Thailand: Real GDP Growth and Output Gap

(In percent)



Source: IMF staff estimates.

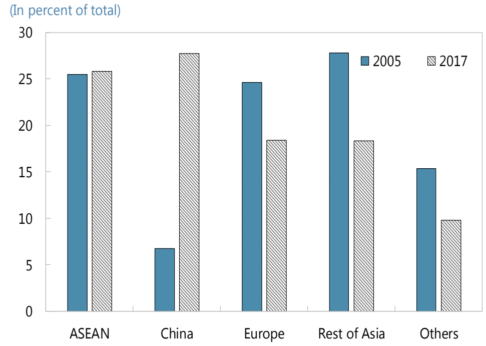
5. **Inflation continues to show weak dynamics.** Headline inflation averaged 0.7 percent in 2017, below the target band (2.5±1.5 percent) for the third year in a row (see Figure 3). Supply shocks, including global factors and low food prices owing to a strong harvest, partly explained the low headline inflation. Over the first quarter of 2018, despite the rebound in oil prices, headline inflation remained below the target band, partly reflecting low fresh food prices, but also persistently weak core

inflation (at 0.6 percent). At the same time, long-term inflation expectations have weakened in recent years and are now below the mid-point target, increasing the risk of low inflation over the medium term.

6. The macro policy mix remained insufficiently supportive of external rebalancing. The monetary policy rate remained unchanged at 1.5 percent, despite sliding inflation expectations, keeping the (ex post) real interest rate above neutral rate estimates.[1] The fiscal stance tightened somewhat—based on staff's estimated structural balance—due to lower public investment, which was only partially offset by a decline in tax revenues. Part of the revenue decline is explained by a cut in the income tax in 2017, the impact of lower oil prices on oil tax revenues, and a reduction in import duties.

7. The current account surplus remains excessive. Despite a modest decline, the surplus is estimated at 10.6 percent of GDP in 2017, reflecting buoyant exports of goods and services. In U.S. dollar terms, goods exports increased by 9.7 percent, following the improvement in trade partners' economies. Rapid growth of tourism has been the main driver of service exports in recent years (see Appendix III). Visitors from Asia, especially China, accounted for the bulk of tourist arrivals, increasing to 72 percent of total visitors in 2017 from 60 percent in 2005. The capital and financial account registered a deficit of 4 percent of GDP. FDI outflows reached a historical high of 4.6 percent of GDP reflecting mainly Thai corporates' investment overseas. At about 30 percent of GDP in 2017, Thailand's external debt is projected to remain relatively low over the medium term (Appendix V).

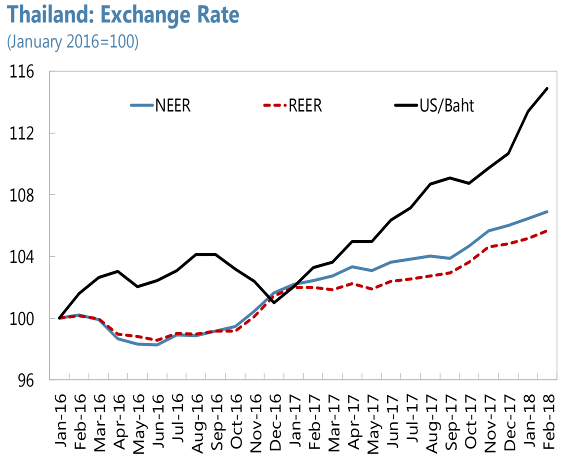
Thailand: Tourists by Country of Residence
(In percent of total)



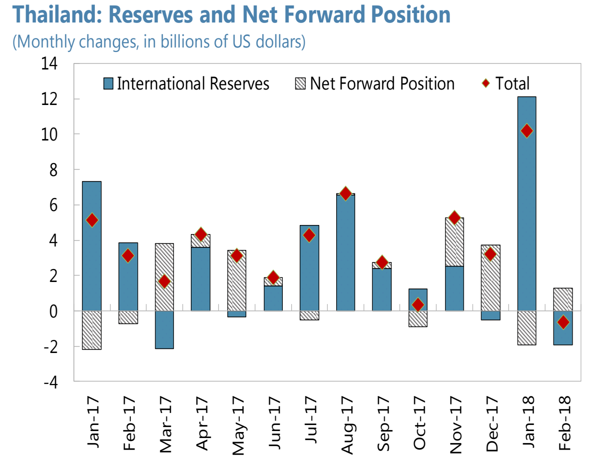
Sources: Thailand authorities; and IMF staff calculations.

8. The BOT continued to accumulate international reserves at a fast pace, while also allowing for some real exchange rate appreciation. The sizable and continuous monthly increase in the stock of reserves and FX forward position during 2017 suggests that FX intervention has been mostly one-sided. Nevertheless, the REER appreciated at an increasing pace, resulting in 3.4 percent real effective appreciation in 2017 and a 9.6 percent nominal appreciation versus the U.S. dollar. The large current account surplus and sizable portfolio inflows were the main drivers of exchange rate appreciation pressures and reserve accumulation, only partially offset by net outflows in FDI and other investment. As of December 2017, international reserves (including the net forward position) stood at US$239.3 billion, an increase of US$41.7 billion from end-2016 and well above Fund adequacy metrics.

[1] Using a TVP-VAR model of Lubik and Matthes (2015), staff estimated the neutral rate around 0.1 percent in 2017.



Source: IMF staff calculations.



Sources: Haver Analytics; and IMF staff calculations.

9. **Staff expects the growth momentum to continue in 2018 and 2019, while domestic and external imbalances narrow only gradually.** Export dynamism is expected to continue, while domestic demand remains sluggish, recovering only in the medium term. Fiscal policy is assumed to be supportive, with stimulus amounting to 1.4 percent of GDP over the medium term, resulting from a strong rebound in public investment in 2018 and partial implementation of the EEC projects starting in 2019 (see Box 1). The monetary policy rate is assumed to remain unchanged in the medium term. The current account balance is projected to decline only gradually over the medium term, as investor and consumer confidence solidify, and domestic private demand gathers speed. Inflation is expected to remain below the 2.5 percent target throughout the projection period, while the output gap is expected to close over the medium term.

10. **Risks to the outlook are broadly balanced in the near term, but tilted to the downside over the medium term.** On the up side, the expansion in exports of goods and services, especially in tourism, could continue to exceed expectations. The impact of Eastern Economic Corridor (EEC) projects could also surpass staff's projections of implementation and crowding in of private investment. On the downside, protectionism could dampen the dynamism in international trade. The fiscal stance in FY 2019 may not be sufficiently supportive of activity, and private domestic demand could fail to pick up owing to the household debt overhang, stagnant household income, and low SME investment and productivity growth. Inflation may fail to rise even if domestic demand does, given the flatness in the Phillips Curve and lower inflation expectations. Medium-term external risks include negative spillovers from the U.S. tax reform as the fiscal stimulus unwinds starting in 2021, monetary policy normalization in advanced economies, and a bumpy rebalancing in China (see Appendix II).

Staff Baseline Scenario 2014–23

	2014	2015	2016	Prel. 2017	Projections 2018	2019	2020	2021	2022	2023
Real GDP growth (y/y percent change)	1.0	3.0	3.3	3.9	3.9	3.8	3.6	3.6	3.5	3.5
Headline CPI inflation (period average, y/y percent change)	1.9	-0.9	0.2	0.7	1.4	0.7	1.1	1.4	1.8	2.0
Public investment (percent of GDP, fiscal year basis) 1/	5.3	5.9	6.4	5.2	6.0	6.4	6.4	6.3	6.3	6.0
Public sector balance (percent of GDP, fiscal year basis)	-1.3	0.9	1.4	0.1	-0.8	-0.9	-1.0	-1.1	-1.2	-1.2
Structural public sector primary balance (percent of GDP, fiscal year basis)	0.4	2.7	1.3	1.6	0.6	0.3	0.3	0.2	0.0	0.2
Total public sector debt (percent of GDP, fiscal year basis, end of period)	43.3	42.5	41.8	41.9	41.6	41.6	41.6	41.7	41.9	41.9
Current account balance (percent of GDP)	3.7	8.0	11.7	10.6	9.0	8.3	7.6	6.2	4.7	3.3
Credit to the private sector by depository corporations (end of period, y/y percent change)	4.7	5.3	3.9	4.5	4.5	4.3	4.8	5.0	5.3	5.5

Sources: Thai authorities; CEIC Data Co. Ltd.; and IMF staff estimates and projections.
1/ Official GFS data are not available for the Public Sector. Historical data are estimated based on GFS General Government official data, and information from SEPO and national accounts.

11. **The authorities shared some of staff's assessment of risks to growth, but considered the growth outlook to be somewhat stronger.** They welcomed staff's positive economic outlook, noting the strong external sector and gradual improvement in domestic demand. They argued, however, that staff's medium-term projection of potential growth may not sufficiently capture the contribution from structural reforms and public investment. The authorities noted that planned investments included not only those in the EEC, but also infrastructure projects that were being rolled out nationwide. Improvements in productivity and business climate, as well as strengthened domestic demand, would be key drivers of growth going forward. At the same time, they recognized that many challenges in the Thai economy, especially in the labor market and the agricultural sector, needed to be addressed through structural reforms to promote higher and inclusive growth in the medium term.

12. **Thailand's external position remains substantially higher than warranted by medium-term fundamentals and desirable policies.** Based on the External Balance Assessment (EBA) model, and accounting for Thailand-specific factors, staff's preliminary estimation suggests a cyclically adjusted current account (CA) gap of about 3.5 percent to 7.5 percent of GDP and an implied REER gap of -13 percent to -6 percent (see Figure 6, Appendices III and IV). With structural challenges likely to persist, reducing the CA gap will require a concerted policy effort to support domestic demand and sustained, albeit gradual, appreciation of the REER over the medium term.

13. **The authorities emphasized that external imbalances reflected underlying structural challenges that impacted domestic demand and that were not adequately captured by the EBA model.** They noted that savings from lower prices of imported oil contributed to the large external position, while aging population was not likely to translate the gains from the current account into new investment in a short time span. They found that the benefits from the recent boom in the tourism sector have not sufficiently trickled down into the broader economy, especially consumption and investment. They noted that this was due to structural rigidities in the tourism sector as well as higher competition from accommodation-sharing platforms that put downward

pressure on prices and limited the ability of hotel operators and tourism-related enterprises to raise wages. Against this background, they argued for a larger country-specific adjustment for the tourism boom in the external balance assessment (see Appendix III).

14. The authorities stressed that external rebalancing should not rely only on exchange rate adjustment but required an integrated policy package. They noted that the current account surplus was adjusting in the right direction and the REER was appreciating, and that public investment and implementation of EEC projects and structural reforms would accelerate external rebalancing. They called for a careful interpretation and communication of the implied exchange rate assessment.

SUPPORTING DOMESTIC DEMAND AND EXTERNAL REBALANCING

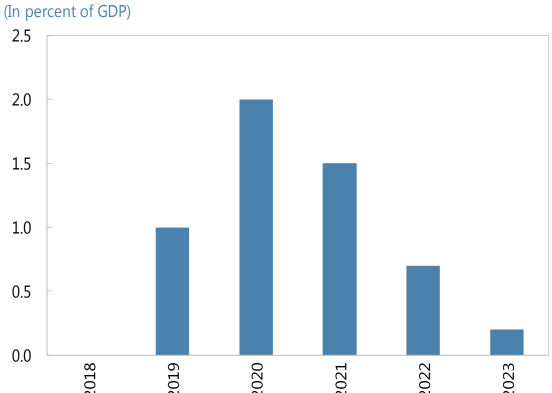
15. To reach a more balanced growth path, staff recommended a more expansionary policy mix based on fiscal stimulus, monetary easing, and structural reform. Frontloaded public infrastructure investment accompanied by monetary easing would help support faster growth in domestic demand, including by boosting private investment. Structural reforms that support public investment, promote linkages between the dynamic export sector and other sectors of the economy, improve social safety nets, increase labor force participation and raise productivity in an increasingly digital economy, would spur household income and strengthen aggregate demand. This would help reduce the current account surplus over time and allow the needed real exchange rate appreciation to take place through a growth-driven process including higher inflation. Long-run potential GDP would also increase as public and private investment add to the capital stock and structural reforms increase labor force participation and productivity.

Thailand—Alternative Scenarios Under Fiscal and Monetary Stimulus

A public investment push would crowd in private investment

Change in Public Investment

(In percent of GDP)

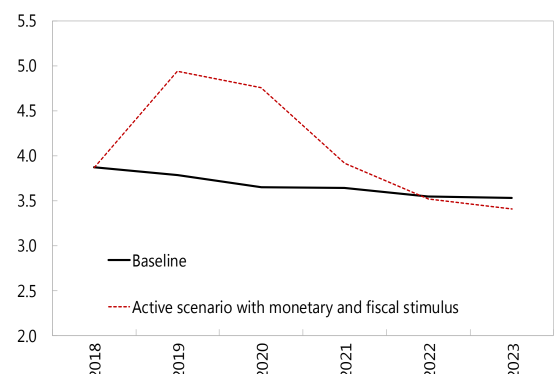


Source: IMF staff calculations.

Growth would pick up in the short run….

Growth

(In percent, year-on-year)

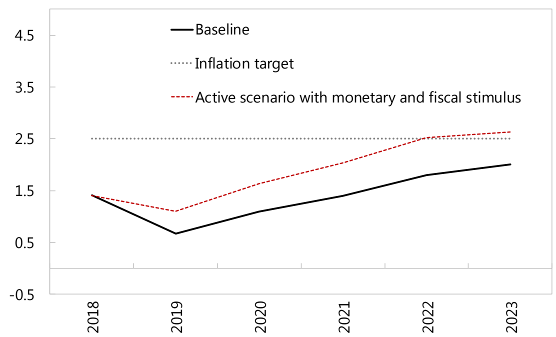


Source: IMF staff calculations.

Thailand—Alternative Scenarios Under Fiscal and Monetary Stimulus (concluded)

and inflation would converge to target at a faster pace….

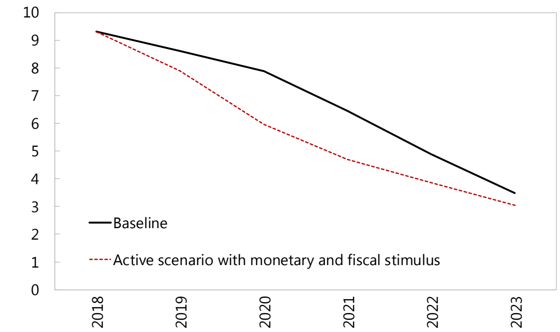
Inflation
(In percent, year-on-year)



Source: IMF staff calculations.

This would frontload some of the external rebalancing…

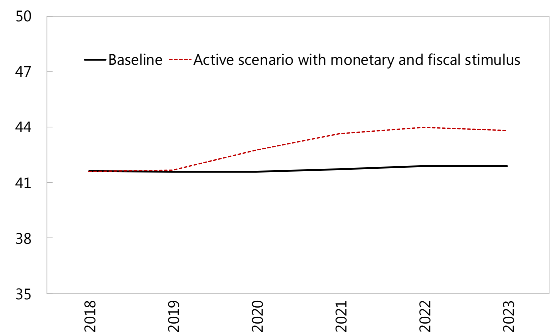
Current Account Balance
(In percent of GDP)



Source: IMF staff calculations.

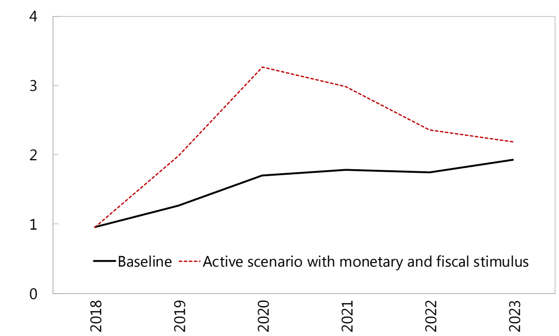
with a manageable impact on public debt, particularly under monetary easing….

Public Debt
(In percent of GDP)



Source: IMF staff calculations.

Fiscal Deficit
(In percent of GDP)

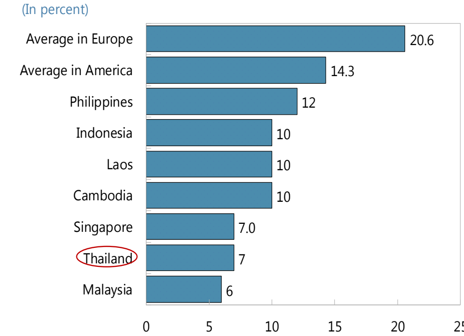


Source: IMF staff calculations.

A. Using Fiscal Space and Reforms to Spur Domestic Demand and Reduce External Imbalance

16. **Thailand has some fiscal space that should be used judiciously to increase public investment and support structural reforms (Appendix VI and IMF, 2017).** Staff recommended scaling up public investment by a cumulative 5 percentage points, relative to the baseline, on macro-critical projects (e.g., the EEC) and frontloading it over the next three years (see Box 1). This would provide significant fiscal impulse to the economy, stimulate private investment, promote external rebalancing, and support higher potential output in the medium and long term (see chapter 1 of the Selected Issues Paper). To help realize the full gains of the infrastructure push and thereby maximize the return to public investment, staff urged the authorities to address teething problems associated with the new procurement law that have contributed to delays of investment projects.

VAT Rates in 2015
(In percent)



Source: IBFD.

Measures to improve capacity and coordination among government agencies would also improve implementation of the public investment plans. The approval of the EEC Act is a welcome step in this direction, as, among other elements, it shortens the time to establish PPPs.

17. In the medium to long run, additional domestic revenue mobilization will be needed to finance aging-related spending needs. Expenditure pressures from fast-aging population will require significant tax mobilization in the long run to keep debt on a sustainable path. There is potential for raising VAT revenues by increasing the rate from its current low level, and for rationalizing tax incentives.

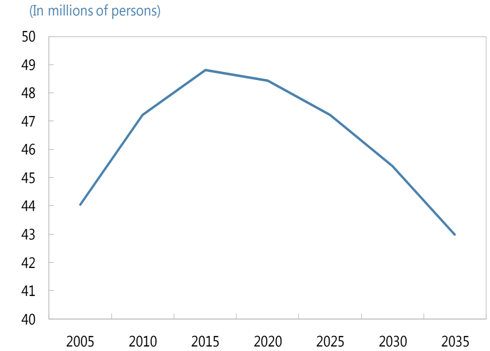
18. The authorities intend to more firmly anchor medium-term fiscal policy to enhance fiscal management and credibility. The recently approved fiscal responsibility law mandates preparation of a medium-term fiscal framework. This is an important step in developing and communicating to the public a medium-term fiscal strategy that takes into account factors such as rising global interest rates and population aging. Passage of the draft law, currently in Parliament, to improve SOE governance should also contribute significantly to fiscal sustainability and investment efficiency.

19. Fiscal reforms would help spur domestic demand and address external rebalancing. By setting the basis for stronger long-term growth and lifting competitiveness, fiscal reforms can help reduce precautionary savings and increase investment. Specifically, staff urged the authorities to consider:

- **Improvements in public investment management to help implement the infrastructure push.** In line with the Fund's Technical Assistance (TA) recommendations in the Public Investment Management Assessment (PIMA), these include addressing fragmentation of planning and budgeting processes, further opening infrastructure markets to competition, and strengthening risk monitoring, especially for PPPs. These measures would help maximize the return to capital.

- **Better targeting of social expenditures to address poverty and inequality without placing undue pressures on fiscal sustainability.** The government is currently implementing a new social transfers scheme, for which the supplementary budget for FY 2018 contains significant resources. Improvements to this scheme, and to the social welfare system, should be part of the agenda. The mission recommended: (i) centralizing social assistance schemes in a single government agency that can implement a social assistance strategy; (ii) a review of all social assistance schemes in light of the government's social policy objectives and effectiveness of these schemes; and (iii) improving the eligibility criteria of

Thailand: Working Age Population
(In millions of persons)



Source: United Nations.

the Low-Income Earners Registry so that the welfare program is better targeted to the lower income deciles.

- **A broad strategy to prepare for expenditure pressures associated with aging.** The pension system is fragmented, and the low coverage of formal pensions raises old-age poverty risks. Sustainability risks to current schemes should also be addressed, including by raising the retirement age. The public health system, though adequate for current demand, should raise capacity as the population ages.

- **Gender-inclusive policies to improve female labor force participation and attenuate the impact of aging on growth.** Fiscal support for child care services can increase labor force participation and labor productivity.

Pension Reform Challenges

Harmonization	The pension system is fragmented in regimes for public, (formal) private, and informal employees.
Sustainability	The retirement age, 55, and the contribution rate, 6 percent, for the Old Age Benefit under the Social Security Fund are low.
Coverage	Over 60 percent of the working-age population is not covered by a formal pension.
Adequacy	The replacement rate for the private sector workers (30 percent) is too low.
Fairness	Pension for civil servants are much more generous than for private sector workers.
Poverty Alleviation	The old-age allowance (minimum pension for those without a formal pension) is low and untargeted.

20. The authorities noted their intention to use fiscal space available to uplift potential growth. They reiterated that public infrastructure investment, including implementation of EEC and other logistics projects, would crowd in private investment and help correct external imbalances going forward. They also pointed out the need to improve the efficiency, governance, and transparency of public investment and that delays in public investment associated with the new procurement law had subsided.

B. Steering Inflation Back to Target and Providing Additional Support for External Rebalancing

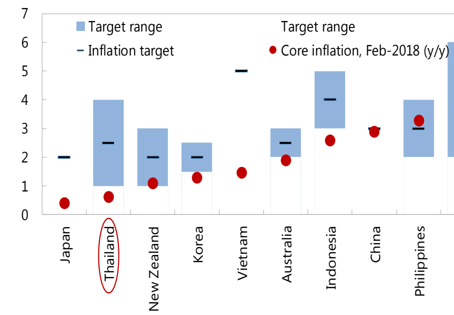
21. Staff recommended monetary policy easing. Monetary easing is advisable to curtail risks of low inflation becoming entrenched, in light of below target and declining trend inflation estimates and long-term survey forecasts. This entails significant macro risks by bringing nominal interest rates closer to the (effective) zero-lower bound and constraining monetary policy space to counteract adverse economic shocks.[2] Monetary easing would support the recovery in domestic demand and external rebalancing in the short term by complementing fiscal stimulus (see chapter 1

[2] See Kiley and Rogers (2017) for an estimate of costs associated with low inflation in the United States. See also WEO (2016) Chapter 3.

of the Selected Issues Paper), and help attenuate capital inflows and nominal appreciation pressures on the currency.

22. The monetary policy transmission should be strengthened to better anchor inflation expectations, including by enhancing communication. While the transmission mechanism may have weakened, guidance on the commitment to meet the inflation target would raise monetary policy effectiveness by strengthening the expectations channel. The flattening of the Phillips Curve suggests that economic recovery may take longer than usual to raise inflation. Although ample liquidity may have weakened the credit channel, evidence from new loan rates suggests that it remains active. BOT's liquidity management should aim at maintaining favorable financing conditions (see Box 2 and chapter 2 of the Selected Issues Paper). As the ongoing normalization of U.S. rates could lead to tighter financial conditions in Thai markets, liquidity management, together with appropriate forward guidance, should keep the shape of the yield curve, at least the short-end, aligned with an accommodative monetary policy stance.

Inflation Target and Core Inflation
(Percent)

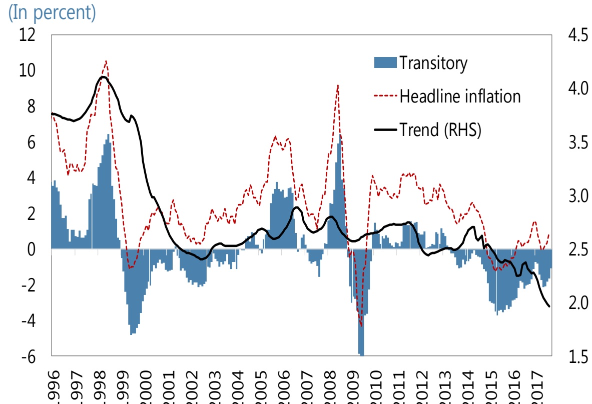


Sources: Haver Analytics; and IMF staff calculations.
Note: Australia and New Zealand based on quarterly data.

Factors Shaping the Thai Government Yield Curve Over 2017

Thai headline inflation has been affected by predominantly negative transitory shocks over recent years…

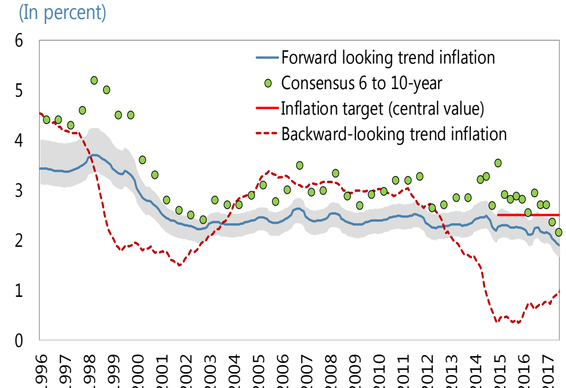
Thailand Inflation Decomposition
(In percent)



Sources: Thai authorities; and IMF staff calculations.
Note: See Garcia and Poon's "What do trend inflation estimates tell about inflation in Asia?" (IMF WP forthcoming) on trend inflation estimates.

…but also trend inflation and long-term inflation expectations that are well below target.

Thailand Inflation Trend
(In percent)

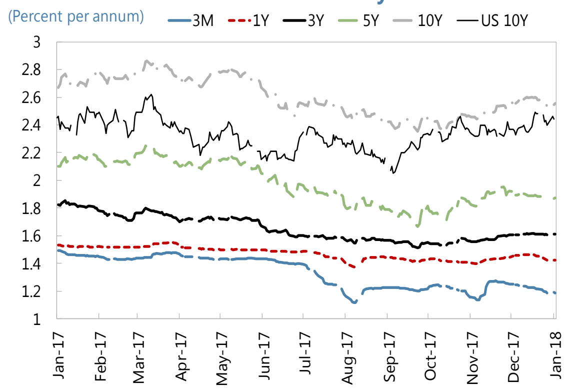


Sources: Thai authorities; Consensus Forecast; and IMF staff calculations.
Note: See Garcia and Poon's "What do trend inflation estimates tell about inflation in Asia?" (IMF WP forthcoming) on trend inflation estimates.

Factors Shaping the Thai Government Yield Curve Over 2017 (concluded)

Long-term Thai government bond yields commoved strongly with U.S. counterparts...

Thailand Government Bond and US 10-year Bond Yields



Sources: Thai Bond Market Association; and CEIC Data Co.

...but changes from end-2016 vary across different maturities...

Government Bond Yield, 2017

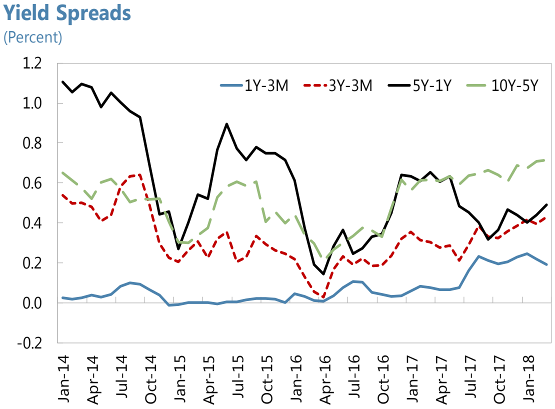
(Percent)

Maturity	Latest yield	Change from end-2016	2017 Highest yield	2017 Lowest yield
3M	1.15	-0.35	1.49	1.12
1Y	1.33	-0.20	1.55	1.37
3Y	1.59	-0.25	1.85	1.51
5Y	1.83	-0.34	2.25	1.67
10Y	2.56	-0.11	2.86	2.35

Sources: Thai Bond Market Association; and IMF staff calculations.

Leading to strong fluctuations in the slope of the curve across different curve segments...

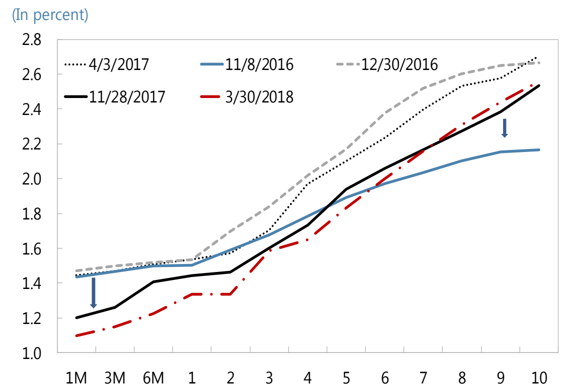
Yield Spreads



Sources: Thai Bond Market Association; and CEIC Data Co.

...possibly affected by variable bond supply and regulation.

Thailand: Government Bond Yield Curve



Source: Thai Bond Market Association.

23. Monetary policy should focus on attaining the inflation target, with macroprudential policy used to address financial stability concerns. Communicating a monetary policy stance oriented to steering inflation back to target over the medium term can raise the effectiveness of monetary policy by managing inflation expectations. Macroprudential policy should be used to address financial stability concerns, including containing possible risks from search-for-yield behavior. Staff simulations illustrate the benefits of focusing monetary policy on the inflation target, while addressing financial stability concerns through counter-cyclical macroprudential policy: better results are obtained in terms of output and inflation dynamics than with a lean-against-the-wind strategy, without additional financial risks (See chapter 3 in the Selected Issues Paper).

24. The BOT reiterated that the current policy rate of 1.5 percent remains appropriately accommodative. It noted that weak inflation dynamics in 2017 and early 2018 were mainly the result of supply-side factors, notably low fresh food prices, and structural factors which monetary policy could not directly influence. The BOT did not see an imminent risk of de-anchoring inflation expectations, citing stable business survey indicators and growing consumption and credit. It noted that the effect of monetary policy easing was relatively uncertain given the weak monetary transmission mechanism and high household debt. In addition, this could contribute to financial stability risks by fueling further search-for-yield, credit-driven consumption, and household indebtedness.

25. A flexible exchange rate should be a key shock absorber and FX intervention should be limited to address disorderly market conditions. In response to continued net inflows of foreign exchange, the authorities should rely less heavily on FX intervention and allow the exchange rate to adjust flexibly. This would help speed up external rebalancing, break expectations of further nominal appreciation that encourage speculative portfolio inflows, and reduce the need for continued sterilization. Measures to liberalize capital outflows could also facilitate more balanced capital flows and reduce the need to rely on FX intervention. The BOT should consider disclosing data on its FX intervention, with appropriate lags, to improve transparency and communication about its policy framework.

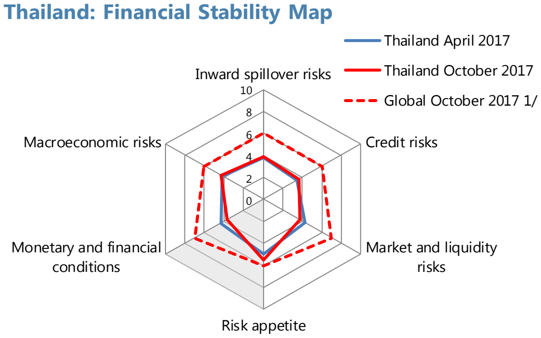
26. The authorities affirmed their commitment to allow the exchange rate to adjust flexibly to serve as a shock absorber. They noted that FX intervention was not intended to resist trend appreciation—the Thai baht's appreciation in 2017 was among the largest in the region—but to avoid disorderly market conditions, particularly with rapid changes in market sentiment and intensified capital flows especially during the extended period of U.S. dollar weakness. In this regard, they welcomed policy normalization in advanced economies as it would reduce capital inflows pressures and hence the need for BOT operations in the FX market. Against that background, the BOT argued against the publication of FX intervention data citing the sensitivity of data on FX operations, the publication of which could induce more speculative activities leading to disorderly movements in the exchange rate.

27. The BOT outlined a medium-term strategy to continue a gradual and prudent liberalization of the capital account and promote a deeper and more liquid FX market that would reduce the need for FX intervention. This involved liberalization of capital outflows to facilitate greater diversification by resident investors, and more effective private FX risk management. Limits on portfolio outflows through institutional investors, that date back more than a decade ago, had been lifted, and further liberalization of restrictions on instruments and investments abroad by individual qualified investors were under consideration. Moreover, the BOT noted that it had relaxed regulation of corporate FX transactions and hedging to improve ease of doing business. FX risk management was also being promoted by improving access to hedging instruments.

C. Preserving Financial Stability

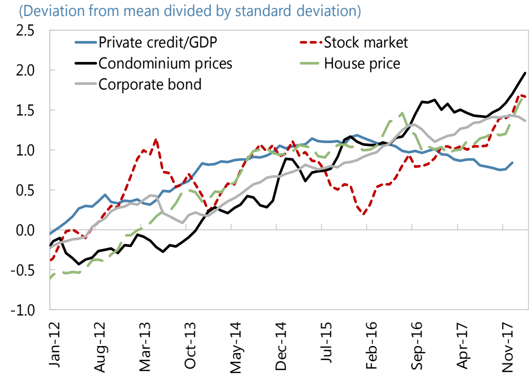
28. The financial system remains sound. Banking sector resilience has strengthened further with capital adequacy ratios well above regulatory requirements (see Figure 5). Vulnerabilities persist in some areas of the nonbanking sector, in particular in some cooperatives, but they are not expected to pose a systemic risk given their small size and limited linkages to the rest of the financial system. Pockets of vulnerability in financial markets appear to be contained, with a moderation in growth of foreign investment funds and through tighter regulation of issuance of unrated bonds. The forthcoming FSAP will conduct a further assessment of risks—including those related to vulnerabilities in nonbank financial institutions—financial stability, and macroprudential policy frameworks.

Thailand: Financial Stability Map



Note: Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.
1/ Inward spillover risks for emerging markets.
Source: IMF staff calculations.

Thailand: Financial Cycle
(Deviation from mean divided by standard deviation)



Sources: Authorities; Haver Data Analytics; and IMF staff calculations.

29. The regulatory and financial stability frameworks have been strengthened. An important step was the designation of the five largest banks as Systemically Important Banks (SIBs), which are required to hold additional capital. In addition, the authorities are moving towards integrated supervision of financial conglomerates that own SIBs. Since these banks typically have important nonbank financial subsidiaries, this conglomerate focus should help close regulatory gaps between the banking and nonbanking sectors. It involves enhanced collaboration among the key supervisory bodies—the BOT, the Securities and Exchange Commission, and Office of Insurance Commission—through committee structures that support a more integrated assessment of financial risks. Finalizing arrangements for the resolution of financial institutions should also enhance system stability. Efforts to address AML/CFT shortcomings identified in the 2017 Asia Pacific Group Mutual Assessment Report are ongoing, including strengthening the risk-based supervision of AML/CFT, improving implementation of preventive measures, and enhancing information sharing among supervisory bodies and the Anti-Money Laundering Office (AMLO).

30. Macroprudential policies can address pockets of vulnerabilities that might pose risks to financial stability. They have proved broadly effective in containing risks from high household debt (see Figure 4), notably through the tightening of limits on credit card debt and personal loans. Building on IMF TA, the macroprudential policy framework is being strengthened through the development of systemic solvency and liquidity risk stress testing capacity. The framework could be further enhanced through the implementation of a counter-cyclical capital buffer and more extensive use of targeted loan-to-value (LTV) ratios. Strengthening the effectiveness of macroprudential policy should ensure continued containment of systemic risks from search-for-yield behavior. This should enable Thailand to reap the benefits of a clearer focus of macroprudential policy on financial stability and monetary policy on the inflation target.

Thailand: Financial Soundness Indicator Map 1/

	2014:Q4	2015:Q4	2016:Q4	2017:Q1	2017:Q2	2017:Q3
Overall Rating	M	M	L	L	L	L
Credit cycle of all financial corporations	M	M	L	L	L	L
Change in credit / GDP ratio (pp, annual)	3.9	3.4	-3.4	-3.2	-1.9	-2.9
Growth of credit / GDP (%, annual)	2.7	2.9	-2.2	-2.3	-2.2	-1.3
Credit-to-GDP gap (st. dev)	-1.2	-0.7	-0.2	-0.4	0.7	0.5
Balance Sheet Soundness of Commercial Banks	L	L	L	L	L	L
Balance Sheet Structural Risk	L	L	L	L	L	L
Deposit-to-loan ratio 2/	104.0	96.5	96.9	96.0	95.3	93.2
FX liabilities % (of total liabilities)	1.5	9.0	8.7	8.7	8.7	9.0
FX loans % (of total loans)	5.5	8.7	7.9	7.6	7.5	7.1
Balance Sheet Buffers	L	L	L	L	L	L
Leverage	L	L	L	L	L	L
Leverage ratio (%)	11.7	12.4	12.8	12.5	12.7	13.1
Profitability	L	L	L	L	L	L
ROA	1.7	1.3	1.3	1.3	1.3	1.2
ROE	14.7	11.2	10.4	10.5	10.0	9.7
Asset quality	L	M	M	M	M	L
NPL ratio	2.3	2.6	2.8	3.0	3.0	3.0
NPL ratio change (%, annual)	0.1	18.7	10.0	11.1	8.1	3.1
Balance Sheet Soundness of Depository SFIs	L	L	L	L	M	M
Balance Sheet Structural Risk	L	L	L	L	M	M
Deposit-to-loan ratio 2/	87.7	86.3	86.0	85.7	84.3	84.6
FX liabilities % (of total liabilities)	0.8	0.8	0.7	0.7	0.6	0.6
FX loans % (of total loans)	0.7	0.7	0.7	0.7	0.7	0.7
Balance Sheet Buffers	L	L	L	L	L	L
Leverage	M	M	M	M	M	M
Leverage ratio (%)	5.8	5.7	5.7	5.8	5.9	6.0
Profitability	L	L	L	L	L	L
ROA	0.7	0.8	0.9	0.9	0.9	0.9
ROE	6.8	7.4	8.1	8.2	7.9	8.4
Asset quality	L	L	L	L	L	L
NPL ratio	4.2	4.3	4.3	4.2	3.4	3.8
NPL ratio change (%, annual)	-1.5	-5.9	0.3	2.3	-22.3	-18.9

Source: IMF staff calculations.

1/ The latest data is based on 2017:Q3. Credit cycle analysis is based on loans and securities by all financial corporations, including depository and nonbank institutions. Due to data constraints, balance sheet soundness analysis excludes credit cooperatives and small institutions, which represent 9.8 percent of total assets of depository corporations.

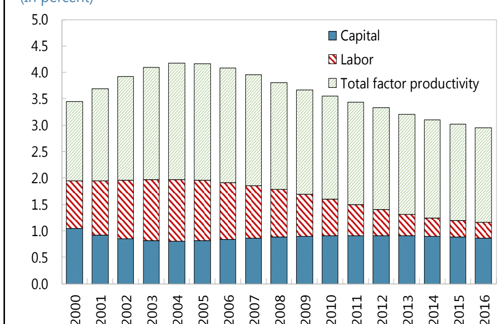
2/ Deposits and loans exclude interbank data.

31. The authorities welcomed staff's assessment that the financial system was sound and that enhanced collaboration among regulators was strengthening resilience. They noted that pockets of vulnerability could pose systemic risk, citing the high household debt-to-income ratio where the pace of deleveraging had been slow. They reiterated their concern that search-for-yield behavior associated with low interest rates could lead to underpricing of risk. Indications of this, they mentioned, included the high volume of investment in Foreign Investment Funds with exposures concentrated in a few countries and saving cooperatives' assets that continued to grow at a high rate. They viewed that macroprudential policy could potentially address some of the financial risks arising from low interest rate environment, but such policy should not be a substitute for the needed monetary policy.

D. Raising Potential Growth and Strengthening Inclusiveness

32. A comprehensive package of reforms is needed to boost all drivers of potential growth, which has declined over the last two decades. Key steps should focus on offsetting the drag from population aging and increasing TFP through: (i) fiscal reforms as noted above and detailed in chapter one of the Selected Issues Paper, most notably pension reform; (ii) improving the quality of education and aligning it better with business needs, which can also increase labor participation and productivity (ADB, 2015; WB, 2014; and IMF, 2015); (iii) promoting foreign-skilled migration by removing administrative hurdles; and (iv) relaxing limits on foreign equity stakes, upgrading the competition law to foster efficiency in services, and continuing to restructure SOEs (IMF, 2016). A better targeted social safety net will support sharing the benefits of growth more widely and promote inclusion.

Thailand: Potential GDP Growth Accounting
(In percent)



Sources: Thai authorities; and IMF staff calculations.

33. In line with the 12th National Development Plan, deepening regional integration will contribute to raising potential growth. The EEC projects would further deepen Thailand's position as an important economic and trading hub within the ASEAN region and CLMV production chain (See Box 1). Financial integration could attenuate global shocks through more stable funding, and cheaper funding could facilitate external rebalancing. Nevertheless, exposure to capital flows requires further strengthening the domestic financial system and macroprudential framework (see chapter 4 of the Selected Issues Paper).

34. The authorities noted Thailand's aspiration to become a high-income country over the next two decades, as set out in the National Strategy and National Reform Plans. They pointed out that, under the 12th Economic and Social Development Plan, their medium-term strategy for building economic vitality aimed at expediting investment in infrastructure and logistics, establishing special economic zones, and creating a favorable environment to encourage investment, particularly in key target sectors. In addition, another key strategy also includes productivity enhancement aiming specifically at the use of innovations, quality of human capital, as well as improvements to rules and regulations, and good governance.

E. Strengthening the Integration of Fund Surveillance and Capacity Development

35. The Fund's capacity development engagement is supportive of the authorities' policy agenda. The Article IV mission's overlap and close coordination with the TA mission on financial stability, and the subsequent TA on the financial sector, should help in the preparation of the upcoming FSAP in 2019. Recent TA on PIMA has provided the authorities with a road map for improving the implementation of the public investment program. Future TA missions in the fiscal area should give useful guidance on managing the fiscal pressures from aging.

36. The authorities noted their appreciation for the Fund's continued capacity development support. In particular, accelerating structural reforms and fortifying macroeconomic and financial stability would benefit from continuous capacity building in the public sector.

STAFF APPRAISAL

37. Thailand is benefitting from stronger global and regional trade, but growth has yet to be broad based. Buoyant activity in tourism and manufacturing exports is the main driver of current growth. Export gains, however, have yet to trickle down to household income and investment opportunities in other sectors, and the external current account surplus remains high. Inflation continues to show weak dynamics and inflation expectations have declined. Policy space and ample buffers should be deployed to spur domestic demand, support broader growth, and steer inflation back to target.

38. Structural challenges are hampering dynamism in domestic demand. Household debt is still high and weighs on consumption. Other structural factors may also be keeping growth from trickling down to household income, including the contraction in the working age population, automation in the manufacturing sector, and the ongoing structural transformation of the economy as tourism services expand and manufacturing contracts.

39. Using available fiscal space judiciously to spur domestic demand and support potential output growth is appropriate. Strong implementation of macro-critical public infrastructure projects currently in the pipeline, including EEC projects, would crowd in private investment and stimulate demand in the short run while supporting potential output growth in the long run. In the medium to long run, additional domestic revenue mobilization will be needed to finance aging-related expenditure pressures. The recently enacted fiscal responsibility law and ongoing plans to anchor fiscal policy in a medium-term framework are welcome as they are key to enhance fiscal management and credibility and safeguard fiscal sustainability. Fiscal reforms aimed at strengthening public investment implementation and improving the return to capital would help boost investment and consumption on a sustained basis.

40. Monetary policy easing should help steer inflation back to target. Monetary easing is advisable to complement fiscal stimulus, curtail risks of low inflation becoming entrenched, and balance capital flows. To this end, strengthening the monetary transmission mechanism, including through more effective communication, is key. Focusing monetary policy on attaining the inflation target while using macroprudential policy to address financial stability concerns would enhance monetary policy space and reinforce the authorities' commitment to the inflation target. A flexible exchange rate should be a key shock absorber and FX intervention should be limited to avoiding disorderly market conditions.

41. The external position remains substantially higher than warranted by medium-term fundamentals and desirable policies. Reducing the current account gap will require an integrated policy package to support domestic demand, address structural challenges and achieve the needed real exchange rate appreciation through a growth-driven process including higher inflation.

42. The financial system remains sound. Staff commends the authorities for the measures taken to strengthen financial system stability. Banking sector resilience has strengthened further and, although there are vulnerabilities in nonbank financial institutions, they are not expected to pose a systemic risk. The regulatory and financial stability frameworks have been strengthened with Systemically Important Banks required to hold additional capital and closer monitoring of their nonbank financial subsidiaries. Strengthening macroprudential policy should ensure continued containment of systemic risks from search-for-yield behavior. The forthcoming FSAP will conduct a further assessment of risks—including those related to vulnerabilities in nonbank financial institutions—financial stability, and macroprudential policy frameworks.

43. Raising potential growth and enhancing its inclusiveness requires a comprehensive package of mutually reinforcing reforms. A key priority is to address the demographic challenge from population aging through pension reform, domestic revenue mobilization, higher female labor force participation, and high-skilled migration. Boosting total factor productivity growth through structural transformation will be key to raising potential growth. A well targeted social transfers mechanism will help minimize the reform effects on inequality.

44. It is recommended that the next Article IV consultation with Thailand take place on a standard 12-month cycle.

Box. 1. The Eastern Economic Corridor: Thailand 4.0 in Action

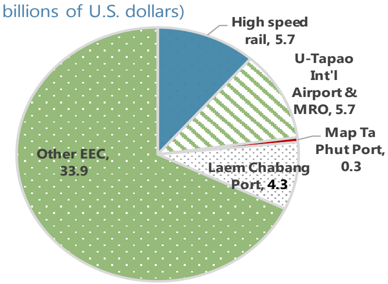
Effective implementation of the Eastern Economic Corridor (EEC) could provide significant fiscal stimulus, in line with staff's advice, while also crowding in private investment and raising long-term output.

The EEC can be an important catalyst to spur domestic demand. As a key pillar of the Thailand 4.0 strategy to propel the economy into the digital age, the EEC projects can play an important role in scaling up public infrastructure investment and boosting growth in the short and medium term. The EEC covers three provinces along the eastern seaboard —Chonburi, Rayong, and Chachoengsao—that have successfully supported Thailand's manufacturing base for the past 30 years. The objective is to upgrade and expand the region's connectivity and transform the country into a strategic gateway to Asia. The plan features a significant contribution from PPPs, which should help crowd-in private investment and further boost domestic demand.

The EEC plan is appropriately ambitious. It covers 15 groups of infrastructure and development projects spanning 5 years (2018-2023) for a total investment of about US$50 billion. Sixty percent of public infrastructure investment is expected to be executed through PPPs, with government and state-owned enterprises contributing 30 percent and 10 percent, respectively. The initial focus is on five priority projects.

- To improve maritime connectivity, the Laem Chabang seaport—already the country's biggest—will be expanded, along with the Map Ta Phut port, to become a marine hub for Southeast Asia.
- A major expansion is envisioned for the U-Tapao airport to increase its capacity to 30 million people per year and transform it into a major hub for aviation logistics and maintenance, repair and overhaul (MRO).
- Road connectivity will be upgraded through high-speed and double-track railways that link ports, airports, industrial clusters and major urban centers throughout Thailand.

EEC Projects
(In billions of U.S. dollars)



Sources: Thai authorities and Eastern Economic Corridor Office.

The awards for these projects is expected to be completed by end-2018, with implementation extending to 2025.

Implementation of EEC projects can provide fiscal stimulus in line with staff's advice. While the baseline has 0.6 percentage points to 0.7 percentage points of GDP in additional public investment, more could be done. Staff recommended scaling up infrastructure spending by an additional (cumulative) 5 percent of GDP over three years. The additional fiscal stimulus is expected to have a pronounced impact on private investment through crowding in. Growth would be higher by a cumulative 2.3 percentage points over the projection period. Such infrastructure push can help inflation converge to target at a faster pace and frontload the adjustment in external rebalancing, especially if accompanied by an accommodative monetary policy (see Chapter 1 of the Selected Issues Paper).

Scale Up in Infrastructure Investment
(In percent of GDP)

	2019	2020	2021	2022	2023
Baseline scenario					
EEC execution plus other investment	1.1	1.0	1.0	0.9	0.4
Total public sector	0.7	0.7	0.6	0.6	0.3
o/w PPP	0.3	0.2	0.2	0.2	0.1
Private sector through PPPs	0.4	0.4	0.4	0.3	0.1
Alternative scenario					
EEC execution plus other investment	2.1	3.0	2.5	1.4	0.4

Source: IMF staff projections.

Success of the EEC plan hinges on efficient execution that maximizes the return on public investment. Thailand's investment efficiency was assessed by the IMF's PIMA to be quite strong compared to peers. It also identified weaknesses that could impact project implementation. Addressing fragmentation of planning and budgeting processes, strengthening the assessment of fiscal risks from PPPs, and streamlining procurement and land acquisition procedures can improve the execution and quality of public investment spending.

Box 2. Inspecting the Strength of Monetary Policy Transmission

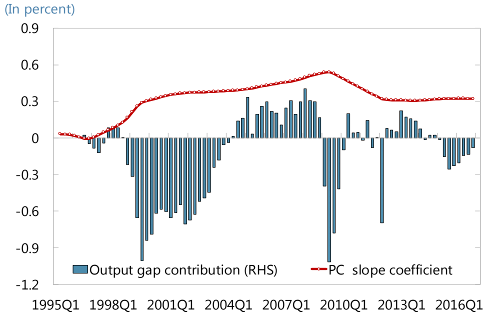
This box explores the recent evolution of several transmission channels for monetary policy in Thailand. Evidence points to a somewhat weaker but nonetheless still active transmission mechanism.

To assess the strength of monetary policy transmission, several components of the transmission mechanism are examined. These include the main inflation drivers, the bank credit channel, and the extent to which financial market conditions may currently be supportive for the transmission of monetary impulses.

Evidence on inflation dynamics suggests that the Phillips Curve has flattened, reflecting a smaller impact of economic activity on inflation. At the same time the expectations channel has deteriorated, with both lower inflation expectations and higher inflation persistence delaying the return of inflation to target. Together, these two pieces of evidence point to a very slow recovery in inflation, in particular if compared to previous historical episodes of low inflation, despite the recent pickup in economic activity. Moreover, these findings stress the crucial role of the expectations channel to bring inflation back to target.

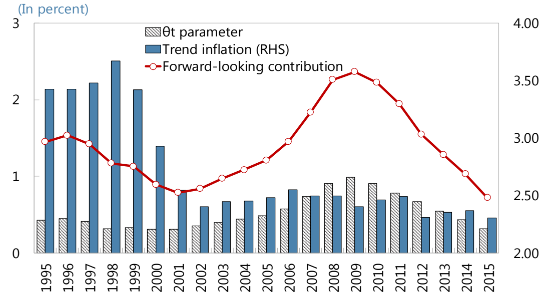
Inspecting Inflation Drivers

PC Slope Coefficient and Output Gap Contribution
(In percent)



Source: IMF staff calculations.

Forward-Looking Contribution, Inflation Trend, and Forward-Looking Coefficient θt
(In percent)



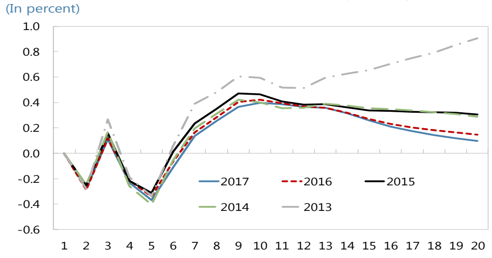
Source: IMF staff calculations.

Note: Evidence is based on a standard Phillips Curve estimation allowing for time-varying parameters to explore changes in the quatitative contribution of the main inflation drivers (for details see "Steering Inflation Back to Target," Selected Issues Paper, IMF Article IV 2017; and Dany and Garcia, 2018, "Inflation Dynamics and Monetary Policy in ASEAN-5 Economies," IMF WP, forthcoming)

Evidence from the bank credit channel suggests that this channel remains active, although it has weakened. New loan rates do incorporate policy rate changes promptly, which, with support from the growth momentum, may lead to a recovery of the credit transmission channel. Nevertheless, credit has become less responsive to monetary easing, which may partly reflect the ongoing transition from bank loans to market-based finance.

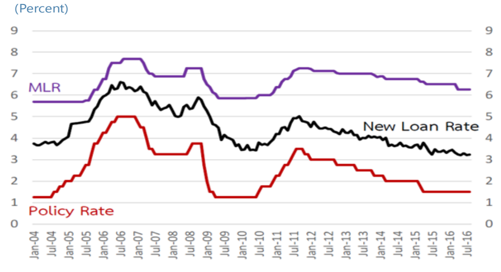
Inspecting the Credit Channel

Commercial Banks' Response to Monetary Easing
(In percent)



Source: IMF staff estimates.

Selected Interest Rates
(Percent)



Source: BOT.

Note: The figure on the left shows the impulse response of private sector credit to a 25 bps cut in the policy rate based on a VAR that includes real GDP growth, the GDP deflator, and seasonal dummies. Changes in the impulse response over time are quantified by extending the estimation sample over the last five years. New loan rate evidence in the chart on the right is from a Bank of Thailand database on credit rates.

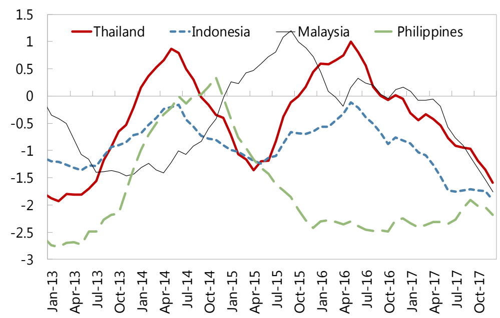
Box 2. Inspecting the Strength of Monetary Policy Transmission (concluded)

Beyond the specific credit channel, broader financing conditions are also crucial for the transmission of monetary impulses (see Chapter 2 of the Selected Issues Paper). As most of the impact takes place through the financial markets, it is important that their condition does not to impair transmission (see Balakrishnan et al., 2009). Financial indices suggest that financial conditions in Thailand have been favorable in recent years, mainly on account of global factors. Moreover, although conditions in Thai financial markets remain somewhat tighter than in other neighboring ASEAN countries, monetary policy transmission through the financial market should remain better than when neighboring countries cut rates over recent years.

Financial Conditions

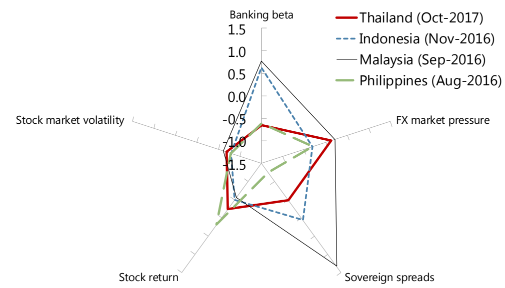
ASEAN-4: Financial Stress Index

(12-month moving average)



Source: IMF staff calculations.

ASEAN-4: Financial Stress Index Components



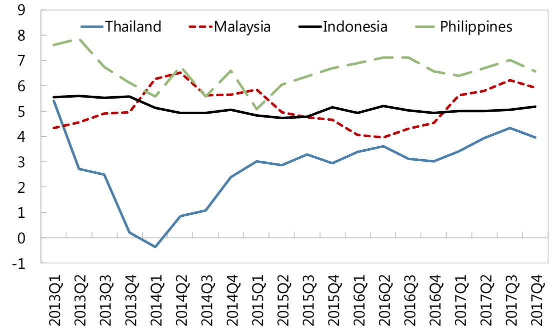
Source: IMF staff calculations.

Note: The Financial Stress Index (Balakrishnan, R., Danninger, S., Elekdag, S., and Tytell, I., 2009, "The Transmission of Financial Stress from Advanced to Emerging Economies," IMF Working Paper 09/133) comprises information about five key variables: the "banking-sector beta" stock market returns and volatility, sovereign debt spreads, and the EMPI that captures exchange rate pressures and movements in international reserves. The index helps assess how well the monetary impulses may be transmitted through the financial system, and allows for some international comparison to the situation in neighboring countries over recent years. Higher values of the index are associated to tighter financial conditions and a potential impairment of the transmission mechanism. The main insights highlighted here are corroborated by additional analysis using a broader index of financial conditions (See chapter 2 of Selected Issues Paper).

Figure 1. Thailand: Recent Real Sector and Price Dynamics

Real GDP is recovering after a period of low growth.

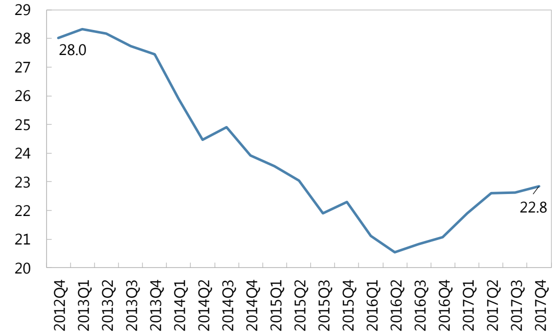
Real GDP Growth
(Y/y percent change)



Source: Haver Data Analytics.

Investment is yet to pick up significantly.

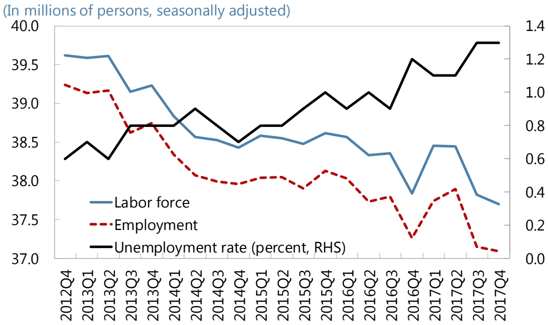
Gross Investment
(In percent of GDP)



Sources: Thai authorities; and IMF staff calculations.

Employment has yet to reflect the output recovery.

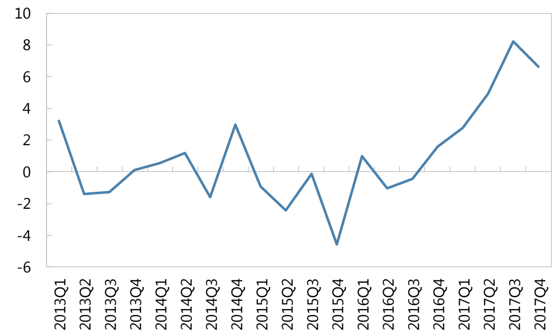
Labor Market[1]
(In millions of persons, seasonally adjusted)



Source: Haver Data Analytics.
[1] All series are affected by a methodological break in 2014 Q1 as the methodology for calculating the population structure was modified.

Trade volume now recovering after a long period of low growth…

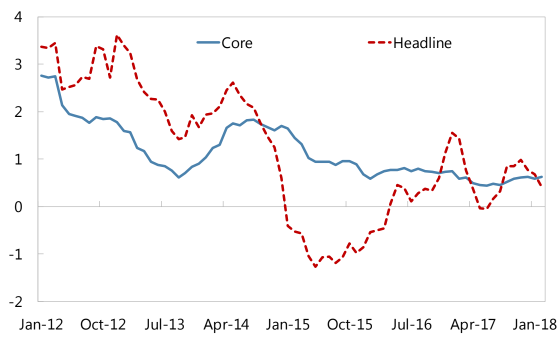
Real Exports of Goods Growth
(Y/y percent change)



Sources: Thai authorities; and IMF staff calculations.

…while inflation…

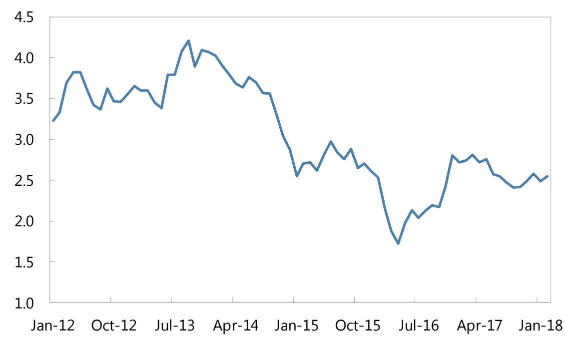
Inflation
(Y/y percent change)



Source: Haver Data Analytics.

…and interest rates remain low.

Interest Rate
(10-year bond yield, percent)

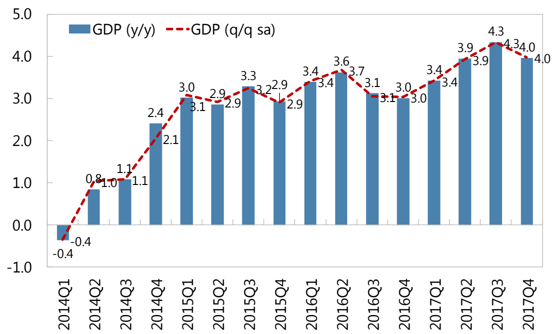


Source: Haver Data Analytics.

Figure 2. Thailand: Macro-Fiscal Developments

The recovery gathered strength in 2017.

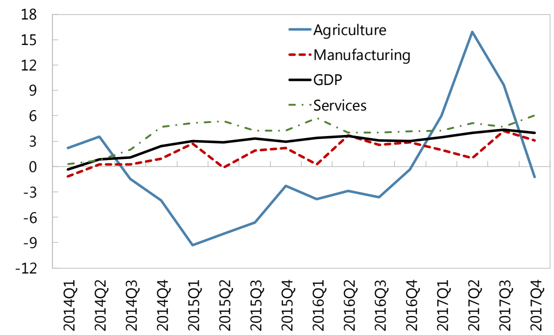
Real GDP Growth
(Percent)



Sources: Thai authorities; CEIC Data Co. Ltd; and IMF staff calculations.

The services sector was the most dynamic until last year when agriculture picked up for several quarters.

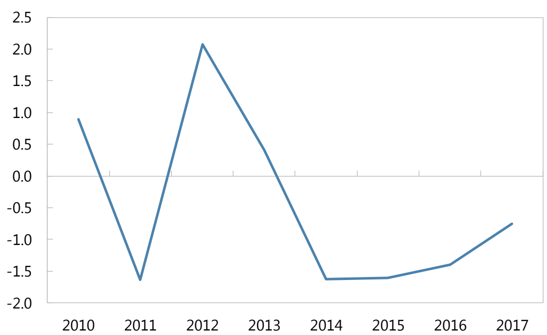
Real GDP Growth (Supply Side)
(Y/y percent change)



Sources: Thai authorities; CEIC Data Co. Ltd; and IMF staff calculations.

The output gap is still negative.

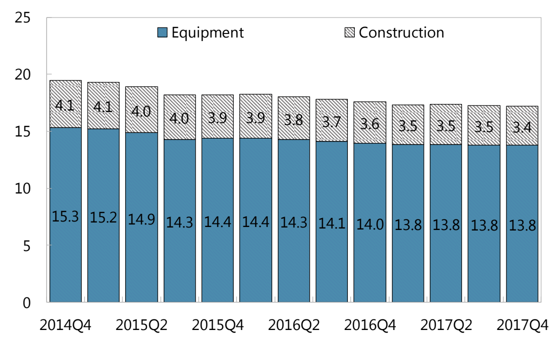
Output Gap
(Percent of potential GDP)



Source: IMF staff calculations.

Private investment in equipment is no longer declining...

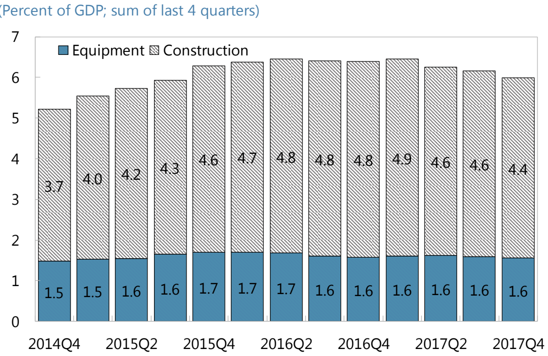
Private Fixed Investment
(Percent of GDP; sum of last 4 quarters)



Sources: Thai authorities; CEIC Data Co. Ltd; and IMF staff calculations.

But public investment in construction declined.

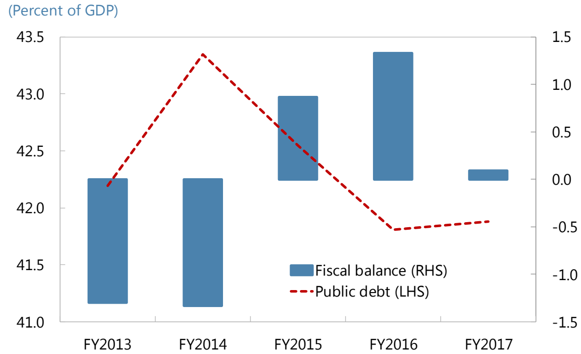
Public Fixed Investment
(Percent of GDP; sum of last 4 quarters)



Sources: Thai authorities; CEIC Data Co. Ltd; and IMF staff calculations.

Public debt remained stable in 2016–17.

Fiscal Balance and Public Debt
(Percent of GDP)



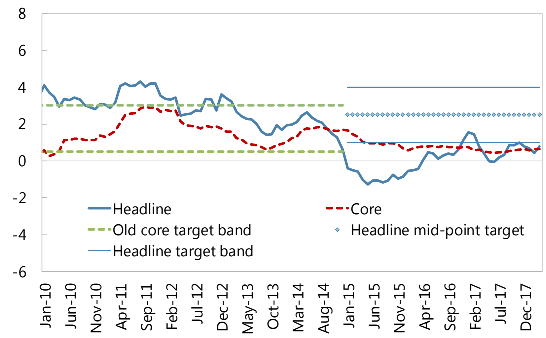
Sources: Thai authorites; and IMF staff calculations.

Figure 3. Thailand: Inflation and Inflation Expectations

Inflation has been below target for a long time…

Headline and Core CPI Inflation

(Y/y percent change)

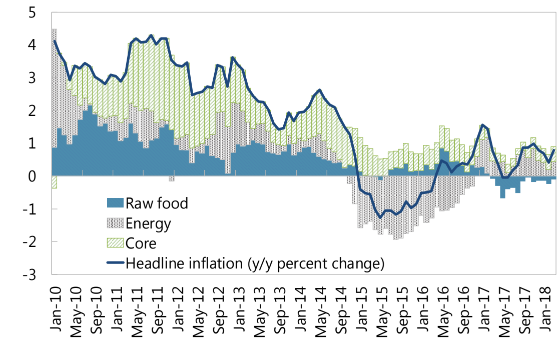


Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

…driven by low energy prices and weak core inflation.

Contributions to Headline Inflation

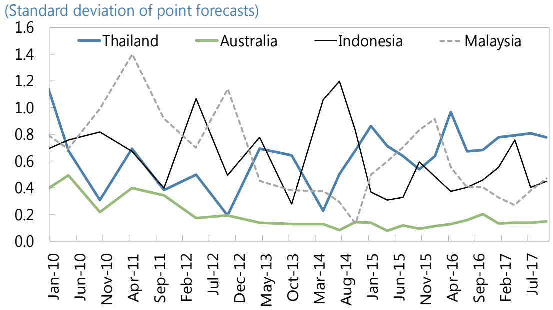
(In percentage points)



Sources: Haver Data Analytics; and IMF staff calculations.

Selected Countries: Disagreement on Long-term Inflation Expectations

(Standard deviation of point forecasts)

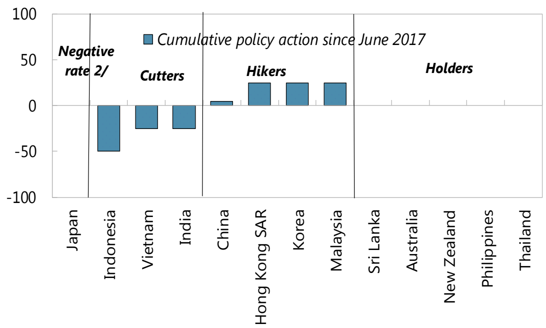


Source: Consensus Forecast.

Note: reflects the dispersion among panelists' expectations, with higher disagreement pointing to weaker anchoring of inflation expectations.

Selected Asia: Policy Rate Actions 1/

(In basis points)



Sources: Haver Analytics; Bloomberg L.P.; and IMF staff calculations.

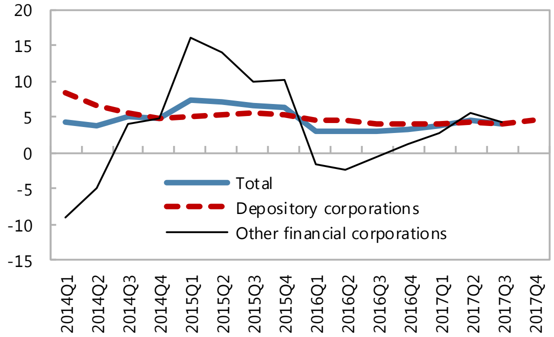
1/ Cutters/holders are classified based on policy action since June 2017.

2/ Japan announced negative rates on some bank excess reserves on Jan 29, 2016.

Figure 4. Thailand: Financial Sector Developments

Total credit growth has been flat…

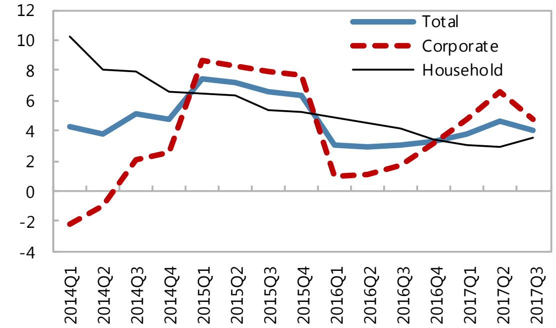
Credit Growth
(Y/y percent change)



Sources: CEIC Data Co. Ltd; and IMF staff calculations.

…though corporate credit from nonbank institutions is strengthening.

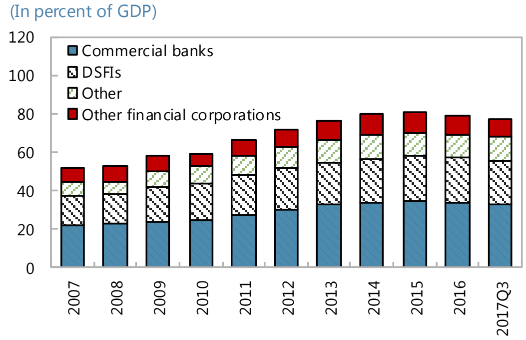
Credit Growth by Sector
(Year-on-year percent change)



Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

The growth in household debt started declining in percent of GDP, after increasing over several years in a row

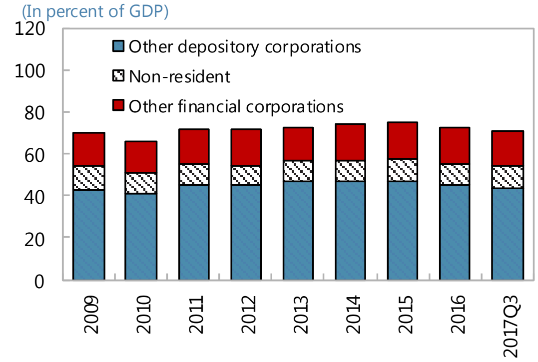
Household Debt
(In percent of GDP)



Sources: Bank of Thailand; CEIC Data Analytics; and IMF staff calculations.

…while corporate debt remains stable.

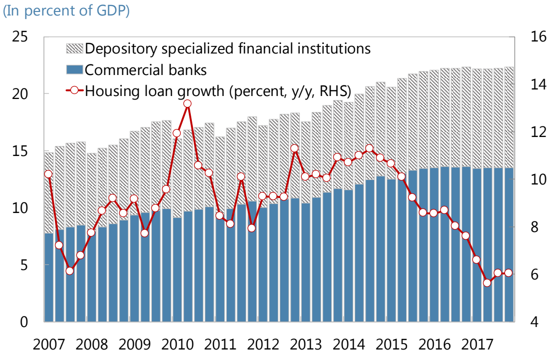
Corporate Debt
(In percent of GDP)



Sources: Bank of Thailand; Datastream; and IMF staff calculations.

Housing loans to households have slowed down significantly…

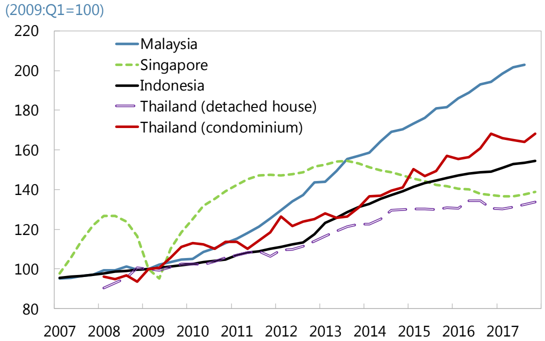
Housing Loans
(In percent of GDP)



Sources: Thai authorities; and IMF staff calculations.

…while condominium prices have stabilized.

House Price Index 1/
(2009:Q1=100)

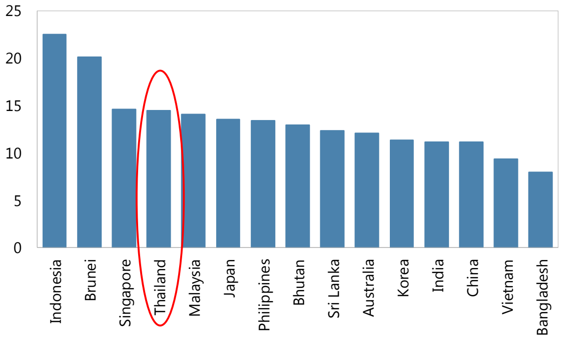


Sources: CEIC Data Company Ltd.; and IMF staff calculations.
1/ Quarterly averages. House price indices for Thailand start in 2008:Q1.

Figure 5. Thailand: Financial Soundness Indicators of Commercial Banks

Thai commercial banks' capital buffers are strong…

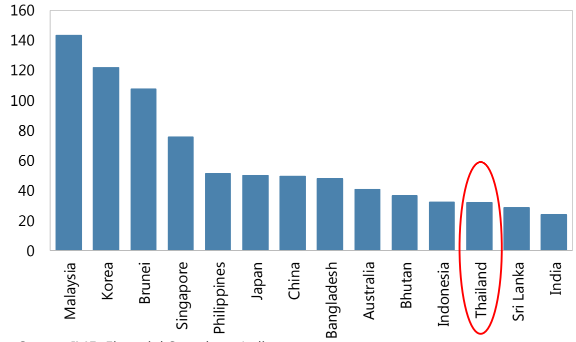
Regulatory Tier 1 Capital to Risk-Weighted Assets
(In percent)



Source: IMF, *Financial Soundness Indicators.*

…with adequate short-term liquidity.

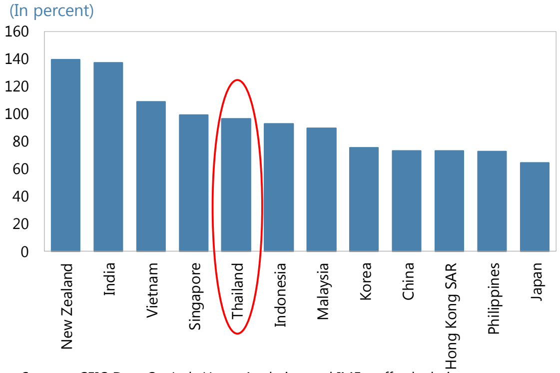
Liquid Assets to Short-Term Liabilities
(In percent)



Source: IMF, *Financial Soundness Indicators.*

Thailand's loan-to-deposit ratio is relatively high…

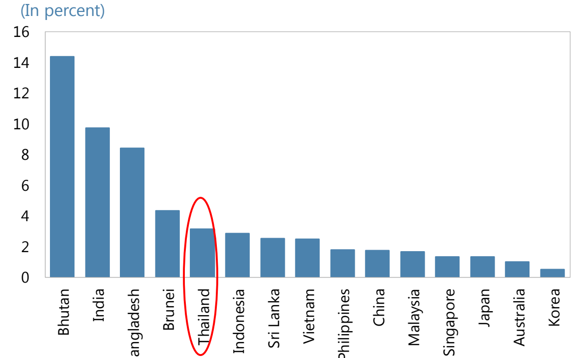
Loans to Deposits
(In percent)



Sources: CEIC Data Co. Ltd.; Haver Analytics; and IMF staff calculations.

…while NPLs are still contained.

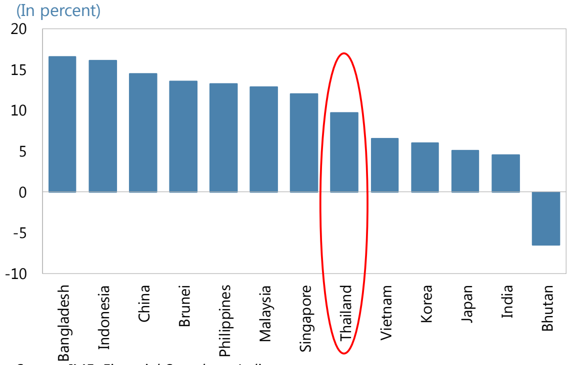
Nonperforming Loans to Total Gross Loans
(In percent)



Source: IMF, *Financial Soundness Indicators.*

Profitability is sound, as shown by return on equity…

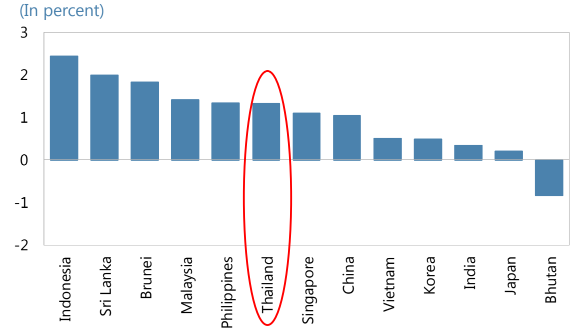
Return on Equity
(In percent)



Source: IMF, *Financial Soundness Indicators.*

…as well as by return on assets.

Return on Assets
(In percent)

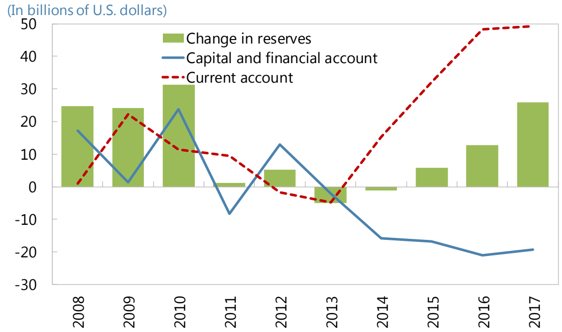


Source: IMF, *Financial Soundness Indicators.*

Figure 6. Thailand: External Sector Developments

The current account surplus remained high in 2017…

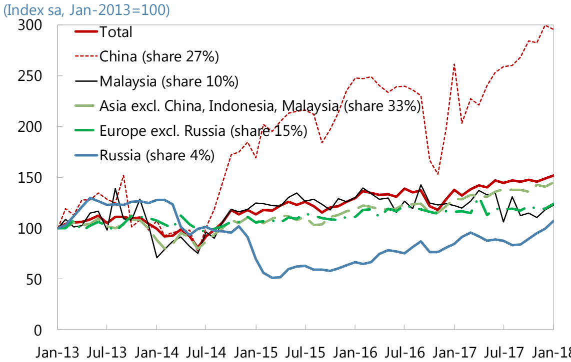
Current Account, Capital and Financial Account, and Reserves
(In billions of U.S. dollars)



Sources: CEIC Data Company Ltd.; and IMF staff calculations.

…reflecting strong tourism income…

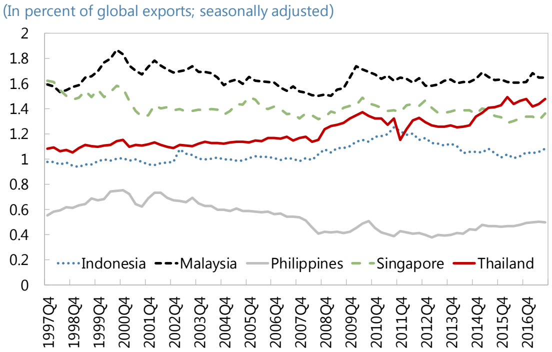
Tourist Arrivals
(Index sa, Jan-2013=100)



Sources: Haver Data Analytics; and IMF staff calculations.

…and a broadly constant export share.

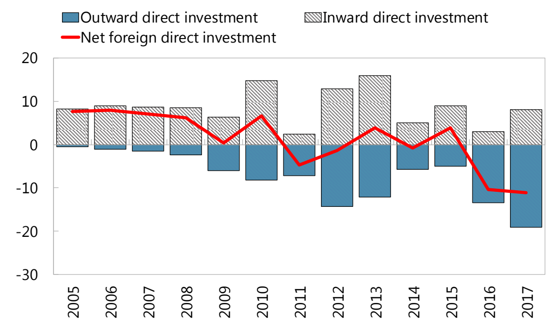
ASEAN-5: Export Market Share
(In percent of global exports; seasonally adjusted)



Sources: IMF, *Direction of Trade*; and IMF staff calculations.

Thai corporates increased overseas investment…

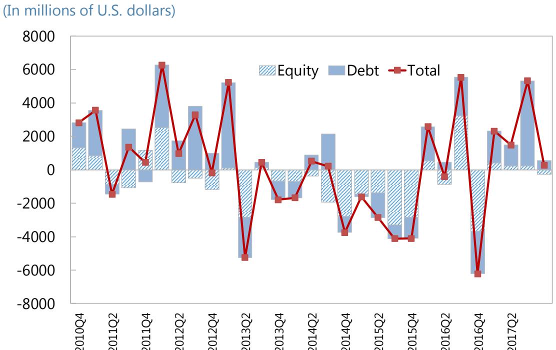
Inward and Outward Direct Investment
(In billions of U.S. dollars)



Sources: Haver Data Analytics; and IMF staff calculations.

…while portfolio flows turned with external conditions.

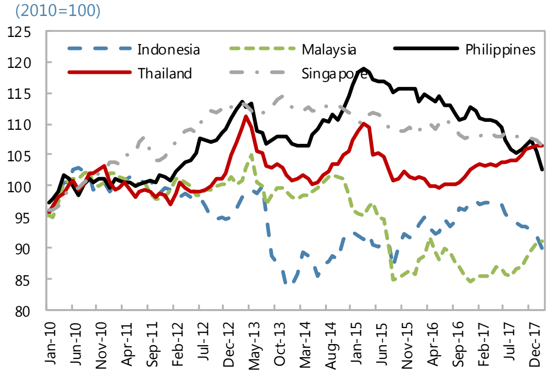
Gross Equity and Bonds Inflows
(In millions of U.S. dollars)



Source: Bank of Thailand; Haver Data Analytics; and IMF staff calculations.

The REER continued to appreciate in 2017.

ASEAN-5: Real Effective Exchange Rate
(2010=100)

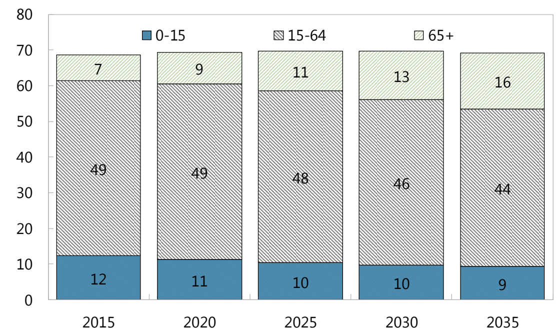


Source: IMF stafff calculations.

Figure 7. Thailand: Structural Challenges

The working-age population is expected to shrink fast.

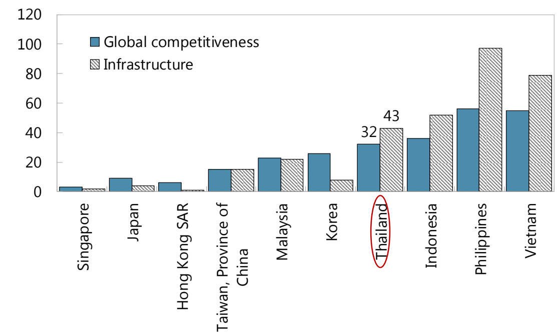
Projected Composition of Population
(In millions of persons)



Source: United Nations, 2017 estimates.

Infrastructure is a drag on competitiveness.

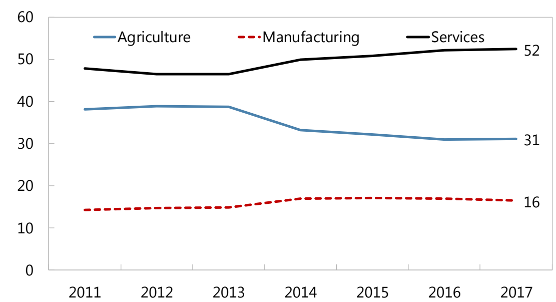
Global Competitiveness and Infrastructure
(Ranking)



Source: World Economic Forum, *Global Competitiveness Report 2017-18*.

Agriculture still absorbs a high share of employment...

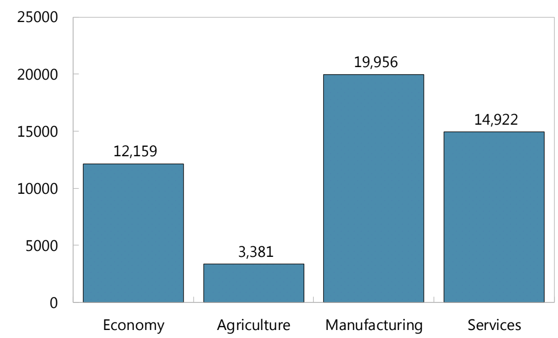
Employment by Sector[1]
(In percent of total employment)



Source: Haver Data Analytics.
[1] All series are affected by a methodological break in 2014 Q1 as the methodology for calculating the population structure was modified.

...with lagging productivity.

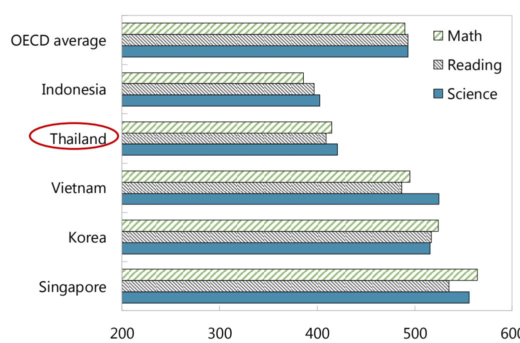
Value of Output per Worker, 2017
(In U.S. dollars)



Sources: Thai authorities; Haver Data Analytics; and IMF staff calculations.

The quality of education should improve.

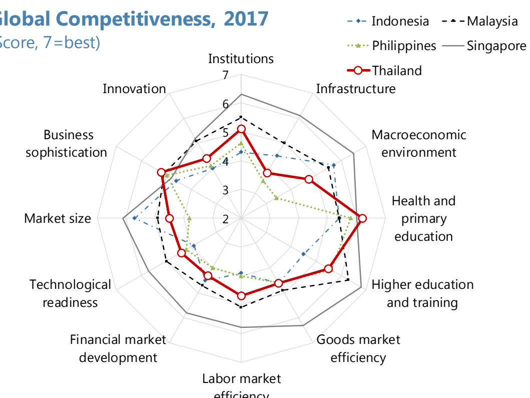
Selected Countries: PISA Scores
(Mean score)



Source: OECD, *Programme for International Student Assessment*, 2015.

Overall competitiveness is below other ASEAN countries.

Global Competitiveness, 2017
(Score, 7=best)



Source: World Economic Forum, *Global Competitiveness Report 2016-17*.

Table 1. Thailand: Selected Economic Indicators, 2014–19

Main exports (percent of total 2015): machinery (44), food (12)
GDP per capita (2017): US$6,589
Unemployment rate (2017): 1.2 percent
Poverty headcount ratio at national poverty line (2014): 10.5 percent
Net FDI (2017): US$-11.65 billion
Population (2016): 65.9 million

				Prel.	Proj.	
	2014	2015	2016	2017	2018	2019
Real GDP growth (y/y percent change) 1/	1.0	3.0	3.3	3.9	3.9	3.8
Consumption	1.2	2.3	2.8	2.6	3.7	4.4
Gross fixed investment	-2.2	4.3	2.8	0.9	6.8	7.4
Inflation (y/y percent change)						
Headline CPI (end of period)	0.6	-0.9	1.1	0.8	0.8	1.0
Headline CPI (period average)	1.9	-0.9	0.2	0.7	1.4	0.7
Core CPI (end of period)	1.7	0.7	0.7	0.6	1.2	1.3
Core CPI (period average)	1.6	1.1	0.7	0.6	0.9	1.3
Saving and investment (percent of GDP)						
Gross domestic investment	23.9	22.3	21.1	22.8	24.2	24.7
Private	19.4	18.2	17.6	17.2	17.4	17.6
Public	5.2	6.3	6.4	6.0	6.8	7.1
Change in stocks	-0.7	-2.2	-2.9	-0.3	0.0	0.0
Gross national saving	27.7	30.3	32.8	33.4	33.2	33.1
Private, including statistical discrepancy	23.0	23.2	25.6	28.2	27.9	27.6
Public	4.7	7.1	7.2	5.3	5.3	5.4
Foreign saving	-3.7	-8.0	-11.7	-10.6	-9.0	-8.3
Fiscal accounts (percent of GDP) 2/						
General government balance 3/	-0.8	0.1	0.6	-0.6	-0.9	-0.9
SOEs balance	-0.5	0.7	0.8	0.7	0.2	0.0
Public sector balance 4/	-1.3	0.9	1.4	0.1	-0.8	-0.9
Public sector debt (end of period) 4/	43.3	42.5	41.8	41.9	41.6	41.6
Monetary accounts (end of period, y/y percent change)						
Broad money growth	4.6	4.4	4.2	5.1	4.5	5.3
Narrow money growth	1.3	5.7	4.8	9.4	4.5	5.3
Credit to the private sector by depository corporations	4.7	5.3	3.9	4.5	4.5	4.3
Balance of payments (billions of U.S. dollars)						
Current account balance	15.2	32.1	48.2	48.1	43.4	43.3
(Percent of GDP)	3.7	8.0	11.7	10.6	9.0	8.3
Exports, f.o.b.	226.6	214.0	214.3	235.1	255.0	274.6
Growth rate (dollar terms)	-0.4	-5.6	0.1	9.7	8.4	7.7
Growth rate (volume terms)	0.8	-2.0	0.1	5.6	5.9	5.6
Imports, f.o.b.	209.4	187.2	177.7	203.2	224.9	243.0
Growth rate (dollar terms)	-7.9	-10.6	-5.1	14.4	10.7	8.0
Growth rate (volume terms)	-6.3	0.2	-2.3	8.5	6.1	7.4
Capital and financial account balance 5/	-16.4	-26.3	-35.4	-22.0	-33.7	-43.3
Overall balance	-1.2	5.9	12.8	26.1	9.7	0.0
Gross official reserves (including net forward position, end of period) (billions of U.S. dollars)	180.2	168.2	197.6	239.3	249.0	249.0
(Months of following year's imports)	11.6	11.4	11.7	12.8	12.3	11.4
(Percent of short-term debt) 6/	257.7	280.2	273.8	326.8	352.5	321.9
(Percent of ARA metric)	187.4	203.9	211.2	221.2	…	…
Forward position of BOT (end of period)	-23.1	-11.7	-25.8	-36.7	…	…
Exchange rate (baht/U.S. dollar)	32.5	34.2	35.3	33.9	…	…
NEER appreciation (annual average)	-3.0	4.4	-3.2	4.3	…	…
REER appreciation (annual average)	-3.2	2.5	-4.0	3.4	…	…
External debt						
(Percent of GDP)	34.8	32.7	32.1	32.7	33.7	33.3
(Billions of U.S. dollars)	141.7	131.1	132.2	149.0	162.9	173.4
Public sector 7/	25.3	20.6	22.6	31.1	41.6	45.5
Private sector	116.4	110.5	109.6	117.9	121.3	127.9
Medium- and long-term	60.4	58.3	56.8	59.5	60.8	64.3
Short-term (including portfolio flows)	56.0	52.2	52.8	58.4	60.5	63.7
Debt service ratio 8/	4.9	6.3	5.8	5.7	6.0	6.3
Memorandum items:						
Nominal GDP (billions of baht)	13,230	13,747	14,533	15,450	16,150	17,003
(Billions of U.S. dollars)	407.3	401.4	411.8	455.3	…	…

Sources: Thai authorities; CEIC Data Co. Ltd.; and IMF staff estimates and projections.

1/ This series reflects the new GDP data based on the chain volume measure methodology, introduced by the Thai authorities in May 2015.

2/ On a fiscal year basis. The fiscal year ends on September 30.

3/ Includes budgetary central government, extrabudgetary funds, and local governments.

4/ Includes general government and SOEs.

5/ Includes errors and omissions.

6/ With remaining maturity of one year or less.

7/ Excludes debt of state enterprises.

8/ Percent of exports of goods and services.

Table 2. Thailand: Macroeconomic Framework, 2013–23

					Prel.	Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Real GDP growth (y/y percent change)	2.7	1.0	3.0	3.3	3.9	3.9	3.8	3.6	3.6	3.5	3.5
Consumption	1.1	1.2	2.3	2.8	2.6	3.7	4.4	4.8	5.2	5.2	5.2
Gross fixed investment	-1.0	-2.2	4.3	2.8	0.9	6.8	7.4	6.8	7.0	6.7	5.9
Headline CPI inflation (period average, y/y percent change)	2.2	1.9	-0.9	0.2	0.7	1.4	0.7	1.1	1.4	1.8	2.0
Core CPI inflation (period average, y/y percent change)	1.0	1.6	1.1	0.7	0.6	0.9	1.3	1.4	1.6	1.8	1.8
Saving and investment (percent of GDP)											
Gross domestic investment	27.5	23.9	22.3	21.1	22.8	24.2	24.7	25.4	26.2	27.0	27.6
Private	19.7	19.4	18.2	17.6	17.2	17.4	17.6	18.3	19.1	20.0	21.0
Public	5.7	5.2	6.3	6.4	6.0	6.8	7.1	7.1	7.1	7.0	6.6
Change in stocks	2.1	-0.7	-2.2	-2.9	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Gross national saving	26.3	27.7	30.3	32.8	33.4	33.2	33.1	33.0	32.4	31.7	30.9
Private, including statistical discrepancy	22.0	23.0	23.2	25.6	28.2	27.9	27.6	27.6	27.2	26.7	26.2
Public	4.3	4.7	7.1	7.2	5.3	5.3	5.4	5.4	5.2	5.0	4.8
Foreign saving (- = current account surplus)	1.2	-3.7	-8.0	-11.7	-10.6	-9.0	-8.3	-7.6	-6.2	-4.7	-3.3
Fiscal accounts (percent of GDP, fiscal year basis)											
Public sector balance	-1.3	-1.3	0.9	1.4	0.1	-0.8	-0.9	-1.0	-1.1	-1.2	-1.2
Public sector debt (end of period)	42.2	43.3	42.5	41.8	41.9	41.6	41.6	41.6	41.7	41.9	41.9
Credit to the private sector by depository corporations (End of period, y/y percent change)	9.6	4.7	5.3	3.9	4.5	4.5	4.3	4.8	5.0	5.3	5.5
Balance of payments (billions of U.S. dollars)											
Exports, f.o.b.	227.5	226.6	214.0	214.3	235.1	255.0	274.6	294.3	314.1	332.0	348.7
(Volume growth)	0.1	0.8	-2.0	0.3	5.6	5.9	5.6	4.9	4.1	4.2	3.9
Imports, f.o.b.	227.4	209.4	187.2	177.7	203.2	224.9	243.0	261.9	285.1	308.3	330.5
(Volume growth)	1.8	-6.3	0.2	-2.3	8.5	6.1	7.4	6.9	7.1	6.5	5.8
Trade balance	0.0	17.2	26.8	36.5	31.9	30.0	31.6	32.4	29.0	23.7	18.2
Services, income, and transfers	-4.9	-2.0	5.3	11.7	16.3	13.4	11.6	9.2	6.9	7.6	7.6
Current account balance	-4.9	15.2	32.1	48.2	48.1	43.4	43.3	41.6	36.0	28.7	21.6
(Percent of GDP)	-1.2	3.7	8.0	11.7	10.6	9.0	8.3	7.6	6.2	4.7	3.3
Financial account balance 1/	-0.2	-16.4	-26.3	-35.4	-22.2	-33.7	-43.3	-41.6	-36.0	-28.7	-21.6
Overall balance	-5.0	-1.2	5.9	12.8	26.0	9.7	0.0	0.0	0.0	0.0	0.0
Gross official reserves (including net forward position, billions of U.S. dollars)	190.2	180.2	168.2	197.6	239.3	249.0	249.0	249.0	249.0	249.0	249.0
External debt											
External debt (billions of U.S. dollars)	141.9	141.7	131.1	132.2	149.0	162.9	173.4	183.2	191.2	200.4	212.9
External debt (percent of GDP)	33.8	34.8	32.7	32.1	32.7	33.7	33.3	33.3	32.9	32.6	32.8

Sources: Data provided by the Thai authorities; CEIC Data Co. Ltd.; and IMF staff estimates and projections.

1/ Includes errors and omissions.

Table 3. Thailand: Balance of Payments, 2013–23 1/

(In billions of U.S. dollars, unless otherwise specified)

					Prel.	Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
				(In billions of U.S. dollars)							
Current account balance	-4.9	15.2	32.1	48.2	48.1	43.4	43.3	41.6	36.0	28.7	21.6
Trade balance	0.0	17.2	26.8	36.5	31.9	30.0	31.6	32.4	29.0	23.7	18.2
Exports, f.o.b.	227.5	226.6	214.0	214.3	235.1	255.0	274.6	294.3	314.1	332.0	348.7
Imports, f.o.b.	227.4	209.4	187.2	177.7	203.2	224.9	243.0	261.9	285.1	308.3	330.5
Services balance	11.4	10.3	19.2	24.2	29.8	28.7	27.4	26.2	24.7	23.2	21.6
Of which: tourism receipts	41.8	38.4	44.9	48.8	57.5	58.8	60.5	62.1	63.6	65.2	66.8
Income and transfers balance	-16.3	-12.3	-13.9	-12.5	-13.5	-15.3	-15.8	-17.0	-17.7	-18.1	-18.2
Capital and financial account balance	-2.2	-15.9	-16.8	-21.0	-18.2	-33.7	-43.3	-41.6	-36.0	-28.7	-21.6
Foreign direct investment	3.8	-0.8	3.9	-10.3	-11.6	-14.4	-15.4	-16.4	-17.4	-18.1	-19.1
Portfolio investment	-4.8	-12.0	-16.5	-2.8	-2.5	-7.7	-8.2	-9.1	-8.9	-9.8	-9.7
Financial derivatives	-0.3	1.0	0.9	0.3	0.1	0.4	0.5	0.4	0.4	0.4	0.4
Other investment	-1.2	-4.1	-5.1	-8.2	-4.2	-12.1	-20.2	-16.6	-10.0	-1.2	6.7
Errors and omissions	2.0	-0.6	-9.5	-14.4	-3.8	0.0	0.0	0.0	0.0	0.0	0.0
Changes in official reserves (increase -)	5.0	1.2	-5.9	-12.8	-26.0	-9.7	0.0	0.0	0.0	0.0	0.0
				(In percent of GDP)							
Current account balance	-1.2	3.7	8.0	11.7	10.6	9.0	8.3	7.6	6.2	4.7	3.3
Trade balance	0.0	4.2	6.7	8.9	7.0	6.2	6.1	5.9	5.0	3.9	2.8
Exports, f.o.b.	54.1	55.6	53.3	52.0	51.6	52.7	52.8	53.5	54.0	54.0	53.7
Imports, f.o.b.	54.1	51.4	46.7	43.2	44.6	46.5	46.7	47.6	49.0	50.2	50.9
Services balance	2.7	2.5	4.8	5.9	6.5	5.9	5.3	4.8	4.2	3.8	3.3
Of which: tourism receipts	9.9	9.4	11.2	11.8	12.6	12.2	11.6	11.3	10.9	10.6	10.3
Income and transfers balance	-3.9	-3.0	-3.5	-3.0	-3.0	-3.2	-3.0	-3.1	-3.1	-2.9	-2.8
Capital and financial account balance	-0.5	-3.9	-4.2	-5.1	-4.0	-7.0	-8.3	-7.6	-6.2	-4.7	-3.3
Foreign direct investment	0.9	-0.2	1.0	-2.5	-2.6	-3.0	-3.0	-3.0	-3.0	-2.9	-2.9
Portfolio investment	-1.1	-2.9	-4.1	-0.7	-0.5	-1.6	-1.6	-1.7	-1.5	-1.6	-1.5
Financial derivatives	-0.1	0.2	0.2	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Other investment	-0.3	-1.0	-1.3	-2.0	-0.9	-2.5	-3.9	-3.0	-1.7	-0.2	1.0
Errors and omissions	0.5	-0.1	-2.4	-3.5	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Changes in official reserves (increase -)	1.2	0.3	-1.5	-3.1	-5.7	-2.0	0.0	0.0	0.0	0.0	0.0
Memorandum item											
Gross official reserves (incl. net forward position)											
(In billions of U.S. dollars)	190.2	180.2	168.2	197.6	239.3	249.0	249.0	249.0	249.0	249.0	249.0
(Months of following year's imports)	10.9	11.6	11.4	11.7	12.8	12.3	11.4	10.5	9.7	9.0	8.5
(In percent of short-term debt)	278.6	257.7	280.2	273.8	326.8	352.5	321.9	318.1	319.5	318.4	315.4
(Percent of ARA metric)	209.3	187.4	203.5	210.9	233.8	226.4	214.7	207.7	202.1	196.1	
Forward/swap position of BOT	-23.0	-23.1	-11.7	-25.8	-36.7						
Export growth (y/y percent change)	-0.1	-0.4	-5.6	0.1	9.7	8.4	7.7	7.2	6.7	5.7	5.0
Export volume growth	0.1	0.8	-2.0	0.3	5.6	5.9	5.6	4.9	4.1	4.2	3.9
Export unit value growth	-0.2	-1.2	-3.8	-0.2	3.7	2.4	2.0	2.2	2.5	1.5	1.1
Import growth (y/y percent change)	-0.1	-7.9	-10.6	-5.1	14.4	10.7	8.0	7.8	8.9	8.1	7.2
Import volume growth	1.8	-6.3	0.2	-2.3	8.5	6.1	7.4	6.9	7.1	6.5	5.8
Import unit value growth	-2.0	-1.6	-11.5	-2.9	5.2	4.3	0.5	0.9	1.6	1.5	1.3
External debt (percent of GDP)	33.8	34.8	32.7	32.1	32.7	33.7	33.3	33.3	32.9	32.6	32.8
(Billions of U.S. dollars)	141.9	141.7	131.1	132.2	149.0	162.9	173.4	183.2	191.2	200.4	212.9
Debt service ratio (percent) 2/	4.0	4.9	6.3	5.8	5.7	6.0	6.3	6.4	6.0	5.7	5.5
GDP (billions of U.S. dollars)	420.3	407.3	401.4	411.8	455.3						

Sources: Thai authorities; CEIC Data Co. Ltd.; and IMF staff estimates and projections.

1/ Includes financing facilities arranged by AsDB and IBRD and disbursements under the Miyazawa Plan.

2/ Percent of exports of goods and services.

Table 4. Thailand: Monetary Survey, 2009–17

(In billions of baht, unless otherwise stated)

	December								
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Central bank survey									
Net foreign assets	4,525	5,082	5,441	5,359	5,444	5,262	5,762	6,022	6,352
Net domestic assets	-3,422	-3,839	-4,075	-3,861	-3,863	-3,595	-4,052	-4,206	-4,414
Reserve money - Monetary base (M0)	1,103	1,243	1,365	1,498	1,581	1,667	1,710	1,816	1,937
Depository corporations survey									
Net foreign assets	4,570	4,884	5,426	4,943	5,007	5,041	5,873	6,131	6,361
Net domestic assets	6,047	6,895	8,134	10,024	11,055	11,768	11,678	12,160	12,844
Domestic credit	10,014	11,015	12,779	14,719	15,889	16,728	17,555	18,180	19,043
Net credit to central government	292	155	201	352	235	399	417	364	394
Credit to local government	6	18	18	22	25	22	19	18	16
Credit to nonfinancial public enterprises	366	372	392	354	334	322	291	287	306
Credit to financial corporations	625	668	699	846	892	903	955	1,012	1,080
Total credit to private sector	8,726	9,801	11,469	13,145	14,403	15,082	15,874	16,500	17,250
Credit to other nonfinancial corporations	3,847	4,132	4,837	5,393	5,838	5,956	6,187	6,405	6,736
Credit to other resident sector	4,879	5,669	6,632	7,752	8,565	9,126	9,687	10,095	10,514
Other items (net)	-3,967	-4,120	-4,645	-4,695	-4,834	-4,960	-5,877	-6,021	-6,199
Broad money	10,617	11,779	13,560	14,967	16,062	16,809	17,552	18,291	19,206
Narrow money	1,175	1,302	1,414	1,598	1,661	1,682	1,778	1,864	2,039
Currency in circulation	844	937	1,036	1,136	1,189	1,200	1,251	1,336	1,438
Deposits at depository corporations	331	365	378	462	472	482	527	528	601
Quasi-money	9,442	10,476	12,146	13,369	14,401	15,127	15,774	16,427	17,167
Memorandum items:									
Broad money growth (y/y percent change)	6.8	10.9	15.1	10.4	7.3	4.6	4.4	4.2	5.0
Narrow money growth (y/y percent change)	12.8	10.9	8.6	13.0	3.9	1.3	5.7	4.8	9.4
Credit to private sector growth by depository corporations (y/y percent change)	2.5	12.3	17.0	14.6	9.6	4.7	5.3	3.9	4.5
Contribution to broad money growth									
Net foreign assets (in percent)	4.4	3.0	4.6	-3.6	0.4	0.2	5.0	1.5	1.3
Net domestic assets (in percent)	2.4	8.0	10.5	13.9	6.9	4.4	-0.5	2.7	3.7
Domestic credit (in percent)	4.5	9.4	15.0	14.3	7.8	5.2	4.9	3.6	4.7

Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

Table 5. Thailand: Medium-Term Fiscal Scenario, FY 2013–23 1/

(In percent of fiscal year GDP, unless otherwise stated)

						Projections					
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
General Government											
Revenue	22.2	21.4	22.3	22.0	21.1	21.4	21.5	21.5	21.5	21.5	21.5
Tax revenue	18.4	17.2	17.7	17.2	16.4	16.6	16.8	16.8	16.8	16.8	16.8
Taxes on income	7.3	6.7	6.6	6.2	5.9	6.0	6.0	6.0	6.0	6.0	6.0
Taxes on goods and services	9.8	9.3	10.0	9.9	9.6	9.6	9.6	9.6	9.6	9.6	9.6
Taxes on international trade	0.9	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Other	0.4	0.4	0.4	0.4	0.4	0.5	0.7	0.7	0.7	0.7	0.7
Social contributions	0.8	1.1	1.2	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other revenue	2.9	3.1	3.4	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Total expenditure	21.6	22.2	22.2	21.4	21.7	22.3	22.4	22.4	22.6	22.7	22.8
Expense	18.9	19.3	18.6	19.1	19.2	19.5	19.5	19.5	19.7	19.8	20.0
Compensation of employees	6.6	6.5	6.6	6.6	6.3	6.3	6.3	6.3	6.3	6.3	6.3
Purchase/use of goods and services	5.9	6.2	6.1	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2
Interest	1.1	1.1	1.0	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.1
Social benefits	2.1	2.2	2.2	2.5	2.6	2.9	2.9	2.9	3.1	3.2	3.3
Other	3.2	3.3	2.7	2.9	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Net acquisition of nonfinancial assets	2.8	2.9	3.6	2.3	2.6	2.8	2.9	2.9	2.9	2.9	2.8
o.w. fixed assets	3.1	2.9	3.6	3.9	2.6	2.8	2.9	2.9	2.9	2.9	2.8
o.w. nonproduced assets	-0.3	0.0	0.0	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance	0.5	-0.8	0.1	0.6	-0.6	-0.9	-0.9	-0.9	-1.1	-1.2	-1.3
SOEs											
Overall fiscal balance 2/	-1.8	-0.5	0.7	0.8	0.7	0.2	0.0	0.0	0.0	0.0	0.1
Public Sector											
Overall fiscal balance 3/	-1.3	-1.3	0.9	1.4	0.1	-0.8	-0.9	-1.0	-1.1	-1.2	-1.2
Primary balance	0.3	0.3	2.3	2.6	1.4	0.5	0.2	0.2	0.1	0.0	0.2
Cyclically adjusted primary balance	-0.1	0.4	2.7	2.9	1.6	0.6	0.3	0.3	0.2	0.0	0.2
Structural primary balance	-0.4	0.4	2.7	1.3	1.6	0.6	0.3	0.3	0.2	0.0	0.2
Debt	42.2	43.3	42.5	41.8	41.9	41.6	41.6	41.6	41.7	41.9	41.9
Memorandum items:											
Public sector investment 4/	5.8	5.3	5.9	6.4	5.2	6.0	6.4	6.4	6.3	6.3	6.0
General government	3.9	3.6	4.4	4.7	3.4	3.7	3.8	3.8	3.8	3.8	3.7
Public enterprises	1.9	1.7	1.6	1.7	1.8	2.3	2.6	2.6	2.5	2.5	2.3

Sources: Thai authorities; and IMF staff estimates and projections.

1/ Fiscal year runs from October 1 to September 30.

2/ Estimated from the evolution of SOEs debt.

3/ Includes General Government and SOEs.

4/ Official GFS data are not available for the Public Sector. Historical data are estimated based on GFS General Government official data, and information from SEPO and national accounts.

Table 6. Thailand: Banks' Financial Soundness Indicators, 2009–17

	2009	2010	2011	2012	2013	2014	2015	2016	2017
	(In percent)								
Capital adequacy									
Regulatory capital to risk-weighted assets	15.8	16.1	14.8	16.2	15.5	16.5	17.1	17.8	17.9
Regulatory Tier 1 capital to risk-weighted assets	11.7	11.9	11.0	11.0	11.9	13.0	13.9	14.5	15.1
Asset quality									
Nonperforming loans net of provisions to capital	19.5	13.8	10.6	7.4	7.7	7.8	8.0	8.4	9.1
Nonperforming loans to total gross loans	5.2	3.9	2.9	2.4	2.3	2.3	2.7	3.0	3.1
Earnings and profitability									
Return on assets	1.3	1.6	1.6	1.6	1.8	1.7	1.4	1.4	1.2
Return on equity	12.1	14.1	14.9	14.9	15.9	14.7	11.1	10.7	9.1
Liquidity									
Liquid assets to total assets (liquid asset ratio)	22.5	19.4	19.0	20.2	19.2	20.9	20.0	18.8	19.9
Liquid assets to short term liabilities	33.2	29.7	29.7	32.3	31.8	35.6	33.1	30.7	32.6
Loan-deposit ratio 1/	94.4	100.0	107.8	96.4	97.9	96.1	97.6	96.9	96.3

Sources: Bank of Thailand; and Haver Analytics.

1/ This ratio excludes interbank data and covers all commercial banks (commercial banks registered in Thailand and foreign bank branches).

Appendix I. Staff Policy Advice from the 2017 Article IV Consultation

Staff Advice	Policy Actions
Monetary easing to steer inflation towards its target.	Policy rate has been kept constant. Long run inflation expectations continue to weaken and are below the target band.
Maintain exchange rate flexibility as first line of defense, with FX intervention limited to avoiding disorderly market conditions.	The exchange rate has appreciated by 3.3 percent in real terms and 9 percent versus the U.S. dollar in nominal terms in 2017.
Strengthen financial stability and further develop macroprudential tools to deal with emerging pockets of fragility.	Financial stability has strengthened with the designation of five systemically important banks (SIBs) and BOT measures to contain risks from the cooperatives sector. Macroprudential tools, such as LTVs, have been effective in containing risks in the real estate sector and high household debt.
Use fiscal space to boost public investment.	Public investment contracted in 2017, in part due to teething issues with the new procurement law which led to delays in investment execution, especially by SOEs.
The medium-term fiscal framework should include forecasts for the general government and SOEs.	A Fiscal Responsibility Law was approved in January 2018, under which a medium-term fiscal framework will become compulsory and include forecasts for the general government and SOEs.
Reform pension scheme to address design shortcoming and population aging	A National Pension Committee has been formed to propose a national strategy that addresses system fragmentation and design shortcomings. Forthcoming IMF TA will help with this strategy.
Reform social safety nets to mitigate risks of old-age poverty with better targeting of vulnerable groups.	Efforts are ongoing to tap a low-income earner registration database to improve the targeting of social transfers.
Structural reforms to upgrade infrastructure investment and enhance capital accumulation.	The EEC Act should help accelerate infrastructure investments, including by facilitating PPPs.

Appendix II. Risk Assessment Matrix

Nature/Source of Threat	Likelihood	Impact	Policies to Minimize Impact
		External Risks	
Retreat from cross border integration	***M***	***H:*** Fraying consensus about the benefits of globalization leads to protectionism and economic isolationism, resulting in reduced global and regional policy and regulatory collaboration with negative consequences for trade, capital and labor flows, sentiment, and growth.	Strengthen domestic drivers of growth. Deepen regional trade integration and seek new opportunities to enhance position in global value chains. Greater orientation toward CLMV could buttress exports.
Policy uncertainty	***H***	***M:*** Two-sided risks to U.S. growth with uncertainties about the positive short-term impact of the tax bill on growth and the extent of potential medium-term adjustment to offset its fiscal costs; uncertainty associated with negotiating post-Brexit arrangements and NAFTA and associated market fragmentation risks; and evolving political processes, including elections in several large economies, weigh on the whole on global growth.	Allow exchange rate flexibility to be a key shock absorber, with judicious intervention to avoid disorderly markets. If capital outflows affect the real economy and constrain monetary stimulus, redouble efforts to accelerate public investment execution to bolster domestic demand.
Tighter global financial conditions	***H***	***M:*** Against the backdrop of continued monetary policy normalization and increasingly stretched valuations across asset classes, an abrupt change in global risk appetite (e.g., due to higher-than-expected inflation in the U.S) could lead to sudden, sharp increases in interest rates and associated tightening of financial conditions. Higher debt service and refinancing risks could stress leveraged firms, households, and vulnerable sovereigns, including through capital account pressures in some cases.	Allow exchange rate flexibility to be a key shock absorber, with judicious intervention to avoid disorderly markets. If financial volatility and capital outflows affect the real economy and constrain monetary stimulus, redouble efforts to accelerate public investment execution to bolster domestic demand.
Significant U.S. slowdown and its spillovers	***M***	As the current recovery ages and vulnerabilities build up, the risks of a sharper-than-expected slowdown increase. The proximate causes could be a fiscal contraction associated with the eventual planned withdrawal of the tax stimulus or market fears of overheating. A sharp adjustment necessitated by relatively limited fiscal policy space would create global spillovers.	Strengthen domestic drivers of growth. Deepen regional trade integration and seek new opportunities to enhance position in global value chains. Allow exchange rate flexibility to be a key shock absorber, with judicious intervention to avoid disorderly markets.
Significant slowdown in China and its spillovers	***L/M***	***H:*** While ongoing efforts by the Chinese authorities to "de-risk" the financial system are welcome, too fast an adjustment and improper sequencing of actions may adversely affect near-term growth (low likelihood). Over the medium term, overly ambitious growth targets, including by over reliance on credit stimulus and investment, lead to unsustainable policies, reducing fiscal space, further increasing financial imbalances. A sharp adjustment would weaken domestic demand, with adverse international spillovers, including a pullback in capital flows to EMs (medium likelihood).	Structural reforms and infrastructure development would raise returns to private investment and strengthen domestic-demand-led growth. Greater orientation toward CLMV could buttress exports. Allow exchange rate flexibility to be a key shock absorber amid global volatility.
Structurally weak growth in key advanced economies	***H***	***M:*** Low productivity growth (U.S., euro area and Japan), high debt, and failure to fully address crisis legacies by undertaking structural reforms amidst persistently low inflation (euro area and Japan) undermine medium-term growth.	Structural reforms and infrastructure development would raise returns to private investment and strengthen domestic-demand-led growth. Greater orientation toward CLMV could buttress exports.
Cyber-attacks	***M***	***M:*** Cyber-attacks on interconnected financial systems and broader private and public institutions that trigger systemic financial instability or widely disrupt socio-economic activities.	BOT should sustain current efforts to strengthen its capacity to deal with cyber attacks and fintech-related challenges.
		Domestic Risks	
Heightened political uncertainty	***M***	***H:*** Consumer and business confidence would be damaged, dampening private investment and FDI inflows. Public investment execution would slow down. Capital outflows would put pressure on credit and asset markets. Tourism could also be affected.	Allow automatic stabilizers to work. Provide adequate liquidity to banks to minimize disruptions in the financial system. Let the exchange rate be a key shock absorber in case of capital outflows, but use intervention to avoid disorderly market conditions.
Weaker crowding-in of private investment	***M***	***M:*** Lower-than-projected private investment would reduce domestic demand in the cyclically weak economy and undermine Thailand's potential in the longer term. It may also weaken confidence in the government's ability to improve the business environment, denting private sentiment and FDI.	Use available room for additional fiscal and monetary stimulus. Strengthen efforts to implement structural reforms and improve the business and investment environment. Accelerate the execution of large infrastructure projects and PPPs with capacity to crowd-in private sector interest.
Entrenched low inflation	***M***	***H:*** Entrenched low inflation would worsen the macroeconomic environment, increasing real interest rates and the real debt burden, and posing risks to corporate, household, and financial sector balance sheets.	Lower the policy rate and strengthen communication to anchor inflation expectations. Consider additional fiscal stimulus, consistent with long-term goals and fiscal sustainability, within a credible medium-term fiscal framework.
Household debt overhang boiling over	***M***	***M:*** Highly leveraged households may hold back spending or banks may tighten credit supply, which would dampen consumption. Furthermore, the debt-servicing capacity of households could be constrained in a vicious cycle of deleveraging and low growth.	Use available room for additional fiscal and monetary stimulus. Explore options for household debt restructuring.

"L"=Low; "M"=Medium; "H"=High. The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Appendix III. Assessment of Current Account Surplus

1. The external current account surplus in 2017 remained high (10.6 percent of GDP), on the back of strong exports of goods and services and subdued investment. Private investment remained subdued and corporate savings high, partly reflecting a cautious response of domestic demand due to political uncertainty, as well as structural factors.

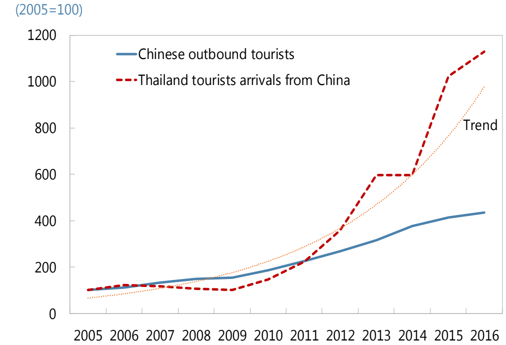
2. The 2017 EBA CA model shows a large CA gap for Thailand. The cyclically adjusted current account for Thailand was estimated at 10.2 percent of GDP and the current account norm at 1.2 percent of GDP in 2017. The CA gap of 9 percent of GDP consisted of an identified policy gap of 2.3 percent of GDP (1.7 percent of GDP from domestic policy gaps), and an unexplained residual.

3. The EBA CA regression has a large unexplained residual for Thailand (6.7 percent of GDP). It partly reflected Thailand-specific features not fully captured by the EBA model. Some of these features are cyclical/transitory, while others reflect structural challenges and other distortions that impact domestic demand and the savings-investment balance.

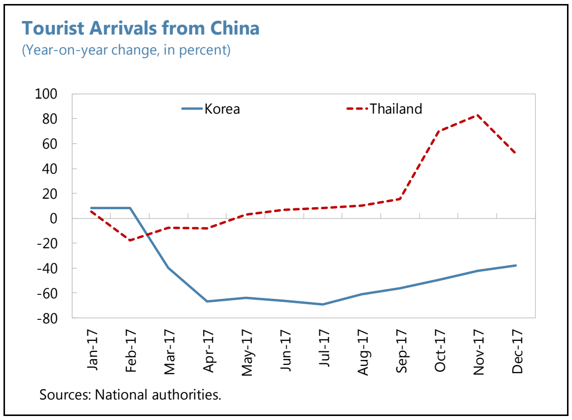
4. Staff's adjustments attempt to correct for these cyclical and transitory factors (boom in tourism, terms of trade shocks, and political uncertainty) to assess the current account relative to medium-term fundamentals and desirable policies.

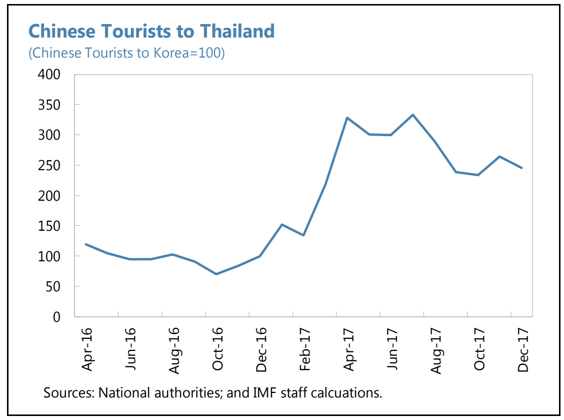
- *Boom in tourism*. Chinese tourists to Thailand have grown rapidly with average annual growth of 26 percent since mid-2010, nearly twice the average annual growth of 14 percent in Chinese outbound tourists. However, tourist arrivals are sensitive to transitory geopolitical factors. In particular, Thailand and Korea are competitors as Chinese tourist destinations, receiving similar numbers of Chinese tourists in the past. In 2017, China's travel restriction to Korea boosted tourism in Thailand (Chart). With China starting to relax the tourists ban, the recent tourism hike is expected gradually to go back to its pre-restriction trend. Staff applied an adjustor (0.5 percent to 1.0 percent of GDP) that is one-half in magnitude compared with last year's.

Thailand: Tourists Arrivals from China
(2005=100)

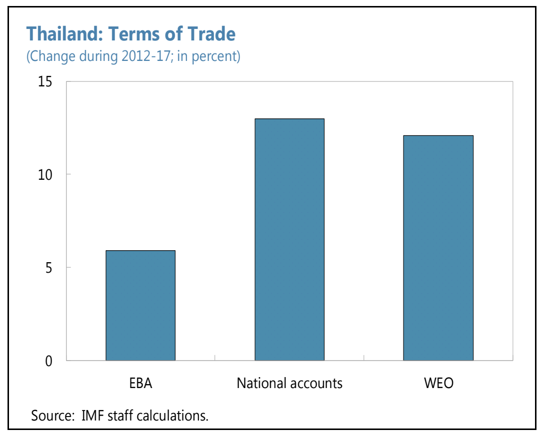


Sources: Thailand authorities; and IMF staff calculations.



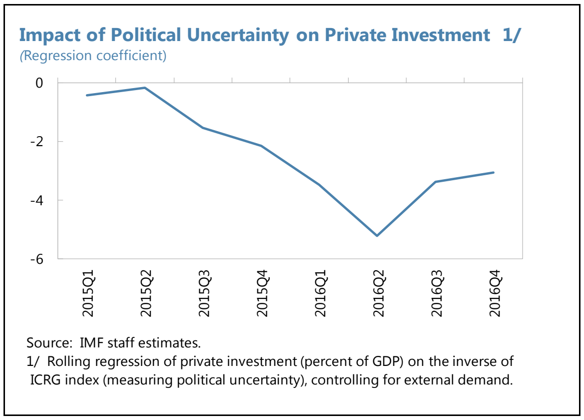


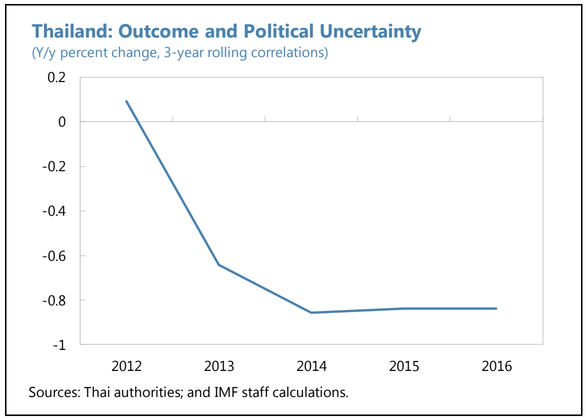
- *Terms of trade***.** The EBA model estimated an adjustment of 0.4 percent of GDP due to a 6 percent improvement in commodities terms of trade for Thailand. Alternative terms of trade indices, for instance based on the national accounts and WEO, suggest that Thailand's terms of trade improved by close to 13 percent over 2012-17. Using these indices, staff's adjustment for TOT is 1.0 percent to 1.5 percent of GDP, broadly similar to that of last year.



- *Political uncertainty*. Although less than last year, the uncertainty for the date of general elections and possible further delays in the democratic transition are continuing to weigh on private sector confidence. Staff's analysis suggests a substantial deterioration in private investment owing to political uncertainty in recent years, based on a rolling regression of private investment on the ICRG index, controlling for external demand. Using the big Data approach[1] of measuring political uncertainty, we calculated 3-year rolling correlations between our big data measure of political uncertainty and national accounts-based private consumption data and this suggests an increasingly highly negative correlation between the two variables in recent years. Furthermore, regression analysis also show that political uncertainty tends to negatively impact private consumption in Thailand. These results suggest that political uncertainty has contributed to weak domestic demand in Thailand, over and above what the EBA model captures for the average country. Staff suggests an adjustment of 0 percent to 3 percent of GDP, that is one-half in magnitude compared with last year's.

[1] Our big data analytics measure of political uncertainty is based on a news-chatter algorithm. The use of newspaper coverage to indirectly measure political uncertainty phenomena is not novel. Brogaard and Detzel (2012), Hlatshwayo and Saxegaard (2016), Baker et al. (2016) and others use news-chatter to capture policy uncertainty in major economies; Grigorian and Manole (2017) adopt a similar approach to measure sovereign risk; and Shapiro (2017) uses news to pick up shifts in market sentiment.





5. Apart from Staff's adjustments, other Thailand-specific structural features that may affect the CA norm are not fully captured by the EBA CA model.

- *Demographics.* Thailand is undergoing a major demographic transition with a remarkable aging speed. It is already the second most-aged country in southeast Asia and the old-age dependency ratio is projected to continue increasing to 48 percent by 2050, much above the average dependency ratio of Asian countries. Demographic factors are a key determinant of the current account.

- *Duality.* Thailand has a large informal sector with a low pensions coverage compared with the formal sector, contributing to high levels of precautionary savings. Indeed, data shows that elderly Thai informal workers are relying more on their savings than before.

Thailand: EBA Estimates and Staff Adjustments

Actual current account (CA)	10.6
EBA CA estimates	
Cyclical adjustment	0.4
Cyclically adjusted CA	10.2
CA norm	1.2
CA gap	9.0
Policy gap	2.3
Unexplained residual	6.7
Staff-adjusted estimates	
Cyclical and transitory adjustments	[1.5, 5.5]
Terms of trade	[1.0, 1.5]
Tourism	[0.5, 1.0]
Political uncertainty	[0, 3]
CA gap	[3.5, 7.5]

Source: IMF staff estimates.

6. Considering these factors, staff's preliminary assessment suggests that the current account surplus in Thailand was 3.5 percent to 7.5 percent of GDP larger than the level consistent with medium-term fundamentals and desirable policies. The CA gap is expected to narrow over the medium term, as policy stimulus is deployed, political uncertainty dissipates, private confidence recovers. The reforms to address structural rigidities by improving social safety nets, reducing barriers to investment, increasing labor force participation, and raising productivity, would spur household income and strengthen aggregate demand, helping external rebalancing.

	Thailand
Foreign asset and liability position and trajectory	**Background**. The net international investment position (NIIP) improved steadily from -48 percent of GDP in 2000 to -2 percent of GDP in 2009. Subsequently, the NIIP declined to -24 percent of GDP in 2014, despite CA surpluses averaging 1.6 percent of GDP, largely due to valuation changes and other stock-flow adjustments. 2/ The NIIP further declined to around -7 percent of GDP in 2017 with steady increase in gross assets, accompanied by a rising CA surplus and subdued FDI, amid steadily rising outward investment by residents. **Assessment**. In 2017, gross assets were 100 percent of GDP (44 percent being reserve assets) and gross liabilities were 107 percent of GDP (dominated by non-debt liabilities). External debt declined from nearly 35 percent of GDP in 2014 to 32.7 percent of GDP (one-fifth being public debt). Short term debt stood at 14 percent of GDP. There are limited risks to external debt sustainability as external debt is projected to remain relatively low over the medium term and net foreign liabilities as a share of GDP are expected to stabilize.
Current account	**Background**. Thailand's current account (CA) has been volatile over the last decade, ranging from a deficit of 4 percent of GDP in 2005 to a surplus of 7¼ percent of GDP in 2009. The CA then dropped to a deficit of 1¼ percent of GDP by 2013 and rose back to a record surplus of 11.7 percent of GDP in 2016 (with the 5-year average of 4.4 percent of GDP). The 12.9 percent of GDP turnaround in the CA between 2013-16 can be largely accounted for by a 5.8 percent of GDP decline in net oil imports and a 3 percent of GDP rise in the services balance (mainly tourism). Net oil imports and tourism also account for the bulk (two-thirds) of the increase in the CA in 2016. The CA surplus modestly declined to 10.6 percent of GDP in 2017, reflecting an increase of imports of 1½ percent of GDP. **Assessment**. The EBA CA model estimated a small (0.4 percent of GDP) terms-of-trade (ToT) cyclical adjustment, with a cyclically-adjusted 2017 CA of 10.2 percent of GDP and a CA norm of 1.2 percent of GDP. The CA gap of 9.0 percent of GDP consists of an identified policy gap of 2.3 percent of GDP (1.7 percent of GDP from domestic policy gaps), and an unexplained residual of 6.7 percent of GDP. The large unexplained residual partly reflects Thailand-specific features not fully captured by the EBA model. Notwithstanding continued improvement in ToT and the boom in tourism, private domestic demand remained weak, reflecting a cautious response to these positive shocks during the ongoing political transition that weighed on private sector confidence. Considering these factors, staff assesses the CA surplus to be 3.5 percent to 7.5 percent of GDP larger than the level consistent with medium-term fundamentals and desirable policies.3/ The CA gap is expected to narrow over the medium term, as policy stimulus is deployed, political uncertainty dissipates, private confidence recovers, and steps are taken to reform the safety net.
Real exchange rate	**Background**. The baht has been on a broadly stable real effective exchange rate (REER) appreciation trend since the mid-2000s. Exceptional periods were the Fed's tapering talk in mid-2013 and the domestic monetary policy easing cycle in 2015: Q1, when the baht depreciated for several quarters. The REER resumed its gradual real appreciation trend in 2016 and continued this trend in 2017. In 2017, the REER appreciated by 3.4 percent relative to 2016 4/. **Assessment 5/**. Using an elasticity of 0.6, staff assesses the 2017 REER to be 6 percent to 13 percent below levels consistent with medium-term fundamentals and desirable policies. This gap is expected to narrow over the medium term as policy stimulus and structural reform are deployed, supporting domestic demand and a growth-driven real exchange rate appreciation process.
Capital and financial accounts: flows and policy measures	**Background**. The capital and financial account balance has been negative since 2013. In 2017, the net negative balance amounted to 4 percent of GDP. Outward FDI hit a record high of 4.6 percent of GDP owing to Thai firms' overseas investment. Outward portfolio investment reached 2.6 percent of GDP (two-thirds are equity securities), higher than portfolio inflows of 2.1 percent of GDP (mostly concentrated in the long-term securities issued by the government and corporate sectors). Net other investment outflows was about 1 percent of GDP. The authorities continued with financial account liberalization, encouraging outward investment by residents. **Assessment**. Up to 2013, Thailand enjoyed overall portfolio inflows benefiting from its strong fundamentals. But from 2013, Thailand has faced headwinds, including the Fed's interest rate lift-off, China's slowdown, and political uncertainty. Capital outflows are manageable considering the resilient external sector and the flexibility of the baht, partially offsetting the current account surplus.
FX intervention and reserves level	**Background**. The exchange rate regime is classified as (de jure and de facto) floating. International reserves were 44½ percent of GDP in 2017, standing at over three times short-term debt, 234 percent of the IMF's reserve metric unadjusted for capital controls, and 278 percent of the metric adjusted for capital controls. Staff considers the unadjusted adequacy metric to be more appropriate. (The adjusted metric relies on de jure capital controls, which fail to capture recent liberalization measures and the extent to which controls are binding). **Assessment**. Interventions appear to have been mostly one-sided, as suggested by the sizable and continuous monthly increase in the stock of reserves and FX forward position during 2017 (the only proxies for intervention, as actual intervention data are not published). International reserves (including net forward position) increased by US$41.7 billion (9 percent of GDP) during 2017. Reserves are higher than the range of IMF's adequacy metrics and there is no need to build up reserves for precautionary purposes. The exchange rate should move flexibly, acting as a shock absorber, with intervention limited to avoiding disorderly market conditions.
Technical Background Notes	[1] The assessment is based on the current EBA model. Preliminary figures from the refined model indicate a similar assessment. [2] These persistent negative valuation effects during 2010-14 have been driven mainly by capital inflows contributing to the growth of asset prices and baht appreciation. [3] The EBA model has a very large (and rising since 2013) unexplained residual for Thailand, likely driven by imperfect measurement of the large, positive ToT shock, the boom in tourism, and political uncertainty. Staff adjustments improve the measurement of these Thailand-specific cyclical and transitory factors through (i) updated weights in the EBA terms of trade index, with an adjustment of 1-1.5 percent of GDP; (ii) an estimate of the cyclical component in the recent boom in tourism, with an adjustment of 0.5-1.0 percent of GDP; and (iii) an estimate of the transitory impact of the ongoing political transition not captured by the institutional quality variables included in the EBA model, with an adjustment of 0 -3 percent of GDP. Moreover, the public health expenditure variable does not fully reflect the largely underdeveloped social safety nets, including low minimum pensions accruing to the large informal sector, which contribute to the current high levels of precautionary savings. [4] The REER appreciated more than 6 percent since 2005. [5] The EBA index REER gap in 2017 is estimated at -3.3 percent; the EBA level REER gap is estimated at -12.1 percent.

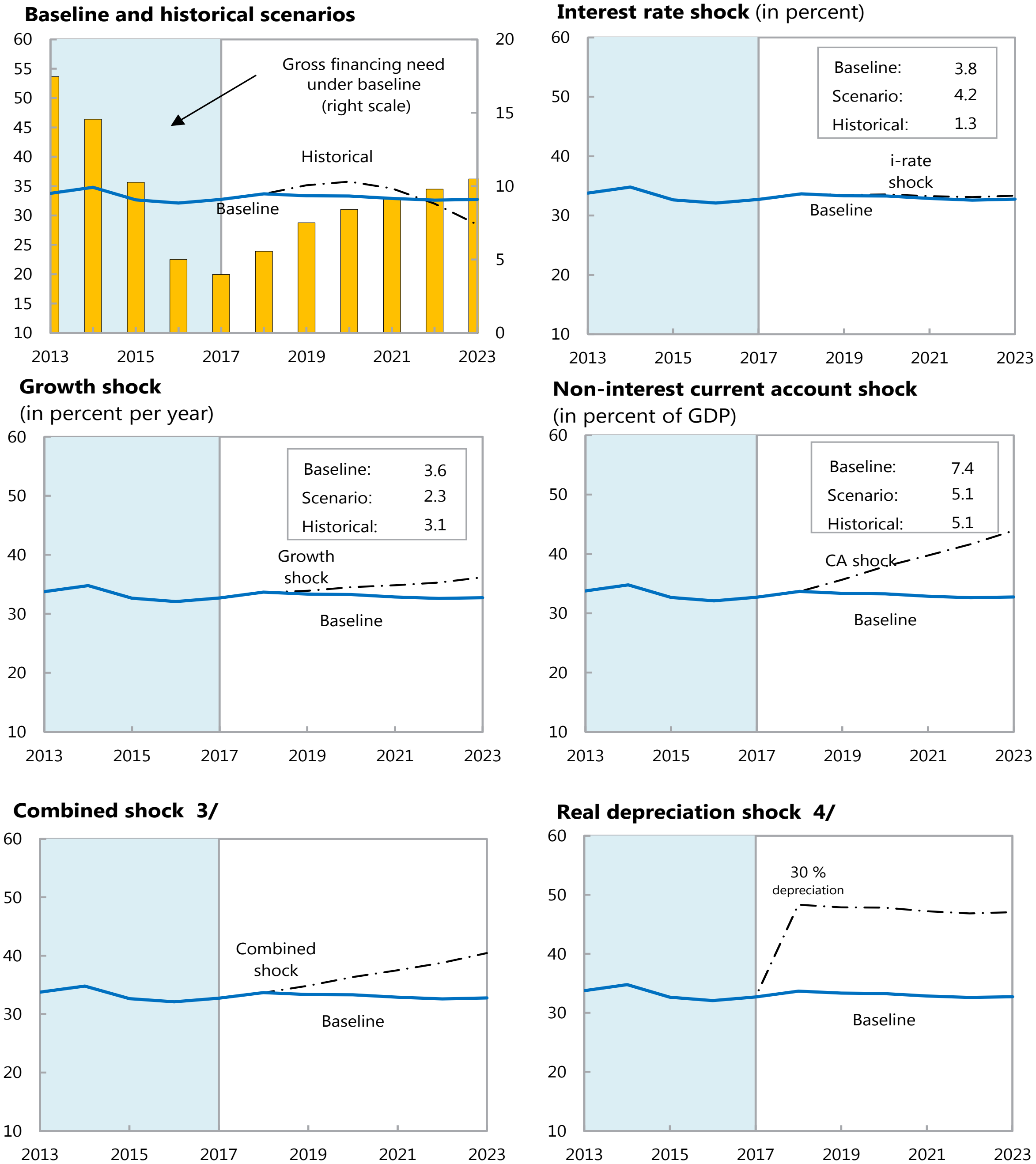
Overall Assessment
Overall Assessment 1/ *The external position in 2017 was substantially higher than warranted by medium-term fundamentals and desirable policy settings.* Despite a modest decline, the current account remained large, reflecting a cautious response of domestic demand to large, positive income shocks amid political uncertainty, as well as structural challenges. The REER appreciation trend continued in 2017. **Potential Policy Responses** External rebalancing requires a concerted policy effort to support domestic demand and a gradual, sustained appreciation of the REER over the medium term. Mutually reinforcing monetary and fiscal stimulus, coupled with structural reforms, should support domestic demand and help lower the current account gap over time. Such strategy would facilitate the needed REER appreciation through a growth-driven process, boosting real incomes. The boost to public infrastructure within available fiscal space should crowd-in private investment. The authorities should continue addressing structural rigidities by reforming social safety nets, notably the fragmented pension schemes compounded by widespread informality, and reducing barriers to investment, especially in the services sector. The exchange rate should move flexibly as the key shock absorber. Intervention should be limited to avoiding disorderly market conditions. Reserves exceed all adequacy metrics, thus there is no need to build up reserves for precautionary purposes.

Appendix V. External Debt Sustainability Analysis

Summary. Thailand's external debt is projected to remain relatively low over the medium term, reaching 32.8 percent of GDP in 2023 under the baseline scenario. Stress tests indicate that external debt would remain stable under various scenarios such as higher interest rate, weaker GDP growth, a lower current account balance, and a one-time 30 percent depreciation of the baht. Under these stress scenarios, the external debt-to-GDP ratio rises somewhat above the baseline over the projection period. In the case of the exchange rate depreciation scenario, the debt ratio would rise to about 48.3 percent of GDP. However, this scenario does not take into account the adjustment that trade flows would have if such depreciation were to occur (i.e., a sharp improvement in the current account that would significantly bring down the debt ratio).

Thailand: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2018.

Appendix VI. Public Debt Sustainability Analysis

Thailand Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

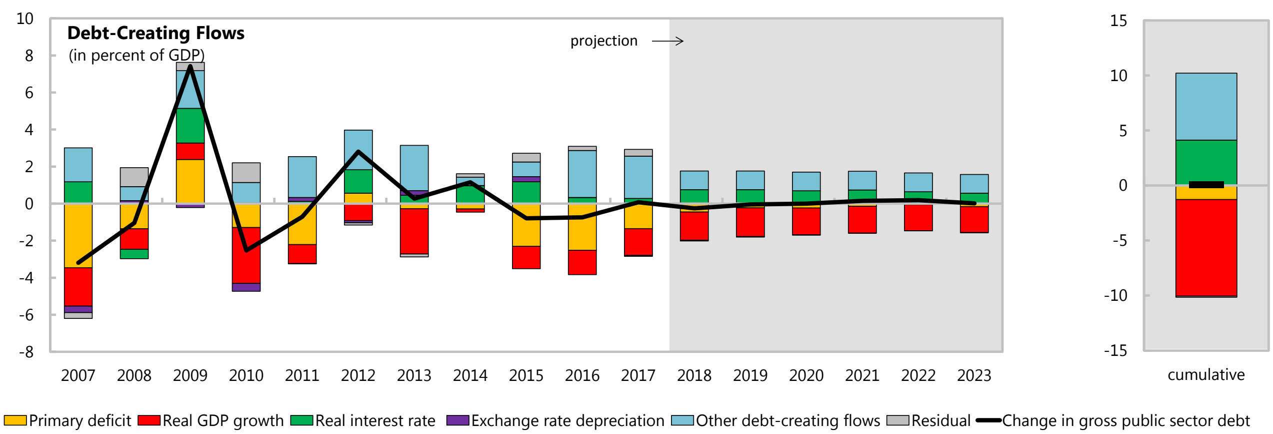
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2007-2015 [2/]	2016	2017	2018	2019	2020	2021	2022	2023
Nominal gross public debt	40.4	41.8	41.9	41.6	41.6	41.6	41.7	41.9	41.9
Of which: guarantees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public gross financing needs	6.1	3.9	5.1	5.7	6.2	6.1	5.7	5.4	4.9
Real GDP growth (in percent)	3.3	3.3	3.7	3.8	3.9	3.7	3.6	3.6	3.5
Inflation (GDP deflator, in percent)	2.4	2.1	2.4	1.3	1.1	1.2	1.2	1.5	1.9
Nominal GDP growth (in percent)	5.8	5.4	6.2	5.1	5.0	4.9	4.9	5.2	5.5
Effective interest rate (in percent) [4/]	4.4	2.9	3.2	3.2	3.0	3.0	3.1	3.2	3.4

As of January 18, 2018		
Sovereign Spreads		
EMBIG (bp) 3/		-29
5Y CDS (bp)		41
Ratings	Foreign	Local
Moody's	Baa1	Baa1
S&Ps	BBB+	A-
Fitch	BBB+	BBB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.4	-0.7	0.1	-0.3	0.0	0.0	0.1	0.2	0.0	0.0	0.2
Identified debt-creating flows	0.1	-1.0	-0.3	-0.2	0.0	0.0	0.2	0.2	0.0	0.1	
Primary deficit	-0.9	-2.5	-1.4	-0.5	-0.2	-0.2	-0.1	0.0	-0.2	-1.3	
Primary (noninterest) revenue and grants	23.6	24.7	23.9	24.1	24.3	24.3	24.3	24.3	24.2	145.5	
Primary (noninterest) expenditure	22.7	22.2	22.5	23.7	24.1	24.1	24.1	24.2	24.0	144.2	
Automatic debt dynamics [5/]	-0.5	-1.0	-1.2	-0.8	-0.8	-0.8	-0.7	-0.8	-0.8	-4.7	
Interest rate/growth differential [6/]	-0.5	-1.0	-1.2	-0.8	-0.8	-0.8	-0.7	-0.8	-0.8	-4.7	
Of which: real interest rate	0.7	0.3	0.3	0.7	0.7	0.7	0.7	0.6	0.6	4.1	
Of which: real GDP growth	-1.2	-1.3	-1.4	-1.5	-1.5	-1.5	-1.4	-1.4	-1.4	-8.8	
Exchange rate depreciation [7/]	0.0	0.0	-0.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	1.5	2.5	2.3	1.0	1.0	1.0	1.0	1.0	1.0	6.1	
Please specify (1) (e.g., drawdown of deposits) (negative)	1.5	2.5	2.3	1.0	1.0	1.0	1.0	1.0	1.0	6.1	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroarea loans)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.3	0.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	



Source: IMF staff.

1/ On fiscal year basis. Public sector debt includes central government debt, nonfinancial SOEs' debt, and SFI guaranteed debt.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi (1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

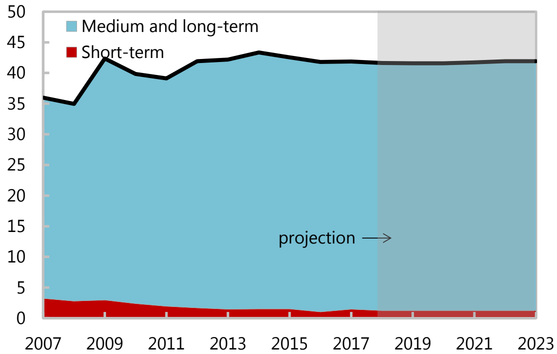
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Thailand Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

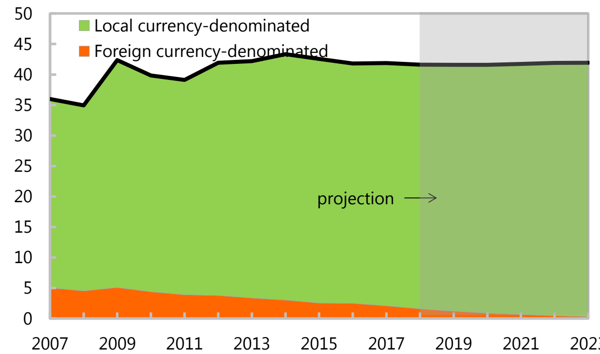
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

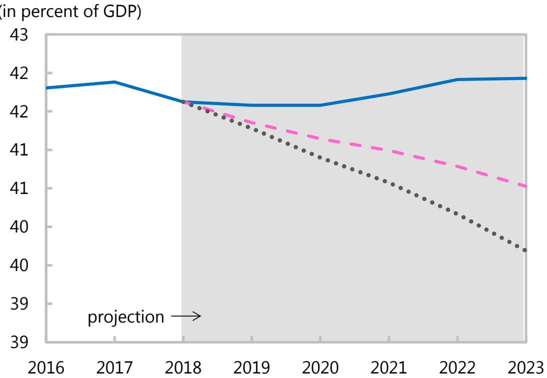


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

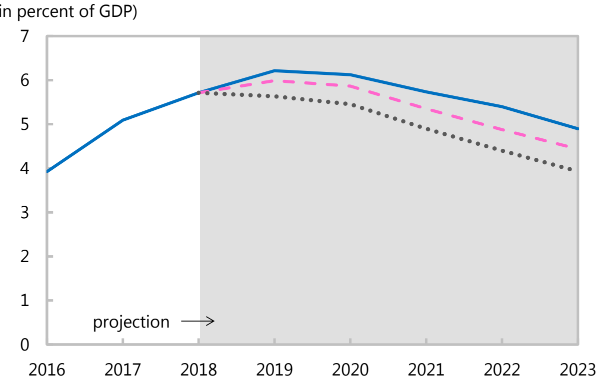
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	3.8	3.9	3.7	3.6	3.6	3.5
Inflation	1.3	1.1	1.2	1.2	1.5	1.9
Primary Balance	0.5	0.2	0.2	0.1	0.0	0.2
Effective interest rate	3.2	3.0	3.0	3.1	3.2	3.4
Constant Primary Balance Scenario						
Real GDP growth	3.8	3.9	3.7	3.6	3.6	3.5
Inflation	1.3	1.1	1.2	1.2	1.5	1.9
Primary Balance	0.5	0.5	0.5	0.5	0.5	0.5
Effective interest rate	3.2	3.0	3.0	3.1	3.2	3.4

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	3.8	3.1	3.1	3.1	3.1	3.1
Inflation	1.3	1.1	1.2	1.2	1.5	1.9
Primary Balance	0.5	0.9	0.9	0.9	0.9	0.9
Effective interest rate	3.2	3.0	3.0	3.1	3.2	3.3

Source: IMF staff.

INTERNATIONAL MONETARY FUND

THAILAND

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 2, 2018

Prepared By Asia and Pacific Department

CONTENTS

FUND RELATIONS

(As of March 31, 2018)

Membership Status: Joined 05/03/1949; Article VIII.

Article VIII Status: Thailand has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions.

General Resources Account:

	SDR Million	**Percent Quota**
Quota	3,211.90	100.00
Fund holdings of currency	2,772.39	86.32
Reserve position in Fund	439.52	14.33
Lending to the Fund		
New Arrangements to borrow	36.61	

SDR Department:

	SDR Million	**Percent Allocation**
Net cumulative allocation	970.27	100.00
Holdings	977.95	100.79

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

In millions of SDR

Type	**Approval Date**	**Expiration Date**	**Amount Approved**	**Amount Drawn**
Stand-by	8/20/97	6/19/00	2,900.00	2,500.00
Stand-by	6/14/85	12/31/86	400.00	260.00

Projected Obligations to Fund
(SDR million; based on existing use of resources and present holdings of SDRs):

	2018	**2019**	**2020**	**2021**	**2022**
Principal					
Charges/interest	0.03	0.03	0.03	0.03	0.03
Total	**0.03**	**0.03**	**0.03**	**0.03**	**0.03**

Exchange Rate Arrangement:

The de jure and de facto exchange rate arrangements are classified as floating. Under the inflation-targeting monetary policy framework, the value of the baht is allowed to be determined by market forces, reflecting demand and supply in the foreign exchange market. In the case that the resulting movements in Thai baht (THB) are deemed excessive and unjustified by fundamentals, foreign exchange intervention can be undertaken.

During 2017, the REER appreciated at an increasing pace, resulting in 3.4 percent real effective appreciation and 9.6 percent nominal appreciation versus the dollar. The large current account surplus and sizable portfolio inflows were the main drivers, only partially offset by net outflows in FDI and other investment.

Last Article IV Consultation:

Thailand is on the standard 12-month Article IV consultation cycle. The previous Article IV consultation was concluded on May 17, 2017. Copy of the Staff Report could be downloaded from this link.

Recent Technical Assistance:

FAD: A mission in January 2018 reviewed the design and administration of the Government Welfare Program and the Low-Income Earners Registry, and proposed changes that may improve the coverage, targeting effectiveness, and adequacy of social assistance benefits.

STA: A mission in February 2018 provided technical assistance on compilation of a national residential property price index, aiming at improving the methodologies and further developing property price statistics.

MCM: A mission in March 2018 reviewed the functioning of the newly established Financial Stability Unit and macroprudential stress-testing framework, aiming at helping Thailand to acquire a fully functioning analytical and policy making capacity to maintain financial stability.

Resident Representative: None

BANK-FUND COLLABORATION

Thailand: JMAP Implementation Table			
Title	**Products**	**Provisional Timing of Missions**	**Delivery Date (tentative)**
A. Mutual information on relevant work programs			
Bank work program	Thailand-World Bank Group Public Engagements	Ongoing	Continuous
	Thailand Economic Monitor	Bi-annual	April 2018 and October 2018
	Supporting Gender and Social Inclusion in Thailand and Malaysia's Country Programs	Ongoing	December 2018
	Improving Thailand's Railway Sector Competitiveness	Ongoing	December 2018
	Enhancing Efficiency and Value for Money of Public Expenditures	Ongoing	December 2018
	A Guided Self-Assessment Against the Full Set of Insurance Core Principles Project	Ongoing	December 2018
IMF work program	2018 Article IV mission	March 2018	Board discussion expected in May 2018
	2018 Staff Visit	Fall 2018	
B. Request for work program inputs			
Fund request to Bank	Assessment of economic developments and structural policies	Semi-annual or more frequent	Ongoing
	Information sharing	Semi-annual or more frequent	Ongoing
Bank request to Fund	Assessment of macroeconomic developments and policies	Semi-annual or more frequent	Ongoing
	Information sharing	Semi-annual or more frequent	Ongoing
	Share information on Technical Assistance work on Medium Term Fiscal Framework, State Financial Institutions	Semi-annual	Ongoing

STATISTICAL ISSUES

(As of April 13, 2018)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance. The authorities have continued to improve the quality and coverage of data. The dissemination of additional data may enhance the basis for macroeconomic analysis.
National accounts: The National Economic and Social Development Board (NESDB) compiles annual and quarterly GDP estimates using both the production and expenditure approaches. The annual GDP volume measures are derived at previous year's prices and as chain-linked indices with 2002 as the reference year. The NESDB introduced new quarterly GDP current price and chain-linked volume estimates in May 2015. **Price statistics**: The Bureau of Trade and Economic Indexes (BTEI) compiles and disseminates a monthly consumer price index with weights based on expenditure data collected from households during the 2015 Socio-Economic Survey since January 2017. Index coverage is restricted to middle-income urban households. In addition to headline CPI, the BTEI publishes aggregate indexes for the low-income and rural populations. The BTEI also publishes monthly producer price index with base year 2010. The Bank of Thailand disseminates a RPPI covering metropolitan Bangkok and STA has provided technical assistance towards broadening coverage to include other regions.
Government finance statistics: The authorities provide data to the Fund consistent with the *Government Finance Statistics Manual*, 2014 (GFSM 2014). Data are contributed to both the *Government Finance Statistics Yearbook* and the *International Finance Statistics*. General government fiscal data are provided to the IMF annually and the authorities publish monthly data for key GFS-based numbers for the general government on their website. In addition, the authorities compile GFSM 2014-based data for selected nonfinancial state-owned enterprises (SOEs), although with substantial delays. The authorities also publish public sector debt data in their website, including debt of nonfinancial SOEs and Specialized Financial Institutions.
Monetary statistics: The authorities submit the Standardized Reporting Forms (SRFs) for monetary statistics on a timely basis for publication in *IFS*. The reported SRFs include the central bank, other depository corporations, and other financial corporations (OFCs). **Financial Soundness Indicators**: The authorities report 11 of the 12 core financial soundness indicators (FSIs) and 7 of the 13 encouraged FSIs for deposit takers, one FSI for OFCs, one for households, and 3 FSIs for real estate markets—on a quarterly basis—for posting on the IMF's FSI website with about one quarter lag.
External sector statistics: The Bank of Thailand (BOT) compiles and disseminates balance of payments (BOP) and international investment position (IIP) statistics with quarterly frequency following the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*). The quarterly BOP and IIP are available for 2017Q4 (at the time of assessment). The historical data on *BPM6* based BOP and IIP goes back to 2005—a longer historical series would be useful. The methodology for compiling balance of payments data remains adequate.

Additional source data to complement the international transactions reporting system (ITRS) have been developed recently and coverage has been expanded to include estimates of reinvested earnings and worker remittances outflows. Further improvements are expected to enhance the data coverage and accuracy of BOP and IIP statistics, particularly in areas where new concepts have been introduced by BPM6 such as in goods and services. Data on external debt and debt service have significantly improved since the introduction of a quarterly survey of private nonbank external debt. The BOT participates in the coordinated direct and portfolio investment surveys of STA and regularly reports International Reserves and Foreign Currency Liquidity Data Template.	
II. Data Standards and Quality	
Subscriber to the Special Data Dissemination Standard (SDDS) since 1996.	Data ROSC published in April 2006.

Thailand: Table of Common Indicators Required for Surveillance

As of April 13, 2018

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	4/13/2018	4/13/2018	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	2/2018	3/22/2018	W	W	W
Reserve/Base Money	2/2018	3/22/2018	M	M	M
Broad Money	2/2018	3/22/2018	M	M	M
Central Bank Balance Sheet	2/2018	3/22/2018	M	M	M
Consolidated Balance Sheet of the Banking System	2/2018	3/22/2018	M	M	M
Interest Rates[2]	4/13/2018	4/13/2018	D	D	D
Consumer Price Index	3/2018	4/1/2018	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	2017	3/2018	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	9/2017	3/2018	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	9/2017	3/2018	M	M	M
External Current Account Balance	12/2017	2/2018	M	M	M
Exports and Imports of Goods and Services	12/2017	2/2018	M	M	M
GDP/GNP	2017: Q4	2/2018	Q	Q	Q
Gross External Debt	12/2017	3/2018	M	M	M
International Investment Position	2017: Q4	3/2018	Q	Q	Q

[1]Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

Statement by Mr. Juda Agung, Executive Director for Thailand, and Mr. Kaweevudh Sumawong, Senior Advisor to the Executive Director
May 21, 2018

1. The Thai authorities would like to express their sincere appreciation to the IMF mission team for the constructive and candid discussions, which centered on policies towards a more balanced-growth. While the emphases of the authorities differ from staff's recommendations on a few points, they welcome staff's assessment of Thailand's positive economic outlook with sustained growth momentum in the near term and broadly share staff's view on risks to growth.

Recent Developments and Near-Term Outlook

2. **Economic growth continues to gain further traction. The economy grew by 3.9 percent in 2017, higher than staff's projection of 3.2 percent in the Article IV Staff Report last year**, reflecting positive developments in the Thai economy. Going forward, the growth momentum is expected to continue, and be driven by exports of goods and services, while domestic demand will improve gradually. The authorities also expect public investment, especially in infrastructure projects, to continue to support growth. Economic growth is expected to be more balanced and is projected to grow by 4.1 percent in 2018.

3. **While the overall risk to growth is expected to be balanced in the near-term, the Thai economy faces downside risks, particularly on the external front.** Stronger-than-expected external demand presents an important upside risk to the outlook; however, uncertainties pertaining to economic and foreign trade policies of major economies as well as geopolitical risks could have an adverse impact on the Thai economy. Against this background, structural challenges which hindered domestic demand need to be addressed and the authorities remain committed to undertaking such structural reforms towards a more broad-based, balanced, as well as sustained growth.

Monetary Policy

4. **The views of the authorities differ from staff on the need for further monetary policy easing.** The Monetary Policy Committee (MPC) maintains that the policy rate of 1.5 percent is appropriately accommodative. Short-term government bond yields have moved below the policy rate, implying sufficiently accommodative liquidity and credit conditions. Unlike conditions in Advanced Economies during the GFC, economic and financial conditions in EMEs do not warrant abnormally low policy rate or near zero lower bound as the downside risks on saving incentives and financial stability far outweigh the extra push to bring headline inflation to target.

5. **Under the current circumstance of weak monetary policy transmission mechanism**, the benefits of a policy rate cut would have to be better calibrated against the risks to financial stability. They are particularly concerned that further easing might exacerbate the already-high level of household debt as well as the search-for-yield behaviors that could lead to underpricing of risk which is detrimental to long term sustainable growth.

6. **The MPC has continuously communicated their policy intention under the flexible inflation targeting framework**, especially the need to balance between achieving the inflation target and limiting financial vulnerabilities. As the ultimate goal of macroeconomic policy is long-run economic welfare, the pursuit of inflation target should be done flexibly, as price stability without financial stability could be counter-productive.

7. **While inflation has previously been influenced largely by supply-side factors, medium-term inflation expectations remain well-anchored.** Inflation in April edged up to 1.07 percent, reaching the lower bound of the target range. The authorities expect headline inflation to continue to pick up gradually on the back of stronger domestic demand and higher oil prices. In addition, recent Business Sentiment Index survey confirms an inflation expectation of around 2 percent, falling within the target range of 2.5±1.5 percent.

8. **On staff's recommendation to address financial stability concerns through counter-cyclical macroprudential policy, the authorities view that it has proved somewhat challenging in practice** due to limited institutional capacity. Targeting macroprudential measures in specific sectors may push financial activities to the areas outside regulatory umbrella. **The authorities believe that macroprudential tools should be used to complement rather than offset broad stance of monetary policy.**

Foreign Exchange Policy

9. **The authorities commit to having a flexible exchange rate as a primary shock absorber and stress that market intervention was never intended to resist trend appreciation.** But to avoid disorderly market adjustment that could derail the recovery, intervention is necessary during the episodes of intense capital inflows, resulting from excessive global liquidity. This is partly because Thai Baht has been perceived as a safe haven asset by foreign investors. In 2017, Thai Baht appreciated by 4.4 percent in REER terms and around 10 percent against the U.S. dollars, making Thai Baht one of the best performing currencies in East Asia. In this light, the ongoing policy normalization in advanced economies is welcome as it has presented opportunities for the authorities to downsize the central bank's balance sheet in the past months.

10. **The authorities are concerned that the publication of FX intervention data might induce self-fulfilling speculative activities on Thai Baht and further complicate central bank's FX operations**. The authorities view that their publication of international reserves

on a weekly basis already exceeds international standard on data transparency. In addition, they call for staff's careful interpretation in its analysis of change in reserves, as part of it was valuation change.

11. **On the external balance assessment, the authorities welcome staff's acknowledgement that the large current account surplus in recent years is attributed to Thailand's structural factors, which could not be fully explained by the EBA model – e.g. structural rigidities related to developments in tourism sector.** Given that structural adjustment would take time to materialize, the authorities stress that external rebalancing should not burden solely on exchange rate adjustment. The appropriate mix of policies and measures must be pursued flexibly in light of changing economic circumstances specific to each country to achieve not only external rebalancing, but also economic and financial stability.

12. **The current account surplus has been adjusting in the right direction and will continue to decline over the medium term.** The authorities note that the ongoing public investment, including the Eastern Economic Corridor (EEC) and a number of structural reform projects, should strengthen domestic demand and moderate the current account surplus going forward.

Financial Sector Developments

13. **The authorities are encouraged by staff's assessment that the Thai financial system remains sound.** While the banking sector has been profitable, with adequate capital buffers and provisions, as reflected by the core financial soundness indicators, the authorities have taken further steps to strengthen the financial stability framework. Importantly, the five largest banks have been defined as Domestically Systemically Important Banks (D-SIBs) requiring them to hold additional capital. In addition, the authorities introduced macroprudential policies to tighten limits on credit card debt and personal loans in September 2017 with an aim to containing risks from high household debt. As rightly pointed out by staff, there has also been greater coordination and cooperation among key financial regulators in jointly addressing the bouts of volatility. Going forward, the authorities will remain vigilant to the change in financial landscape from the development of Financial Technology and potential challenges arising from cybersecurity issues.

14. **The authorities are of the view that vulnerabilities in the non-banking sector, if not properly contained, could have adverse impact on economic and financial stability.** While household debt data on banks' balance sheets are benign, real debt obligation-to-income remains high and deleveraging process has been slow. The search-for-yield behavior could lead to the underpricing of risk as witnessed, for instance, in the expanded size of saving cooperatives. The authorities have developed a macro-stress testing exercise that

would help improve the overall soundness of Thai financial stability. They will continue to closely monitor pockets of risks in the financial system and look forward to the upcoming FSAP which will help further identify risks in the financial system.

Fiscal Policy and Structural Reforms

15. **The authorities will use the fiscal space to achieve the long-term objective of uplifting potential growth through infrastructure improvement.** The authorities agree that a large scale of public investment through the implementation of EEC and other logistic projects will crowd-in private investment and help promote external rebalancing. While noting benefits associated with scaling up and frontloading public investment, the authorities underscore that the existing fiscal space must be utilized efficiently and in a well-targeted manner.

16. **The authorities are aware of the need to address rising age-related spending over the medium to long term horizon.** While recognizing that VAT rate increase could strengthen revenue, they are mindful that such policy action at this juncture might dampen the nascent domestic demand. In this connection, the authorities are cognizant of the need to find an alternative source of revenue, such as the revision to property and inheritance tax, to prepare for demographic shift. Progress has been made towards a comprehensive review of the pension system to enhance adequacy, coverage and sustainability with the establishment of the National Pension Committee.

17. **On structural reform agenda, the authorities are determined to enhance economic growth and productivity to help Thailand become a high-income country within two decades.** Guided by its National Strategy and National Reform Plans, the authorities intend to improve competitiveness and quality of human resources, as well as promote sustainable and inclusive growth. In this regard, the authorities have stepped up their efforts to improve the business climate. The new Trade Competition Act has become effective since October 2017 to help promote fairer trade and investment including less privilege for state-owned enterprises. Also, the authorities highlight significant improvement in ease of doing business in Thailand in recent years and will continue their endeavor to further reducing regulatory red tape. In addition, progress has also been made in advancing the education reform by reducing inequity and promoting teaching quality. At the same time, the authorities have strengthened the welfare program to be better targeted through a low-income earners registration program with occupational training opportunity to upgrade their labor skill and help achieve better living standards.

18. In principle, childcare provision could facilitate female labor force participation; however, it might be less of a critical issue in the case of Thailand. According to the ILO,

Thailand's estimated female labor force participation rate is standing at 68 percent compared to the OECD average of 63 percent.

Final Remarks

19. The Thai authorities would like to express their sincere appreciation to the Fund for its continuing support through policy dialogue and technical assistance to accelerate structural reforms and fortify macroeconomic and financial stability and look forward to continued support from the Fund. They would like to also thank the Fund in facilitating the preparation for the upcoming FSAP.