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Thailand

Ending 2017 on a positive note

By: Akrur Barua

Since 2015, Thailand's economy has been slowly finding its way. As the curtains fell on 2017, policymakers would have heaved a sigh of relief. GDP growth picked up pace during the year, the external sector strengthened, low inflation facilitated the continuation of accommodative monetary policy, and tourist inflows picked up in early Q4.

There are, however, a few challenges that the economy faces in the near to medium term. First, high household debt, which has weighed on consumer spending in recent years, is not likely to go away soon. Second, investments have been growing slowly; strong public spending on infrastructure—public debt and deficit levels are relatively low—can help change this scenario. Finally, any instability before the promised elections may undo the current uptick in momentum.

The economy picked up pace in Q3 2017

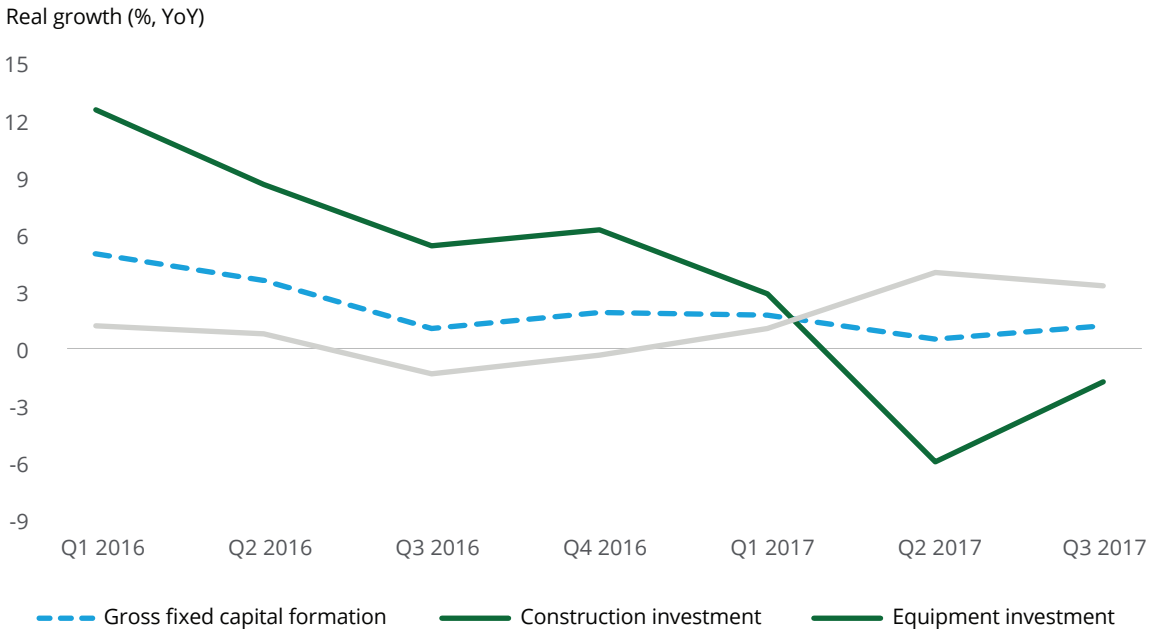
Real GDP expanded by 4.3 percent year over year in Q3 2017, picking up pace from the 3.8 percent rise in the previous quarter.[1] This has set the pace for the economy to come close to the 3.9 percent annual growth in 2017 forecasted by the Bank of Thailand (BOT).[2] After four years in the doldrums, the revival in agriculture growth in the first half of 2017 continued into the third quarter. Manufacturing (4.3 percent) also picked up pace in Q3, while services activity remained healthy. Construction, however, disappointed with a second straight quarter of contraction.

Among expenditure categories, growth in private consumption picked up slightly to 3.1 percent in Q3 from 3.0 percent in the previous quarter. Government consumption and exports also strengthened, adding to the impetus on growth. Investments, however, remain a sore point, despite a slight increase in Q3. Recent growth in gross fixed capital formation is nowhere near the strong years of 2003–2005 and 2010–2012. While equipment growth held steady at 3.3 percent in Q3, investment in construction contracted (figure 1). On a positive note, the scenario for construction is likely to improve this year as infrastructure projects get requisite approvals and policymakers refocus on a sector that is critical for potential long-term growth.[3]

Exports made a comeback in 2017

Exports rose by 7.4 percent in Q3, beating last quarter's 6.0 percent rise and marking the fastest pace of expansion since Q4 2012. While goods exports picked up pace in Q3, services growth declined, although the figure came in healthy at 4.9 percent. The strong momentum in exports has carried over into Q4. Merchandise exports (in US dollar terms), for example, increased by 13.1 percent in October and 13.4 percent in November, a slight pick-up from Q3.

Figure 1. Investment growth has been weak in recent quarters



Source: Haver Analytics; Deloitte Services LP economic analysis.

On the services side, inflows are likely to increase for the rest of Q4 due to the influx of tourists for the holiday season. In October, tourist arrivals went up by 20.9 percent in October, the sharpest increase in more than two years. The picture seems rosier than Q4 2016 when foreign tourist arrivals fell by 0.9 percent during the quarter. The mix of both trade and services revenues, in turn, have helped boost external balances. The current account (non-seasonally adjusted) was in surplus at 12.0 percent of GDP in Q3 with the trade balance also continuing with its string of monthly surpluses since April 2014.

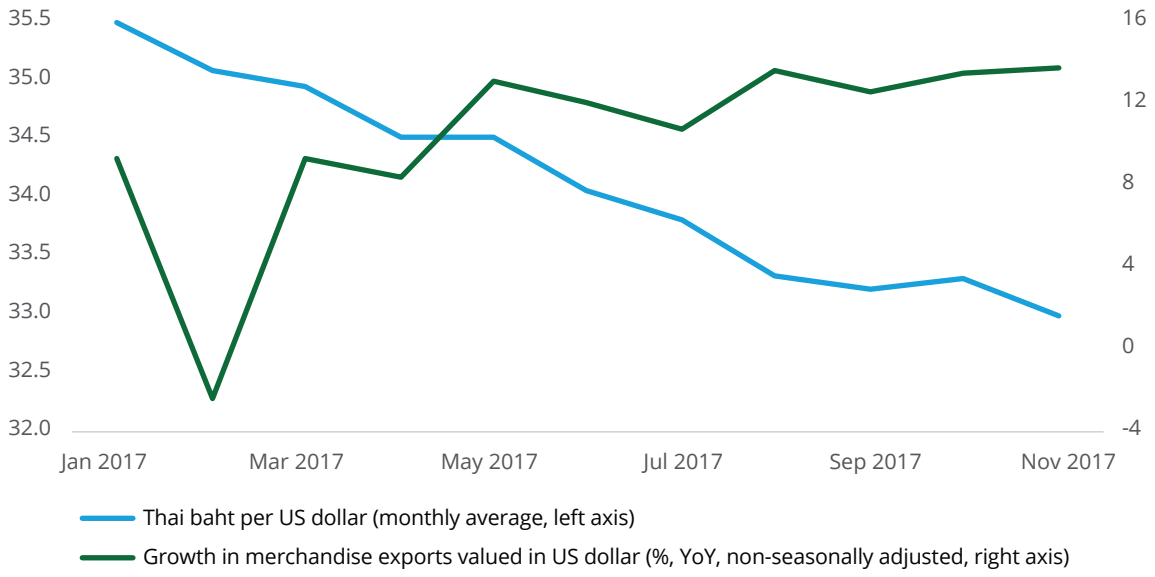
Interestingly, the uptick in exports this year has come at a time of appreciation of the baht against the US dollar (figure 2). This, however, indicates strong global demand fundamentals rather than exchange rate impact. The positive momentum on global demand is likely to continue into 2018: The International Monetary Fund, for example, expects global GDP growth to rise marginally to 3.7 percent in 2018 from 3.6 percent this year.[4] Headwinds for Thai exports may, however, emerge if China, a key export destination, slows and currency volatility rises due to a more-than-expected hike in interest rates in the United States.

BOT to remain wary of high household debt

In its December 2017 meet, the BOT continued with its easy monetary policy and kept the policy rate unchanged. The policy rate has now been unchanged since April 2015 when the bank had cut rates by 25 basis points to 1.5 percent. BOT's stance is primarily aimed at boosting growth. Low inflation has, of course, helped. At 1.0 percent year over year in November 2017, inflation is just about touching the lower limit of BOT's 1.0–4.0 percent target range. Core inflation also continues to be low (at 0.6 percent in November).

In keeping interest rates low, BOT is walking a tightrope. While low interest rates have aided economic growth, the central bank runs the risk of adding to already high levels of household debt. According to Oxford Economics, household financial liabilities as a share of disposable personal income are expected to decline slightly this year, but will continue to be high at 143.1 percent (figure 3); this is higher than the household debt levels that prevailed in the United States before the Great Recession.[5] Recent data on credit growth in Thailand sug-

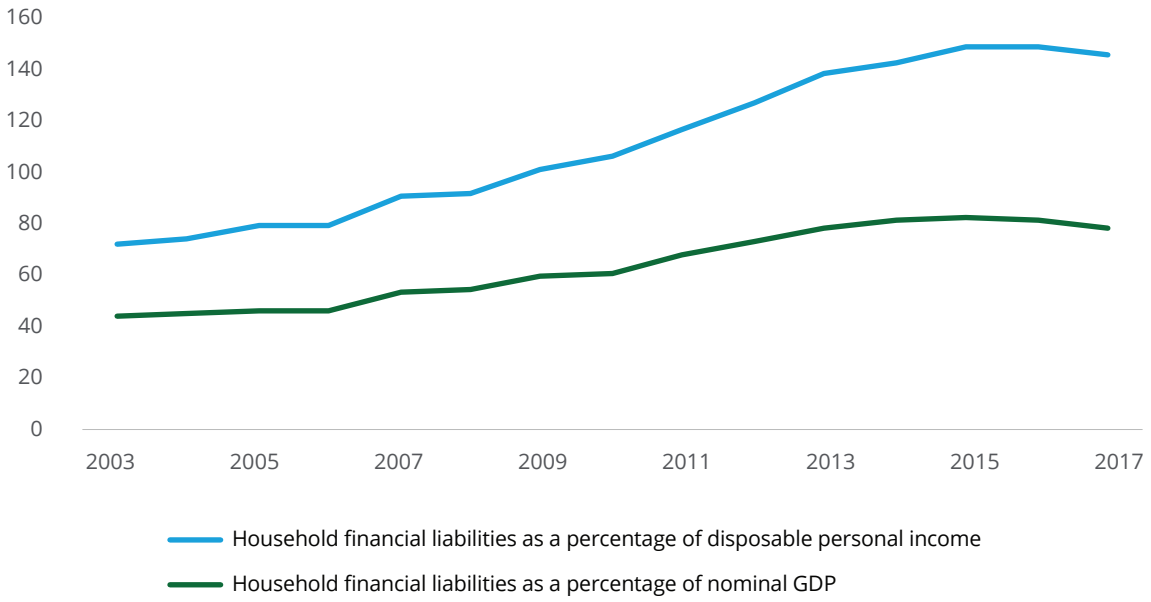
Figure 2. Exports growth picked up in 2017 despite a strengthening baht



Source: Haver Analytics; Deloitte Services LP economic analysis.

gests that BOT's fears are valid. For example, much of the uptick since early 2017 has been driven by households: While credit growth to businesses has been edging down, growth in credit for individuals has been rising since April 2017 (figure 4).

Figure 3. Households in Thailand will have to cut down on debt levels



Source: Haver Analytics; Deloitte Services LP economic analysis.

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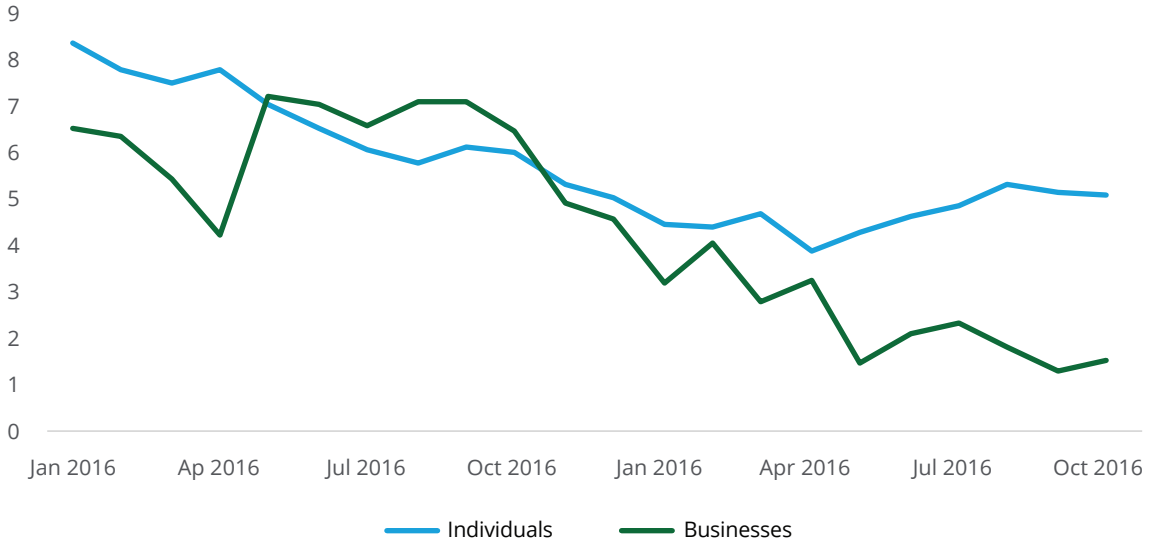
Figure 4. Individuals, not businesses, are driving credit growth

Growth in loans to individuals and businesses (%, YoY)



Source: Haver Analytics; Deloitte Services LP economic analysis.

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BOT, however, can find some comfort from banks' risk metrics. Gross non-performing loans, for example, as a share of total loans have not gone up by much over the past year—the ratio continues to hover below 3.0 percent. BOT will likely be hoping that this does not deteriorate, and that a stronger recovery in investments—as indicated by industry and investment sentiments—takes hold starting 2018.[6] That way, if households start deleveraging and personal consumption slows, the economy could find an alternate pillar of support.

ENDNOTES

1. All data, unless stated otherwise, has been sourced from Haver Analytics.
2. Bank of Thailand, sourced from Haver Analytics on January 3, 2018.
3. Natnicha Chuwiruch and Sunil Jagtiani, "Thailand to kickstart $45 billion economic revamp before polls," Bloomberg, September 28, 2017.
4. *World Economic Outlook*, International Monetary Fund, sourced from Haver Analytics on January 3, 2018.
5. "Global Economic Databank," Oxford Economics, sourced on January 3, 2018.
6. Thai Industries Sentiment Index, Federation of Thai Industries, sourced from Haver Analytics on January 3, 2018; Private Investment Index, Bank of Thailand, sourced from Haver Analytics on January 3, 2018.

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