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Thailand's Economic Projections 2016 and 2017

“The Thai economy is forecasted to expand by 3.3 percent in 2016 and prone to continuously grow by 3.4 percent in 2017”

Mr. Krisada Chinavicharana, the Director-General of the Fiscal Policy Office (FPO) stated that the FPO economic projections as of October 2016 anticipate the Thai economy is likely to grow by 3.3 percent in 2016 (or within a range of 3.0 – 3.5), higher than 2.8 percent growth last year. This economic expansion stems mainly from significant growth of government expenditure especially in public investment. Expediting disbursement policy and good disbursement performance in several public investment projects such as water resource management and transportation development as well as infrastructure development on transportation projects are the key supporting factors in establishing a decent progress in public sector. Moreover, a substantial amount of foreign tourists will have a tendency to advocate many businesses in tourism sector. For private consumption sector, the FPO expects that it would continuously grow from last year with higher rate of growth due to supporting level of employment and income in service sector. Additionally, low interest rate and the advancement of various government investment projects would accommodate the recovering trend in private investment sector. However, export of goods sector still has a negative growth rate as a result of fragile global economic recovery. For internal stability, headline inflation is forecasted to be 0.4 percent (or within a range of 0.1 - 0.6), higher than that of previous year, owing to higher domestic demand; nevertheless, it would remain low from a decreasing in global energy prices.

In 2017, the Thai economy is projected to grow at an annualized rate of 3.4 percent (or within a range of 2.9 – 3.9). This is due to the expectation of continuous growth in public expenditure particularly in several public infrastructure projects, which are expected to be launched in the second half of 2017 such as double-track railway system and commuting train system. Besides, a tendency of increasing trend in many commodities' price would facilitate farm income, which eventually leads to decent expansion in private consumption sector. For external demand, export of goods is anticipated to have a positive rate of growth from higher forecasted rate of global economic growth next year and the depreciation of Thai Baht in 2017. Furthermore, export of services would be inclined to have a positive trend from an assumption of a huge number of foreign tourists coming to the country. Lastly, headline inflation is predicted to be 2.1 percent (or within a range of 1.6 – 2.6) consistent with the assumption of an increase in crude oil price.

The Director-General also added that “For the economic projections, several risk factors should be elaborately considered such as a fragile recovery of trading partners' economies and the volatility of capital flows which could happen from developed countries' monetary policy”.

Major Assumptions and Economic Projections for 2016 and 2017 (As of October 2016)

		2016f		2017f	
		2014	2015	As of Oct 16	As of Oct 16
				Avg	Range
Major Assumptions					

<u>Exogenous Variables</u>						
1) Average Economic Growth Rate of Major Trading Partners (percent y-o-y)	3.66	3.48	3.25	3.00 to 3.50	3.34	2.84 to 3.84
2) Dubai Crude Oil Price (U.S. dollar per Barrel)	96.7	51.2	41.0	38.0 to 44.0	49.2	44.20 to 54.20
3) Export price in U.S. dollar (percent y-o-y)	-1.0	-2.3	-0.3	-0.8 to 0.2	1.6	0.60 to 2.60
4) Import price in U.S. dollar (percent y-o-y)	-1.8	-10.8	-2.6	-3.1 to -2.1	3.4	2.40 to 4.40
<u>Policy Variables</u>						
5) Exchange Rate (Baht per U.S. dollar)	32.5	34.2	35.2	34.65 to 35.65	35.3	34.25 to 36.25
6) Policy rate at year-end (percent y-o-y)	2.0	1.5	1.5	1.3 to 1.8	1.5	1.00 to 2.00
7) Public Expenditure(Trillion Baht)	2.92	3.20	3.38	3.36 to 3.40	3.51	3.47 to 3.55
8) Number of foreign tourists (Million)	24.8	29.9	33.3	32.8 to 33.8	37.2	36.24 to 38.24
Projections						
1) GDP Growth Rate (percent y-o-y)	0.8	2.8	3.3	3.0 to 3.5	3.4	2.9 to 3.9
2) Real Consumption Growth (percent y-o-y)						
- Real Private Consumption (percent y-o-y)	0.6	2.1	2.9	2.6 to 3.1	3.2	2.7 to 3.7
- Real Public Consumption (percent y-o-y)	2.1	2.2	3.1	2.8 to 3.3	2.0	1.5 to 2.5
3) Real Investment Growth (percent y-o-y)						
- Real Private Investment (percent y-o-y)	-1.0	-2.0	1.6	1.4 to 1.9	1.7	1.2 to 2.2
- Real Public Investment (percent y-o-y)	-7.3	29.8	10.7	10.4 to 10.9	6.2	5.7 to 6.7
4) Export Volume of Goods and Services (percent y-o-y)	0.2	0.2	3.2	3.0 to 3.5	2.6	2.1 to 3.1
5) Import Volume of Goods and Services (percent y-o-y)	-5.3	-0.4	0.7	0.4 to 0.9	3.1	2.6 to 3.6
6) Trade Balance (USD billion)	24.6	34.6	35.2	35.0 to 35.5	32.0	31.5 to 32.5
- Export Value of Goods in USD (percent y-o-y)	-0.3	-5.6	-0.5	-0.8 to -0.3	1.8	1.3 to 2.3
- Import Value of Goods in USD (percent y-o-y)	-8.5	-11.3	-5.1	-5.3 to -4.8	4.0	3.5 to 4.5
7) Current Account (billion U.S.)	15.4	32.0	34.9	34.6 to 35.1	32.8	32.3 to 33.3
- Percentage of GDP	3.8	8.1	8.8	8.5 to 9.0	7.9	7.4 to 8.4
8) Headline Inflation (percent y-o-y)	1.9	-0.9	0.4	0.1 to 0.6	2.1	1.6 to 2.6
Core Inflation (percent y-o-y)	1.6	1.1	0.8	0.5 to 1.0	0.9	0.4 to 1.4

Attachment: Thailand's Economic Projections 2016 and 2017 (in detail)

1. The Thai economy in 2016

1.1 Economic Growth

The FPO expects that the Thai economy in 2016 is prone to expand by 3.3 percent (or within a range of 3.0 – 3.5), higher than 2.8 percent in the previous year. This expansion is supported by significant growth of

government consumption and investment at annualized rate of 3.1 (or within a range of 2.8 – 3.3) and 10.7 (or within a range of 10.4 – 10.9) respectively. This sound performance is a result of expediting disbursement policy and good disbursement performance in water resource management, transportation development and infrastructure development on transportation projects. In addition, private consumption is expected to grow at an annualized rate of 2.9 (or within a range of 2.6 – 3.1), higher than that of previous year. This figure is in consequence of a recognized growth in tourism sector, which provides decent income and employment in service sector. Besides, several government policies supporting the poor and farmers through hard times could improve people's income and lead to a sound growth in private consumption sector. For the exports of goods and services growth, the FPO forecasts to be 3.2 percent (or within a range of 3.0 – 3.5), caused principally by an outstanding increase in number of foreign tourists, especially Chinese and Russian. However, the export of goods volume is unlikely to improve on account of fragile recovery of trading partner's economies. Furthermore, low interest rate and the advancement of various government investment projects would accommodate the recovering trend in private investment, which is expected to grow by 1.6 percent (or within a range of 1.4 – 1.9). Lastly, import of goods and services is anticipated to grow slightly by 0.7 percent (or within a range of 0.4 – 0.9).

1.2 Economic Stability

Overall, Thailand's economic stability remains robust. For internal stability, FPO projects that headline inflation would turn out to be positive again at 0.4 percent (or within a range of 0.1 – 0.6) due to higher domestic demand which could raise food and beverages prices. Nevertheless, a decrease in crude oil price is still the prior factor suppressing other prices and the inflation figure. In regard to external stability, current account is expected to be a surplus of USD 34.9 billion or 8.8 percent of GDP (or within a range of 8.5 – 9.0) from the estimated trade and services surplus this year. Trade surplus is forecasted to be USD 35.2 billion (or within a range of 35.0 – 35.5) thanks to the lower rate of export value contraction at -0.5 percent (or within a range of -0.8 to -0.3), compared to import value reduction rate of -5.1 percent (or within a range of -5.3 to -4.8).

2. The Thai economy in 2017

2.1 Economic Growth

The Thai economy in 2017 is forecasted to grow by 3.4 percent (or within a range of 2.9 - 3.9) due mainly to the supportive public spending. Public consumption is expected to expand by 2.0 percent (or within a range of 1.5 – 2.5). While public investment growth is estimated to be 6.2 percent (or within a range of 5.7 – 6.7), expanding from several public investment projects such as double-track railway system and commuting train system, which would be disbursed more in 2017. A good tendency of global economy expansion in 2017 combined with depreciation of Thai Baht would accommodate export of goods. Moreover, export of services is also projected to continuously grow well from a notable growth of international tourists which is expected to be 12 percent or 37.2 million people next year. Therefore, exports of goods and services are expected to grow by 2.6 percent (or within a range of 2.1 – 3.1). For private consumption, the FPO estimates a 3.2 percent growth (or within a range of 2.7 – 3.7) from the fact that commodities prices would have a good trend next year, following crude oil price. This could facilitate farmers' income and expenditure, whereas non-farmers would benefit from solid employment and good

economic environment. Finally, the FPO expects the private investment to expand by 1.7 percent (or within a range of 1.2 – 2.2). This growth is quite a low rate because firms are still having plenty of production ability left, observed by a low capacity utilization rate throughout this year. Besides, firms will be likely to see a rigid global economic recovery first before they decide to invest more.

2.2 Economic Stability

With regard to internal stability, oil exporters' agreement to raise the price next year by limiting oil production and the depreciation of Thai Baht play a crucial role in determining headline inflation forecast in 2017 to be 2.1 percent (or within a range of 1.6 – 2.6). For external stability, current account would be USD 32.8 billion or 7.9 percent of GDP (or within a range of 7.4 – 8.4). While trade balance is estimated to be USD 32.0 billion (or within a range of 31.5 – 32.5), lower than that of previous year estimate since the FPO projects that import of goods value is incline to grow faster than export of goods value. Import value in USD term in 2017 is projected to grow by 4.0 percent (or within a range of 3.5 – 4.5), whereas export value in USD term is forecasted to expand by 1.8 (or within a range of 1.3 – 2.3).

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