

Thailand's Cyclical Challenges and Structural Drivers



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July 2015

Outline

Recent Economic Situation and Outlook

Cyclical Challenges and Short-term Economic Policies

Structural Economic Policies for Medium-term Growth



Recent Economic Situation and Outlook



Cyclical Challenges and Short-term Economic Policies



Structural Economic Policies for Medium-term Growth

Economic Situations and Outlook

Dragged by political turmoil in H1/2014,

Thai economy has shown a gradual recovery since H2/2014 onward.

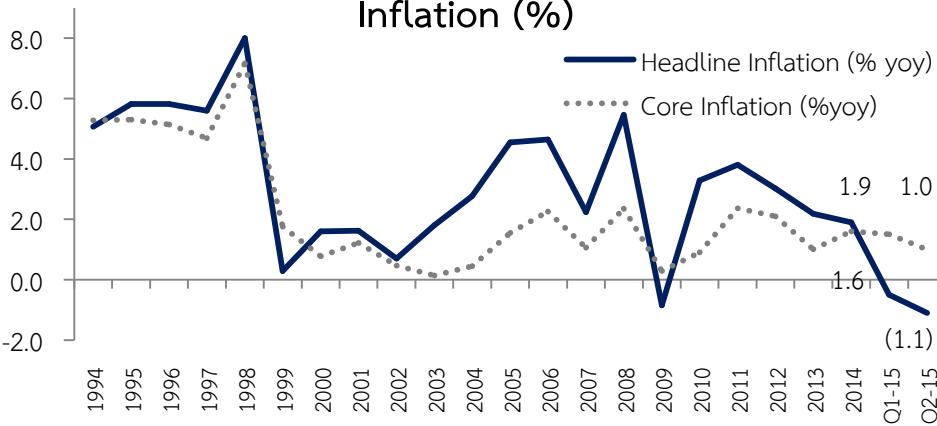
| (%YoY) | 2014 | H1/2014 | H2/2014 | Q1/2015 %yoy (%qoq) |
|--------------------------------|------|---------|---------|---------------------|
| GDP | 0.9 | 0.2 | 1.6 | 3.0 (0.3) |
| Consumption | | | | |
| - Private | 0.6 | -1.0 | 2.3 | 2.4 (0.6) |
| - Public | 1.7 | 2.5 | 0.9 | 2.5 (-1.3) |
| Investment | | | | |
| - Private | -2.0 | -7.2 | 3.7 | 3.6 (0.5) |
| - Public | -4.9 | -10.1 | 0.3 | 37.8 (23.7) |
| Exports | | | | |
| - Volume of goods and services | 0.0 | -0.3 | 0.4 | 1.0 (-3.6) |
| - Volume of goods | 0.7 | 1.0 | 0.4 | -2.5 (-4.2) |
| Imports | | | | |
| - Volume of goods and services | -5.4 | -9.9 | -0.6 | 2.3 (-0.4) |
| - Volume of goods | -6.8 | -12.6 | -0.5 | 4.0 (0.0) |

Economic Situations and Outlook

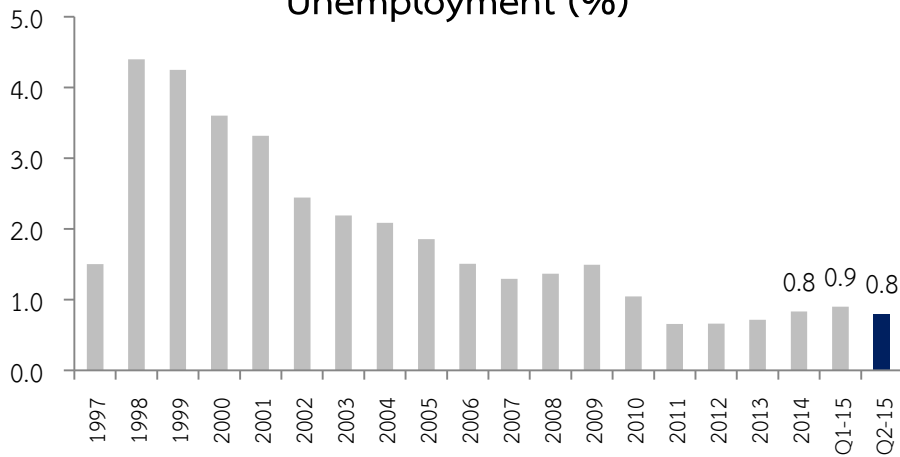
Economic stabilities remain strong providing resiliency to the Thai economy to withstand negative shocks.

Internal economic stability

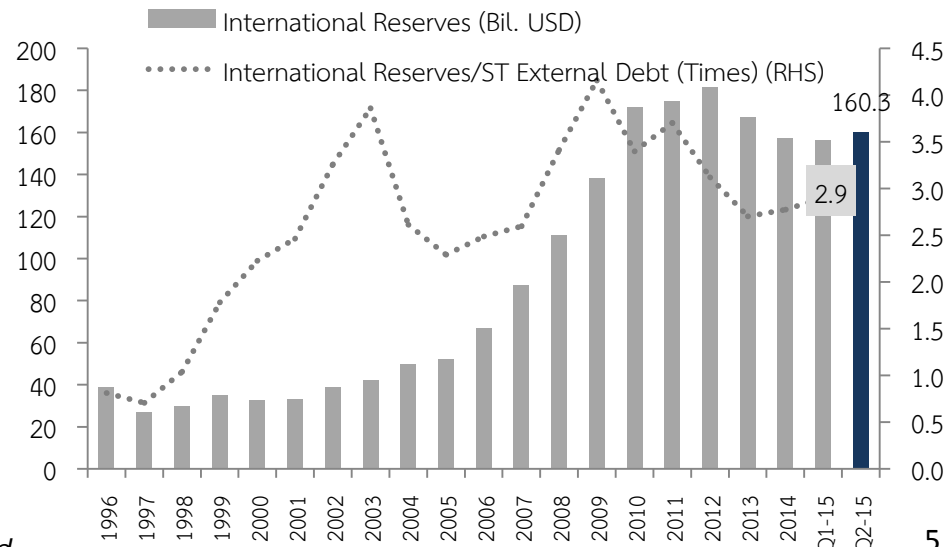
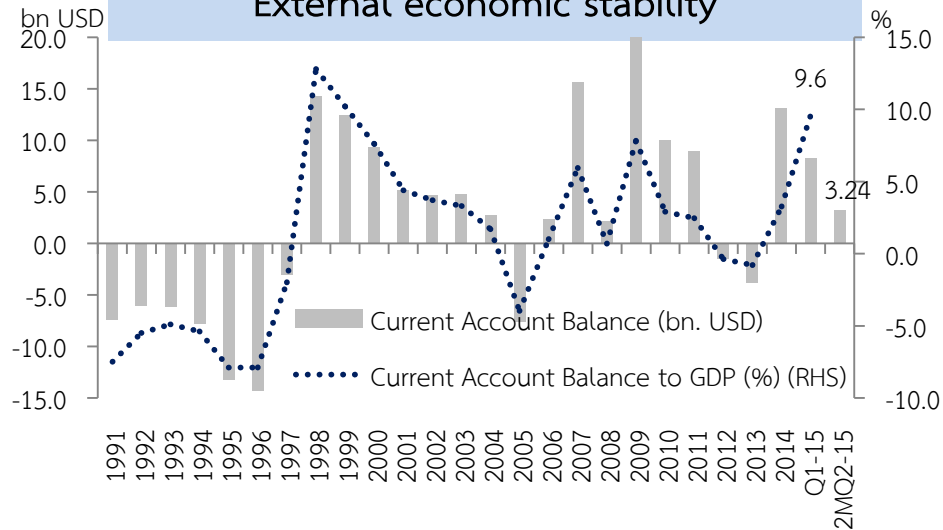
Inflation (%)



Unemployment (%)



External economic stability



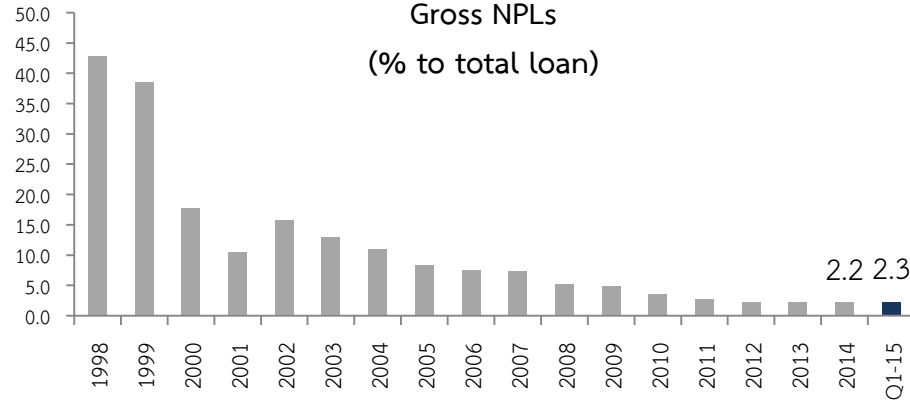
Economic Situations and Outlook

Fiscal and financial indicators show financial soundness in government and financial sectors.

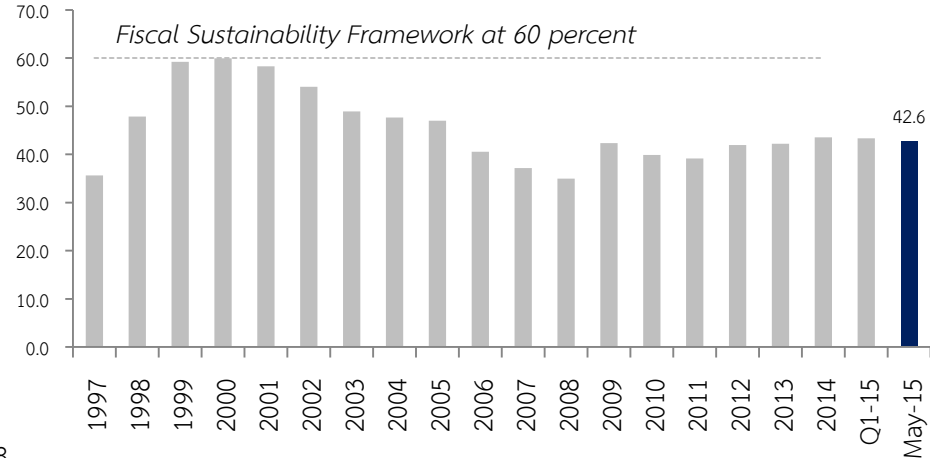
Financial Sector

Fiscal Sector

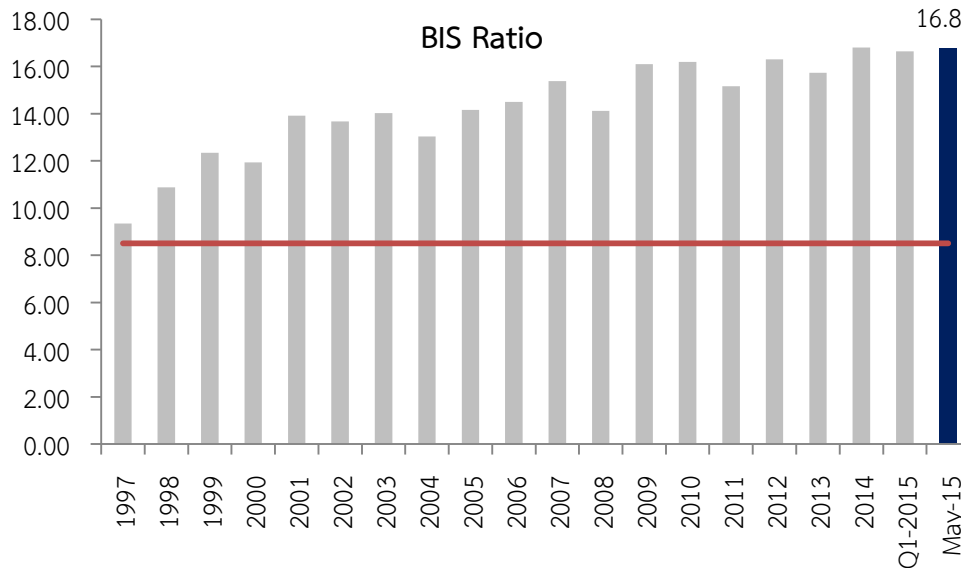
Gross NPLs
(% to total loan)



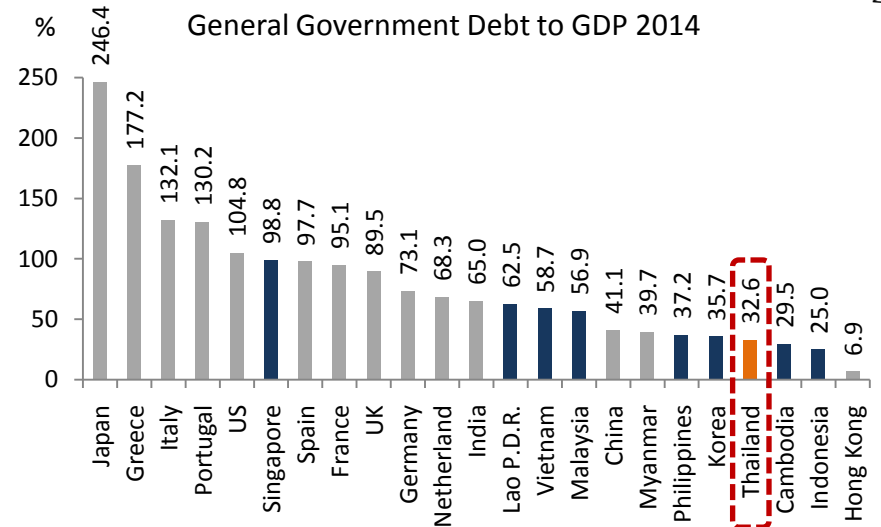
Fiscal Sustainability Framework at 60 percent



BIS Ratio



General Government Debt to GDP 2014



Thailand's GDP Forecast for 2015

| | 2013 | 2014 | 2015F | |
|-------------------------------------|------|------|---------|-------------|
| | | | Average | Range |
| Real GDP | 2.8 | 0.9 | 3.7 | 3.2 - 4.2 |
| - Real Private Consumption | 0.8 | 0.6 | 2.2 | 1.7 - 2.7 |
| - Real Public Consumption | 4.7 | 1.7 | 4.3 | 3.8 - 4.8 |
| - Real Private Investment | -0.8 | -2.0 | 4.0 | 3.0 - 5.0 |
| - Real Public Investment | -1.0 | -4.9 | 9.5 | 7.5 - 11.5 |
| - Real Export of goods and services | 2.8 | 0.0 | 5.1 | 4.1 - 6.1 |
| - Real Import of goods and services | 1.4 | -5.4 | 5.3 | 4.3 - 6.3 |
| Trade Balance (bn USD) | 6.7 | 24.6 | 25.5 | 17.0 - 34.0 |
| - Export of goods | -0.2 | -0.3 | 0.2 | -1.8 - 2.2 |
| - Import of goods | -0.5 | -8.5 | -0.2 | -2.2 - 1.8 |
| Current Account (bn USD) | -2.5 | 13.1 | 17.8 | 9.3 - 26.3 |
| - Current Account (%GDP) | -0.8 | 3.3 | 4.6 | 2.3 - 6.7 |
| Headline Inflation | 2.2 | 1.9 | 0.2 | -0.3 - 0.7 |
| Core Inflation | 1.0 | 1.6 | 1.3 | 0.8 - 1.8 |

Source: Fiscal Policy Office, April 2015



Recent Economic Situation and Outlook

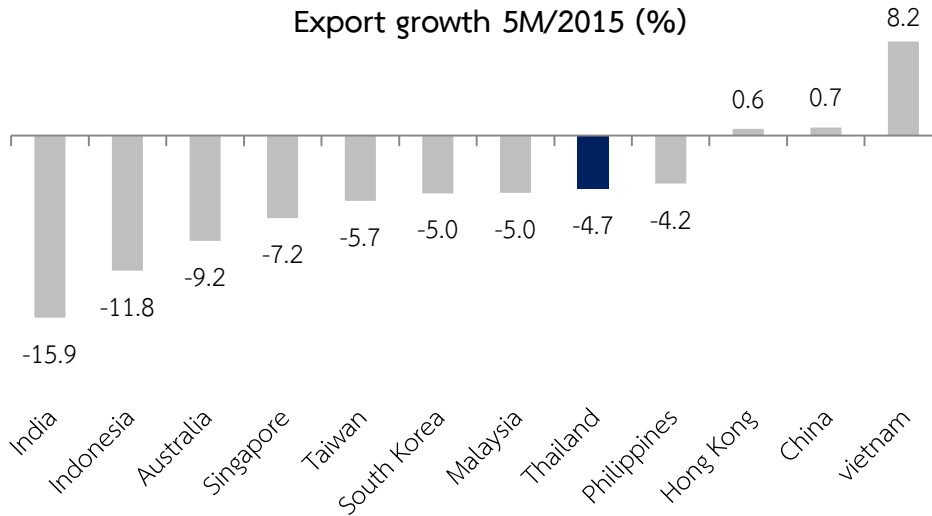
Cyclical Challenges and Short-term Economic Policies

Structural Economic Policies for Medium-term Growth

Cyclical Challenges and Short-term Economic Policies

Global economic slowdown leads to declining exports.

Export growth 5M/2015 (%)



1. Diversify export markets

- Diversify export markets to U.S. and CLMV countries
- Implement National Single Window (NSW) to streamline customs procedure

2. Boost domestic demand

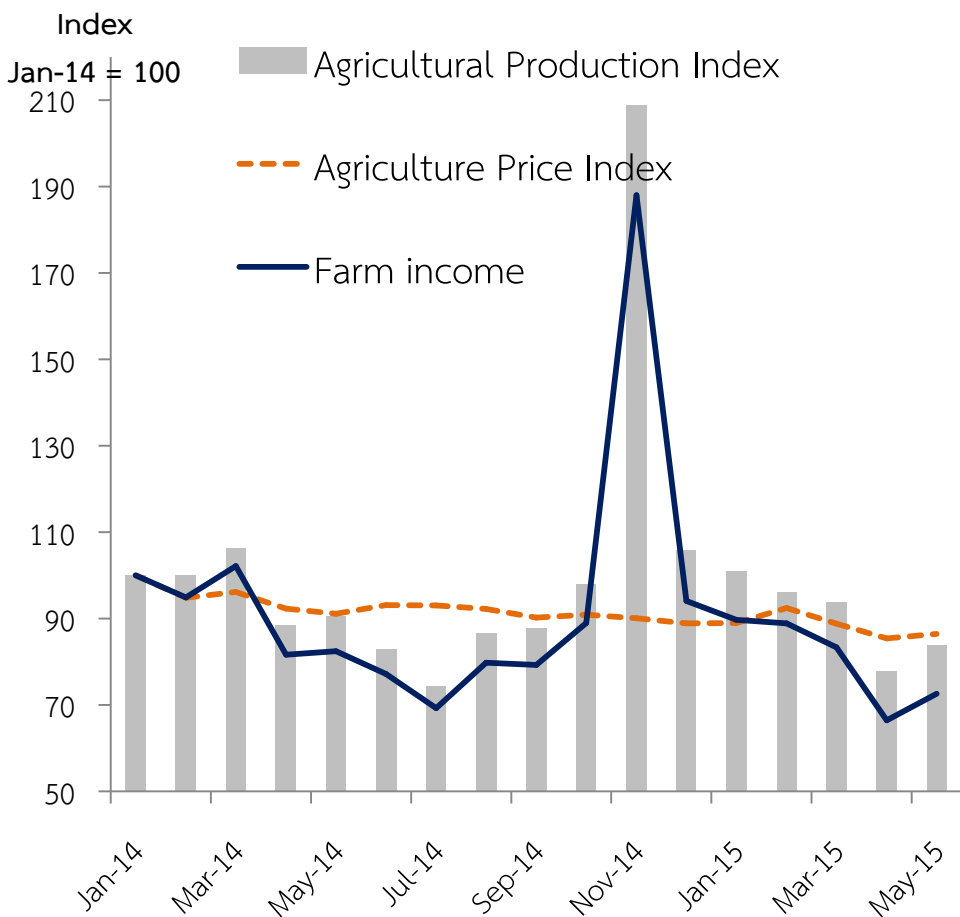
- Achieve budget deficit by at least 250 billion Baht or 2% of GDP in FY2015
- Accelerate carry-over and current-year budget disbursement
- Extend lower valued-added tax rate at 7%.
- Spend 80 billion baht of capital spending for shovel-ready road construction projects and water management projects

| Growth rate : %YOY | 2014 | 5M/2015 |
|------------------------------------|------|---------|
| (Share of 2014 Exports) | | |
| Total Export Value of Goods (%yoy) | -0.3 | -4.7 |
| 1.China (11.0%) | -7.9 | -8.2 |
| 2.USA (10.5%) | 4.1 | 5.0 |
| 3.Japan (9.6%) | -1.9 | -7.1 |
| 4.European Union (9.2%) | 4.7 | -6.0 |
| ASEAN-9 (26.1%) | 0.2 | -4.2 |
| ASEAN-4 (CLMV) (9.1%) | 9.0 | 7.4 |

Source: Ministry of Commerce

Cyclical Challenges and Short-term Economic Policies

Declining farm prices negatively affect farmers' income



Source: Ministry of Agriculture and Agricultural Cooperatives and Fiscal Policy Office's calculation

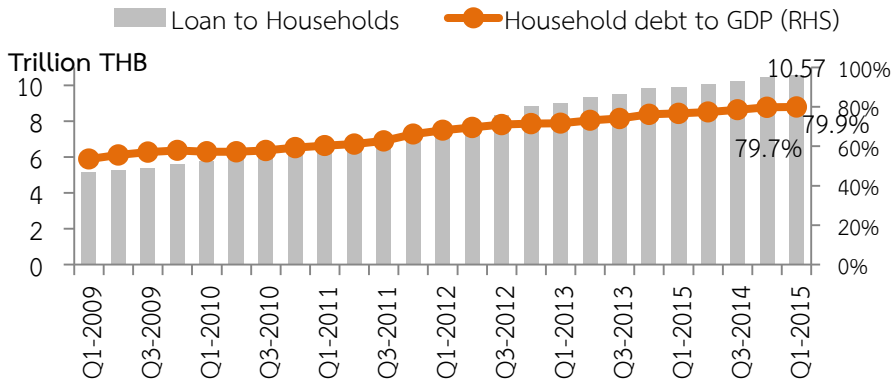
Support farmers' purchasing power and enhance farm productivity

- Expedite overdue payment under rice pledging scheme to farmers (92 billion baht)
- Rice farmers' income support (40 billion baht) and rubber farmers' income support (8.2 billion baht)
- Farmers' debt relief, extension and restructuring programs by Bank of Agriculture and Agricultural Cooperatives (BAAC)
- Credit for machinery pool
- Credit for productivity improvement, e.g. Palm and sugar cane
- Crop insurance
- Agricultural zoning

Cyclical Challenges and Short-term Economic Policies

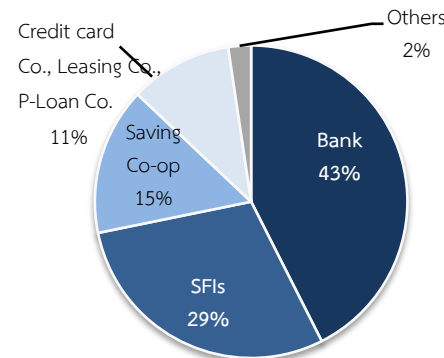
Despite currently high household debt to GDP, slowing consumer loan growth and sound financial positions indicate continued economic and financial viability.

Household Debt to GDP(%)

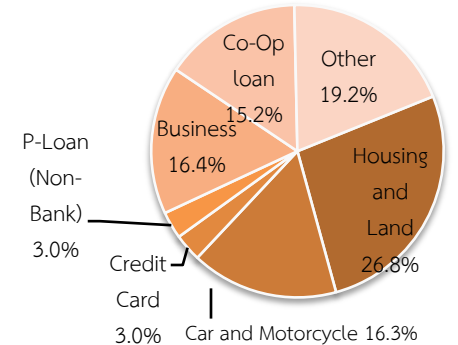


Breakdowns of Household Debt

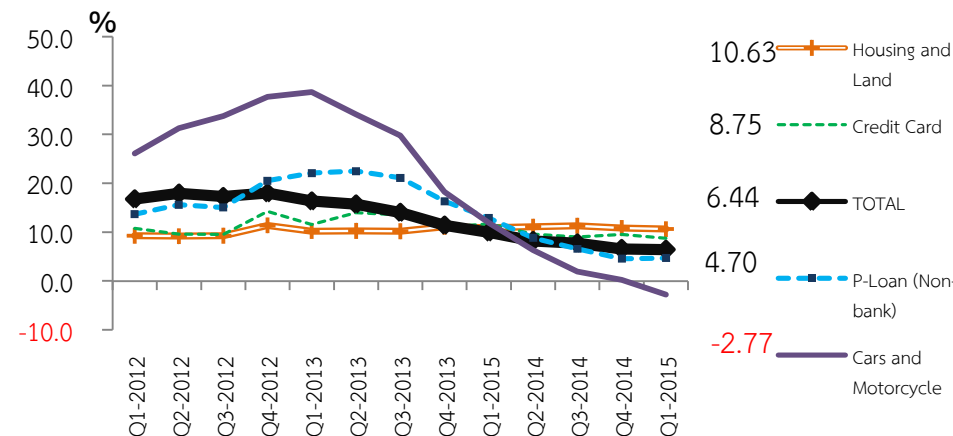
Loans Categorized by Lender



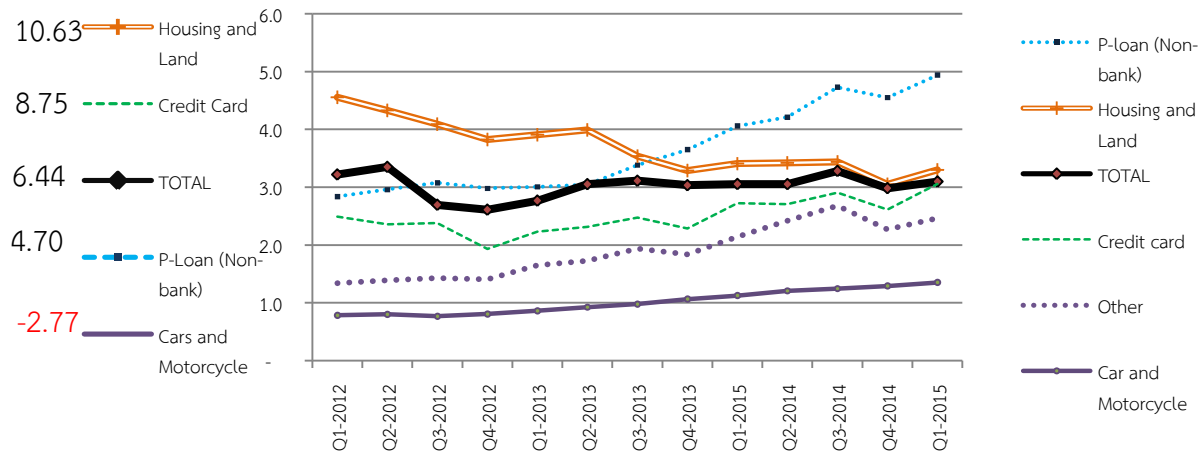
Loans Categorized by Loan Purpose



Household loan growth (% yoy)



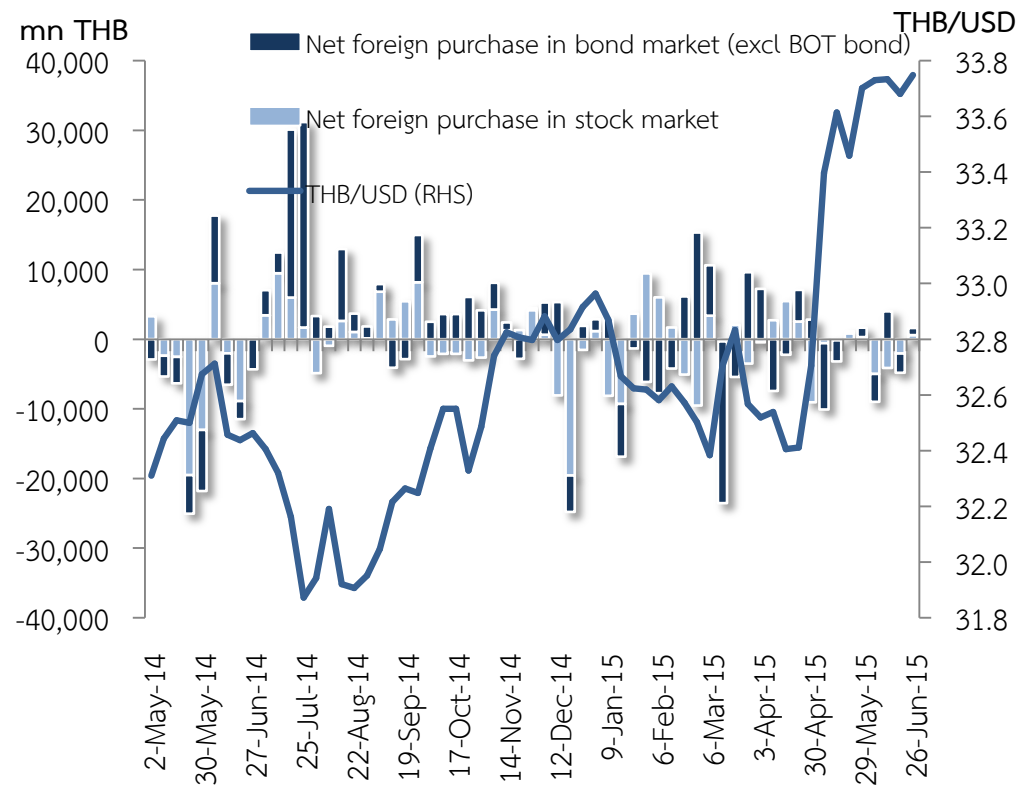
Household NPL (% of total loan to household)



Cyclical Challenges and Short-term Economic Policies

Unsynchronized monetary policies led to capital flows and exchange rate volatilities

Value of Net Purchases of Foreign Investors in the Financial Markets



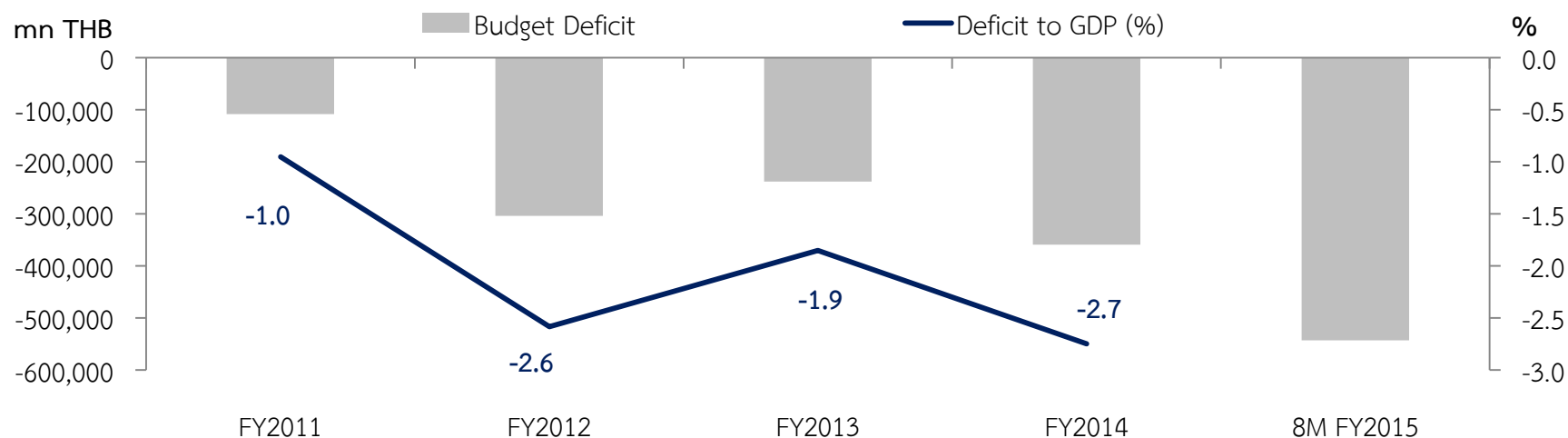
Source: Bank of Thailand, ThaiBMA

Policies to mitigate capital flow volatility

- High international reserves to buffer the capital flow volatility
- Recent policy interest rate reductions twice (25 basis point each) to 1.5% by Bank of Thailand
- Capital Flows Relaxation Measures by the Bank of Thailand (30 April 2015) to accommodate capital outflows
 - Relaxation on foreign exchange regulations on residents
 - Facilitate local currency borrowing by non-residents

Cyclical Challenges and Short-term Economic Policies

Public sector acts as a second growth engine when external demand is fragile and domestic spending has not yet fully recovered.



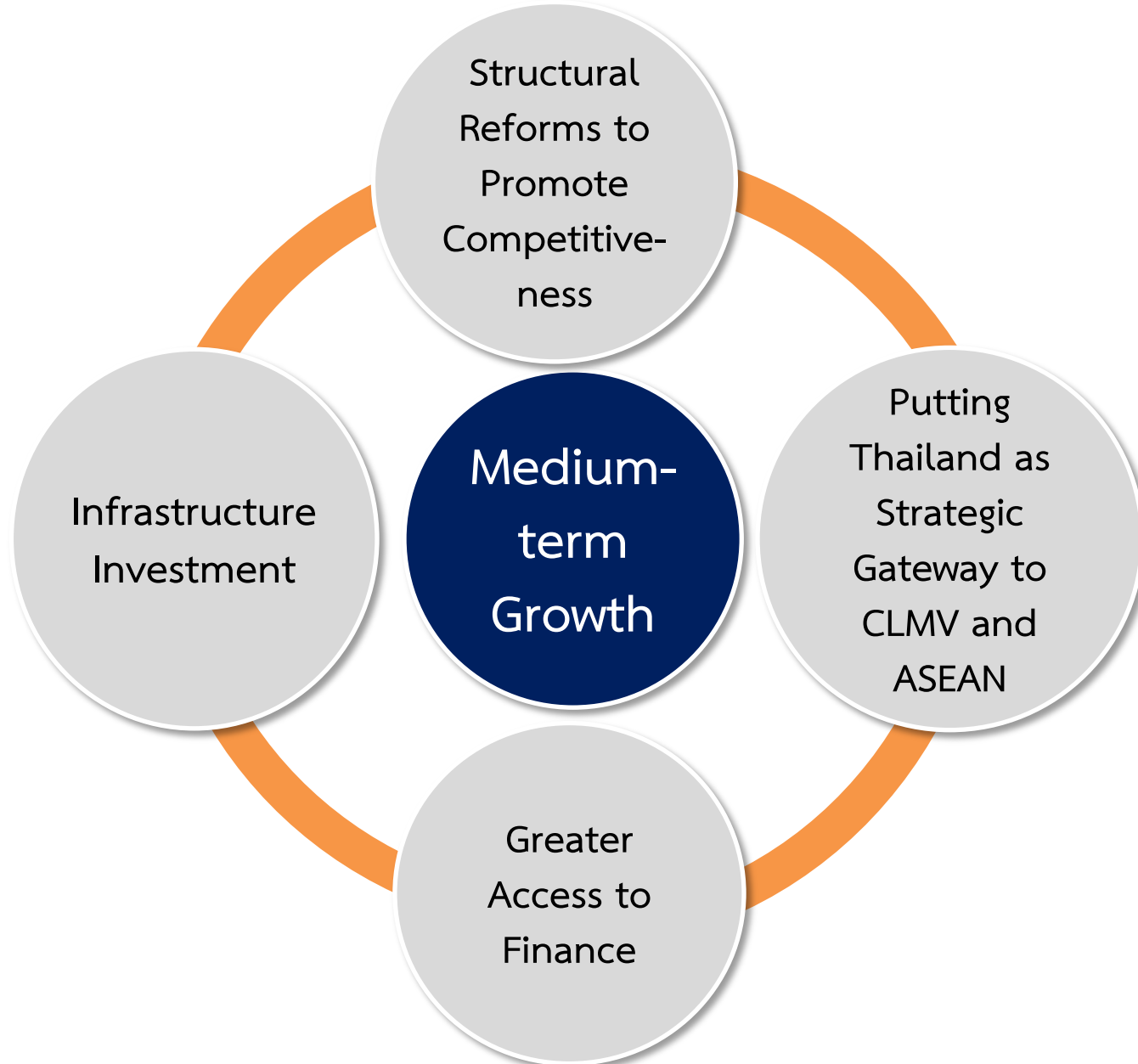
| Budget Framework | FY2013 | FY 2014 | FY 2015 | FY 2016 |
|---------------------------|-----------|-----------|-----------|-----------|
| Expenditures | 2,400,000 | 2,525,000 | 2,575,000 | 2,720,000 |
| Percent of GDP | 20.1 | 20.3 | 20.2 | 20.2 |
| - Current Expenditures | 1,900,477 | 2,017,626 | 2,027,859 | 2,100,364 |
| - Treasury Res. Repayment | 450,374 | 13,424 | 41,965 | 13,536 |
| - Capital Expenditures | 49,150 | 441,129 | 449,476 | 544,000 |
| - Principal Repayment | - | 52,822 | 55,700 | 62,100 |
| Revenues | 2,100,000 | 2,275,000 | 2,325,000 | 2,330,000 |
| Budgetary Balance | (300,000) | (250,000) | (250,000) | (390,000) |

Recent Economic Situation and Outlook

Cyclical Challenges and Short-term Economic Policies

Structural Economic Policies for Medium-term Growth

Structural Economic Policies for Medium-term Growth



1. Structural reforms to promote competitiveness



Tax Reform

- Extend reduced corporate income tax rate at 20%
- Tariff restructuring to enhance value escalation process
- Excise tax on cars by carbon emission



Reform BOI Incentives

- Moving from area based to activities-based high value-added industries and R&D



Enhance SOEs' operation

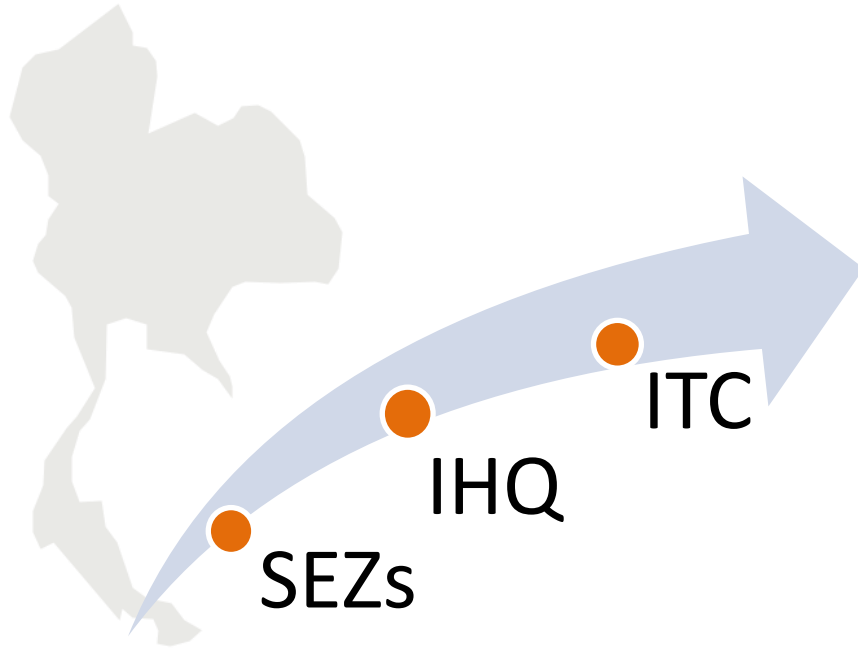
- Establish SOE holding company to promote efficiency



Expedite bureaucratic process

- Pass the Act on Facilitation for Consideration of Approvals from the Government Agencies, B.E. 2558

2. Putting Thailand as Strategic Gateway to CLMV and ASEAN



- Establish **Special Economic Zones (SEZs)** to create production bases connecting with neighbor countries and to develop rapidly-growing border cities

- Introduce tax privileges under International Headquarter (IHQ) and International Trading Center (ITC) program to attract multinationals to set up their hub activities in Thailand

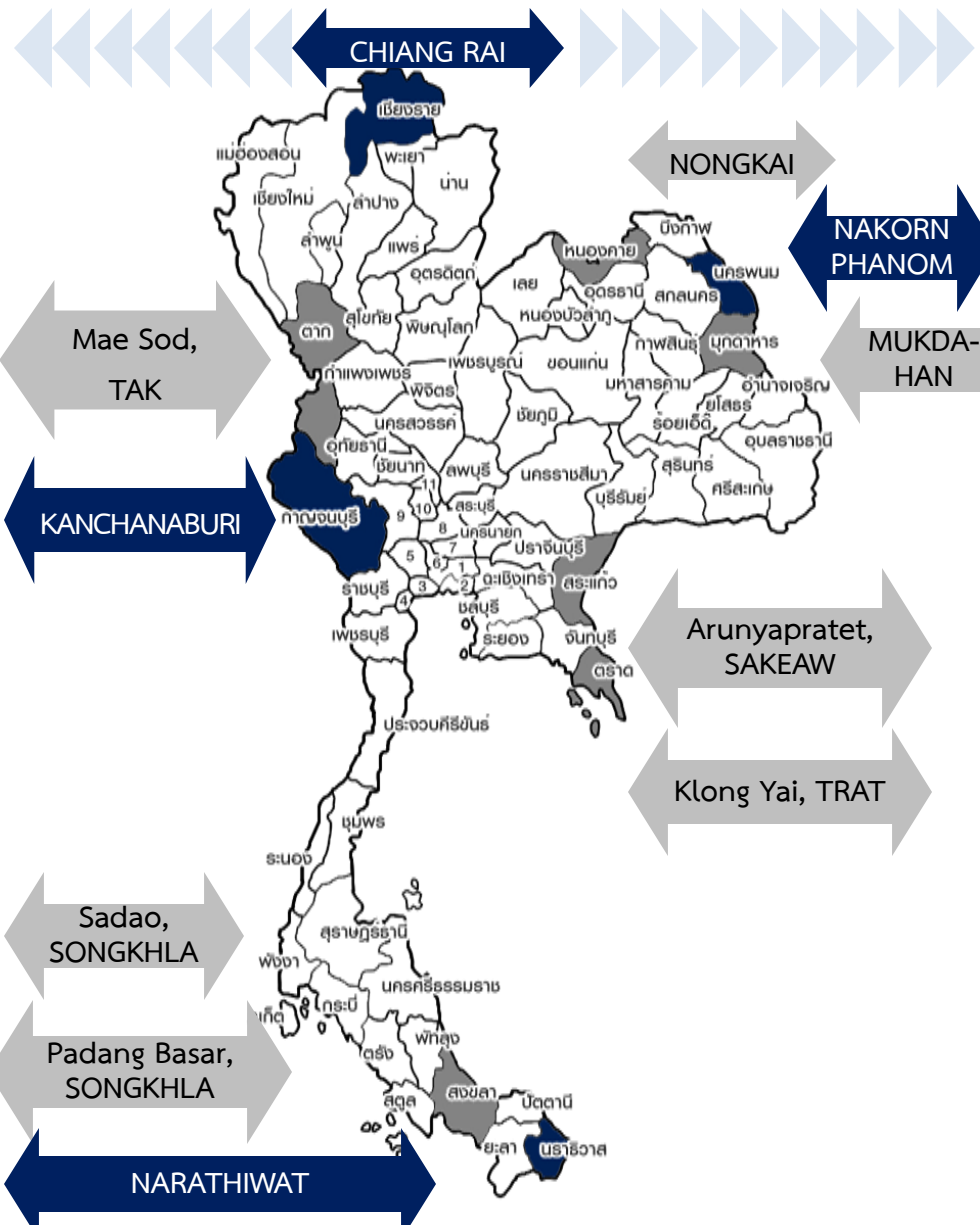


2. Putting Thailand as Strategic Gateway to CLMV and ASEAN




Myanmar

- 2014 GDP growth = 7.7%
- 2014 Border Trade growth = 8.9%




Lao PDR

- 2014 GDP growth = 7.4%
- 2014 Border Trade growth = 14.3%



Malaysia

- 2014 GDP growth = 6.0%
- 2014 Border Trade growth = 1.2%



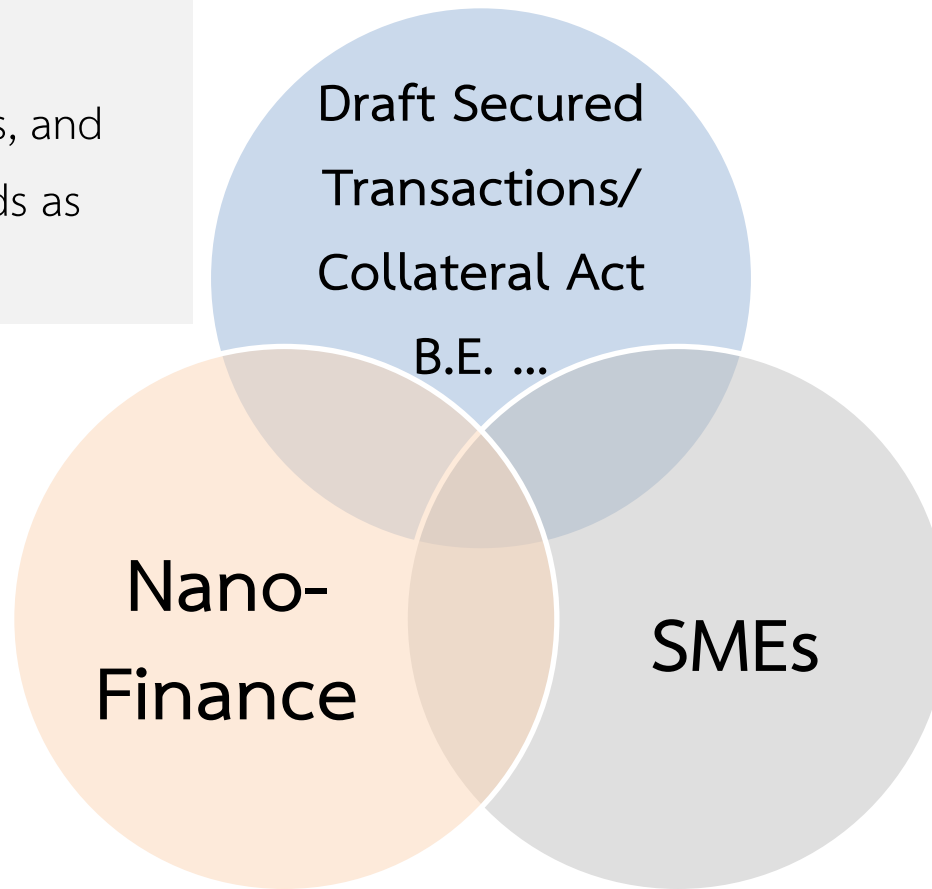
Cambodia

- 2014 GDP growth = 7.0%
- 2014 Border Trade growth = 22.0%

3. Greater Access to Finance

New law to allow the usage of future receivables, inventories, and other commercial goods as collateral

Offer small business loans with credit limit of 100,000 baht/case, no collateral required, at the rate no greater than 36% per annum



Set up Private Equity Trust Fund to provide capital financing jointly from public and private sectors with the size of 10 – 25 billion baht

4. Infrastructure Investment: Thailand's Transport Infrastructure Development Strategies 2015 -2022

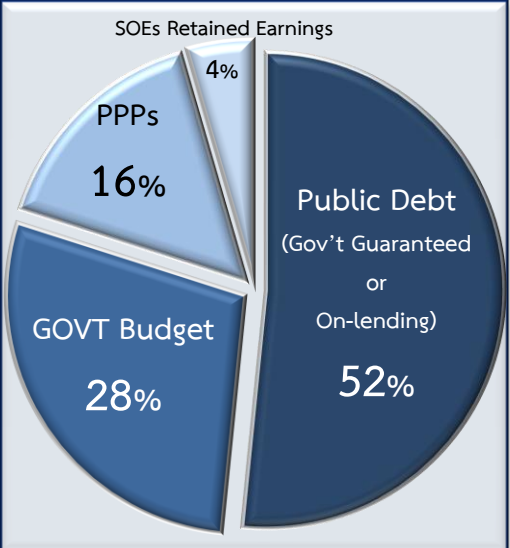
The government is committed to urgently invest in infrastructures projects over the next 8 years, worth 1.9 trillion baht or 58 billion USD, focusing on 5 key logistics sectors.

| Sectors | 1.9 trillion baht Projects (\$57.9 Bil.) | Value |
|--|--|-----------------------------|
| Provincial Rail Network | <ul style="list-style-type: none"> • Double track (6 lines) • Standard Gauge tracks (to neighboring countries and China) | 494 billion baht \$15 bn |
| Public transport system in Bangkok and metropolitan | <ul style="list-style-type: none"> • Mass Transit (10 lines) • NGV Buses • Improve inner-city road networks/bridges | 745 billion baht \$23 bn |
| Highways connecting production bases and neighboring countries | <ul style="list-style-type: none"> • Road expansions into 4 lanes between cities and borders • Motorway (Pattaya – Map Ta Phut) • Custom facilities • Road Facilities e.g. rest areas, transport terminals | 522 billion baht \$16 bn |
| Water Transport | <ul style="list-style-type: none"> • Deep water port (Pak Bara) • Harbor and Single Rail Transfer Operator (Laem Chabang) | 101 billion baht \$3 bn |
| Air Transport | <ul style="list-style-type: none"> • Airport (Suvannabhumi/Don muang/Phuket/Mae Sod) • Acquire new fleet • Air traffic management | 50 billion baht \$2 bn |

Source: Ministry of Transport

4. Infrastructure Investment: Source and Use of Funds

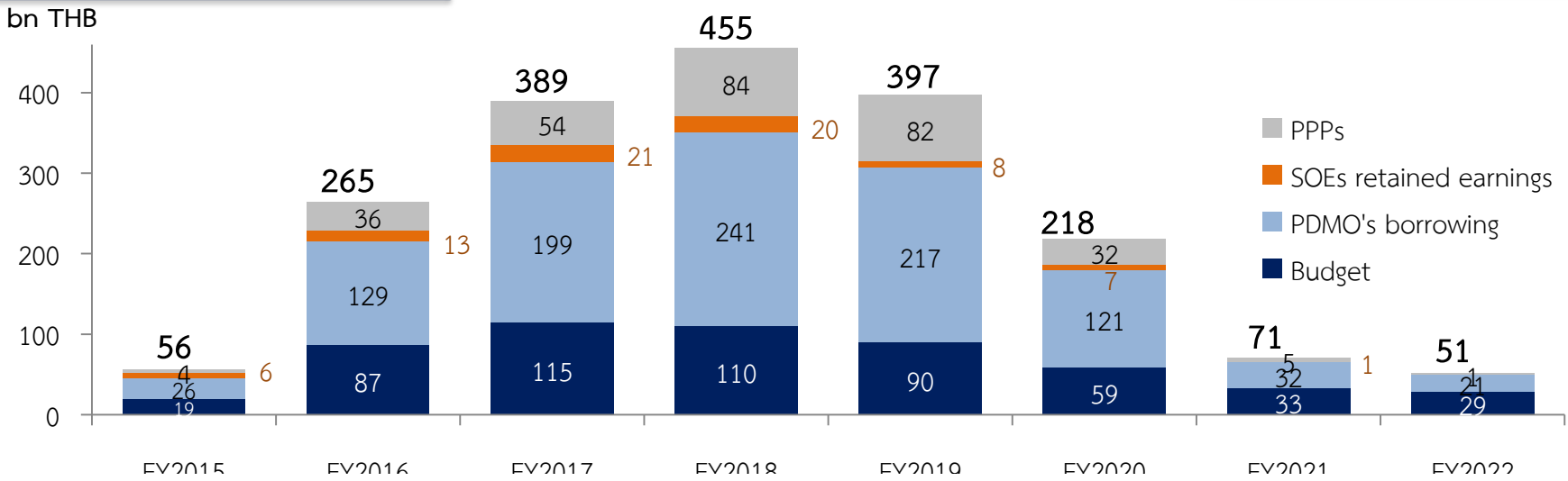
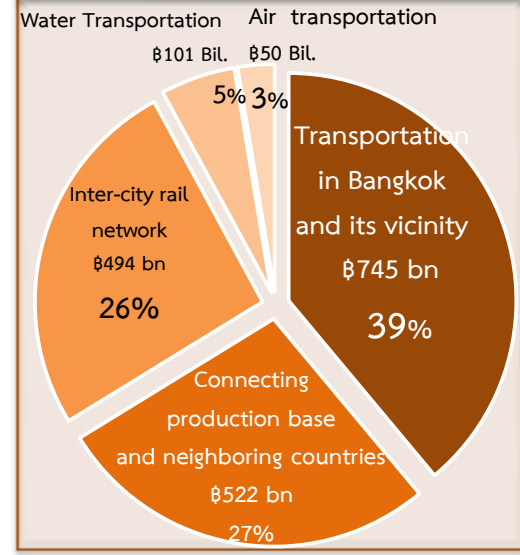
Source of Funds



Estimated Disbursement of Infrastructure Investment Plans

1.913 tn THB
(56.6 bn USD)

Categories of Project



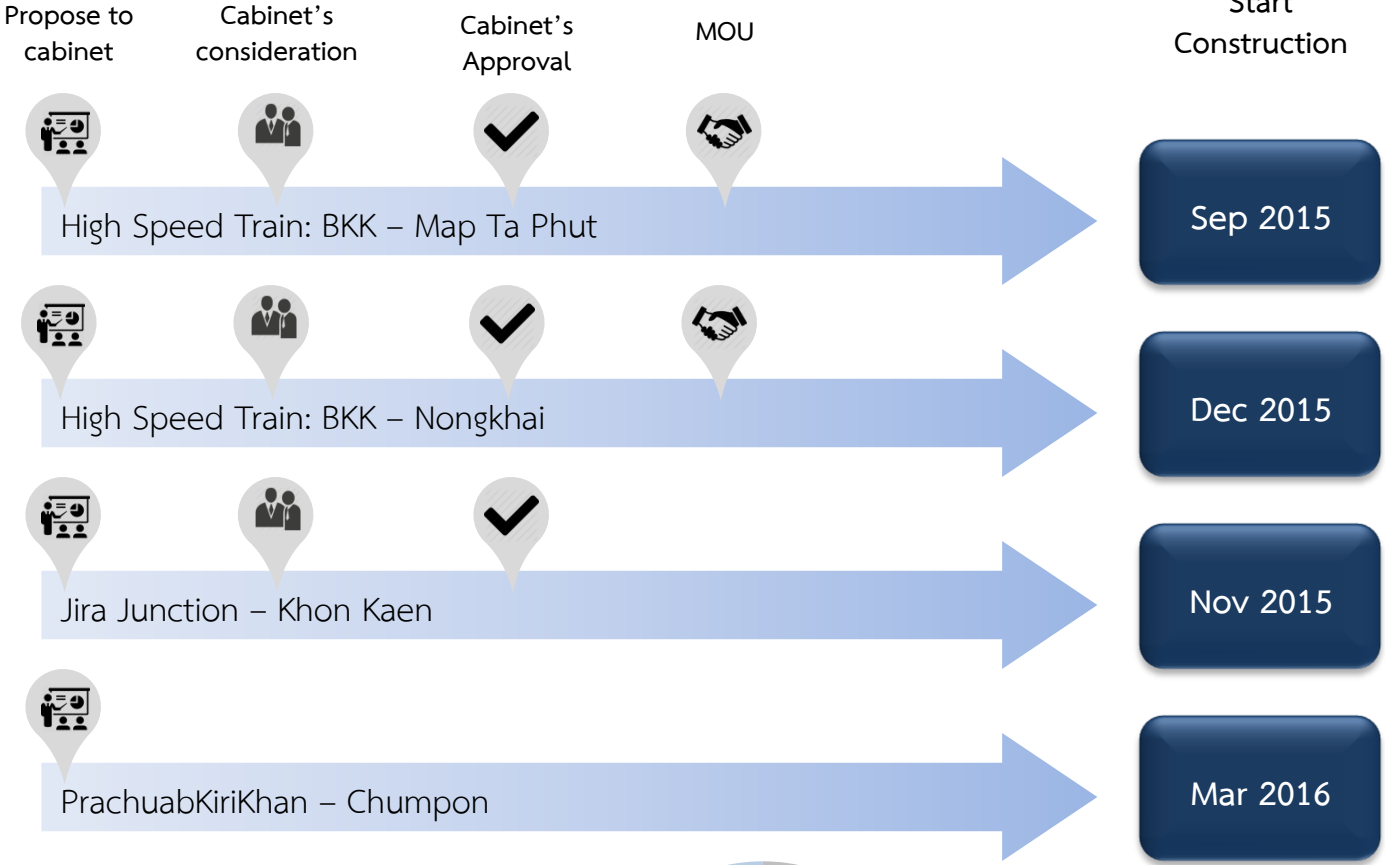
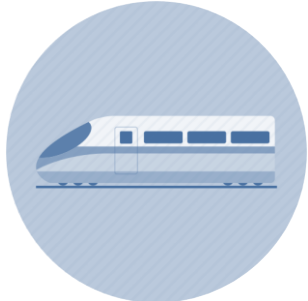
Source : PDMO and Ministry of Transport

4. Infrastructure Investment: Progress and funding

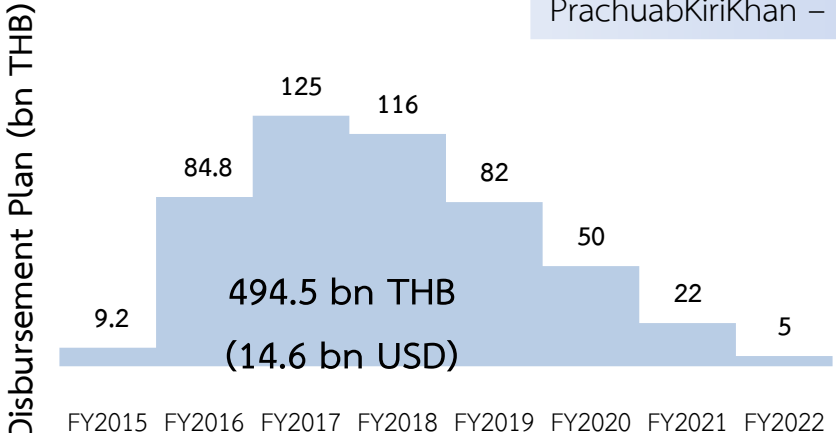


1

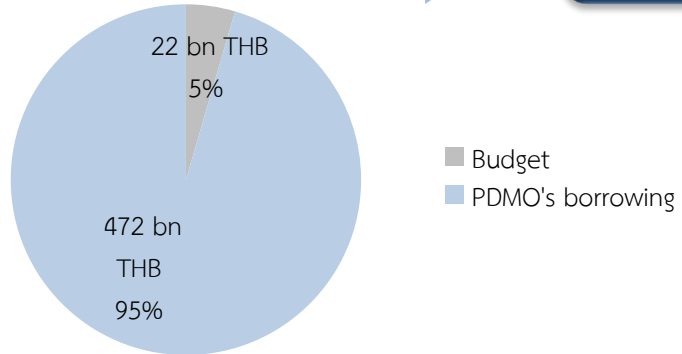
High Speed Train and Dual Track Meter Gauge



Assistance from Chinese government



Funding Method

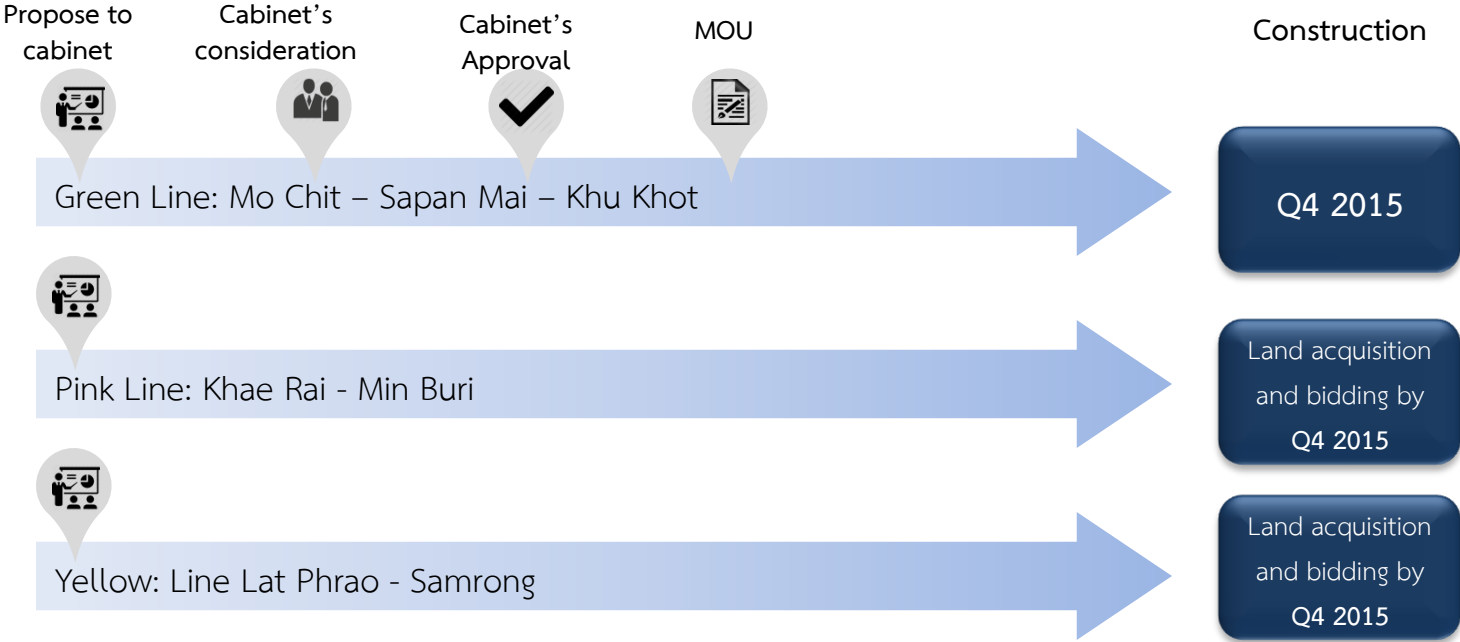


4. Infrastructure Investment: Progress and funding

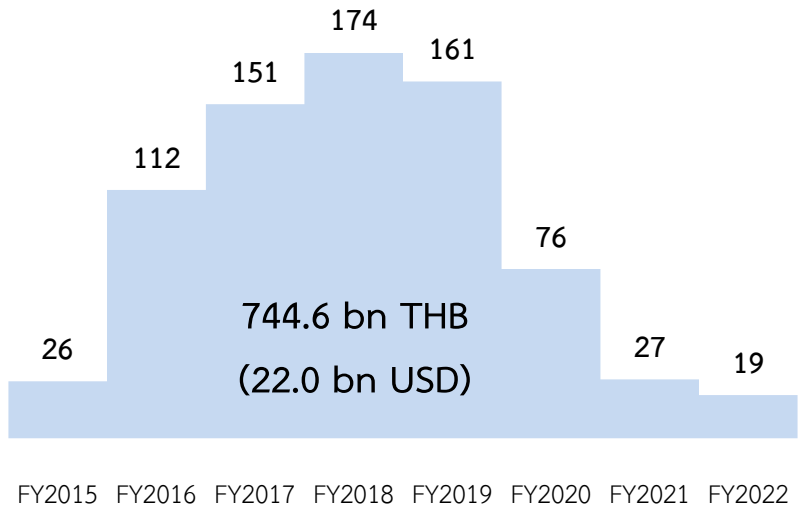


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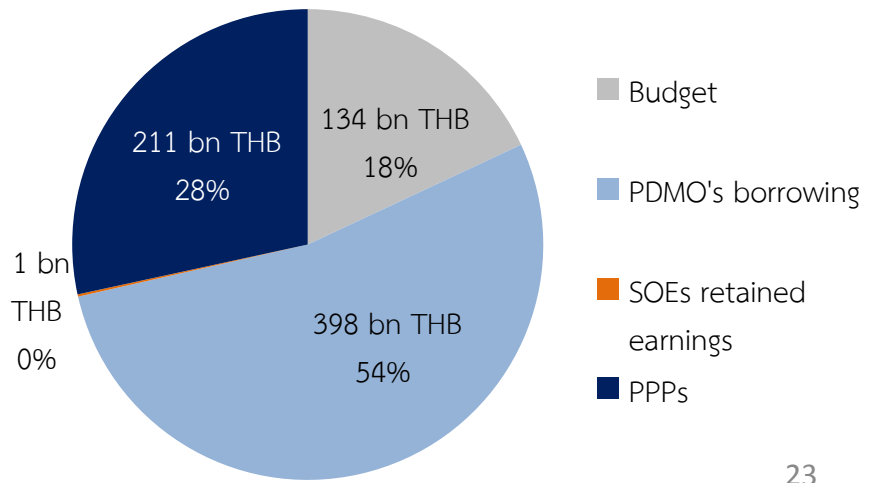
Mass Transit



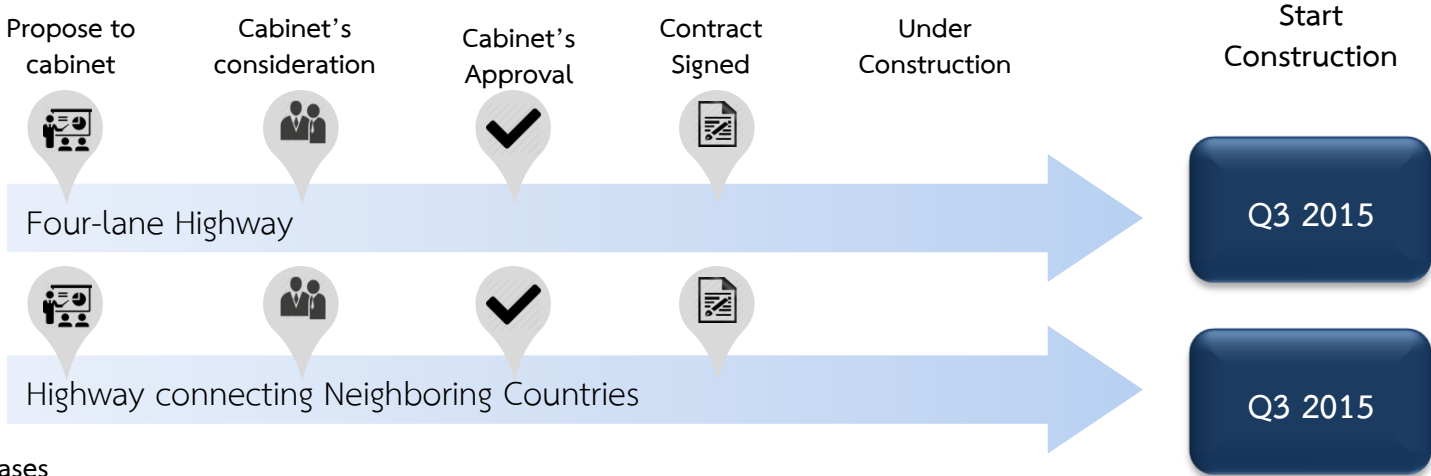
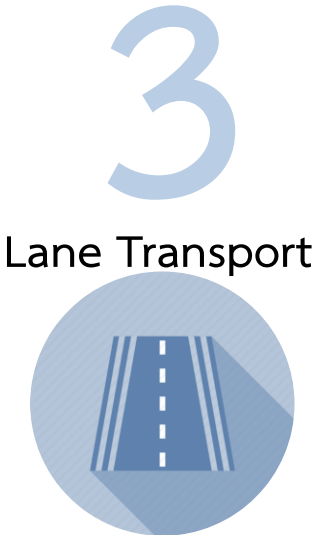
Disbursement Plan (bn THB)



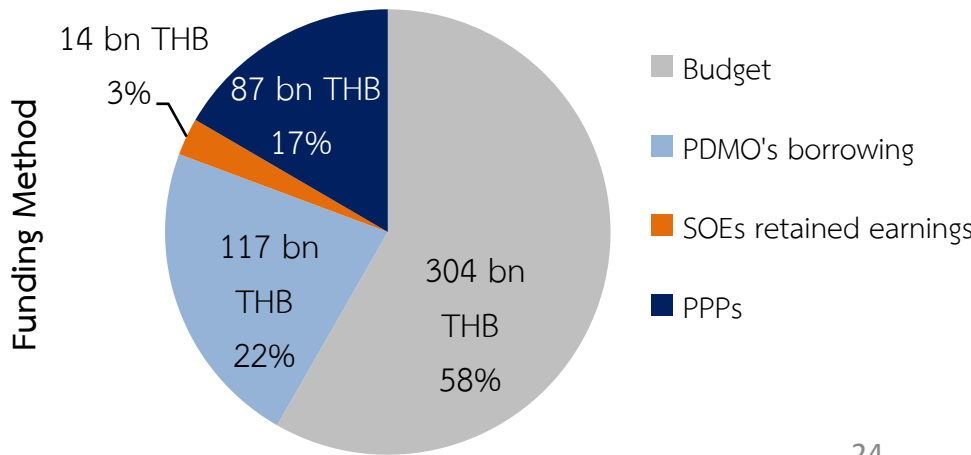
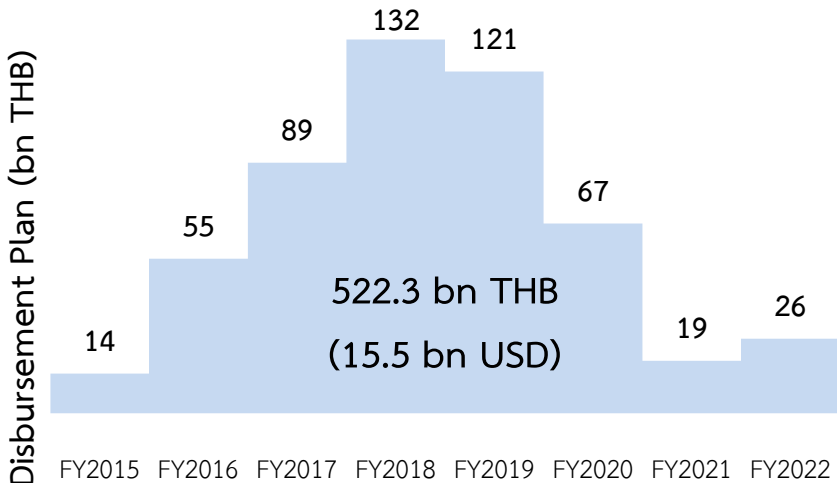
Funding Method



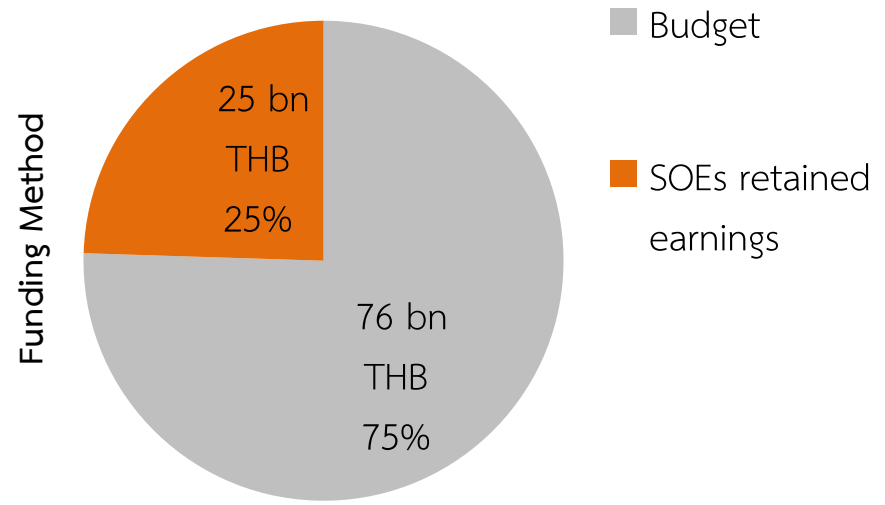
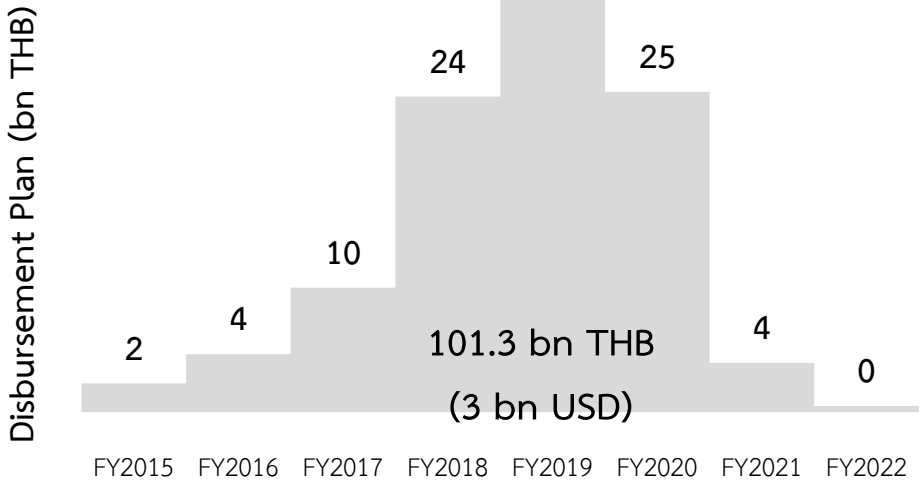
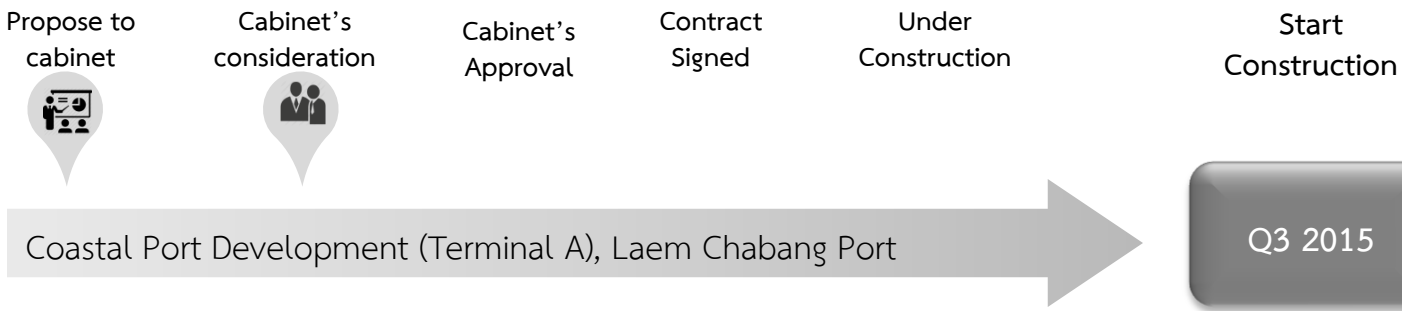
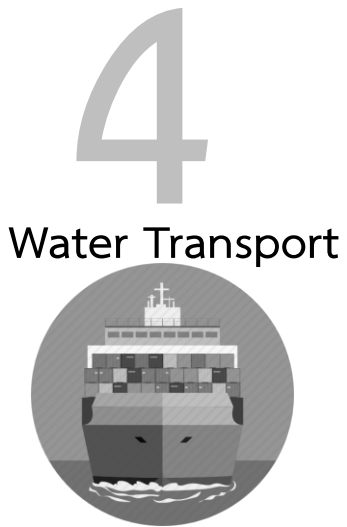
4. Infrastructure Investment: Progress and funding



Connectivity among Production bases and with Neighboring Countries



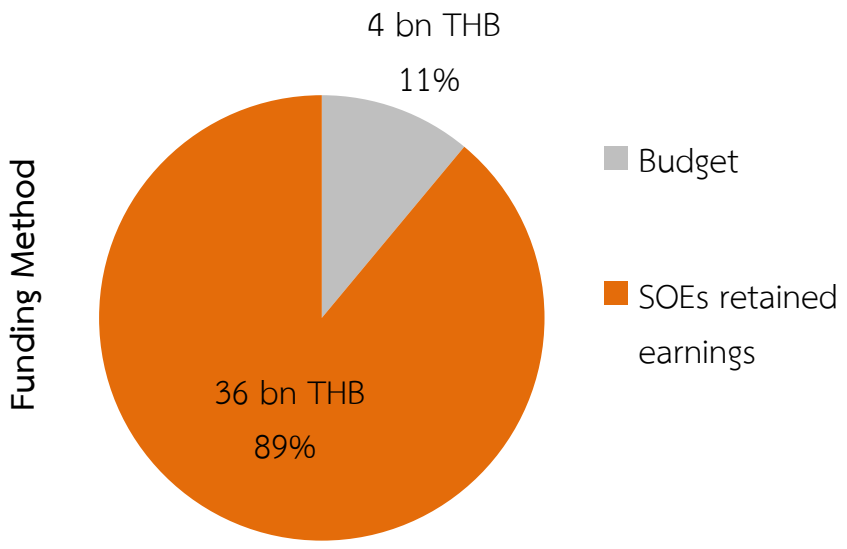
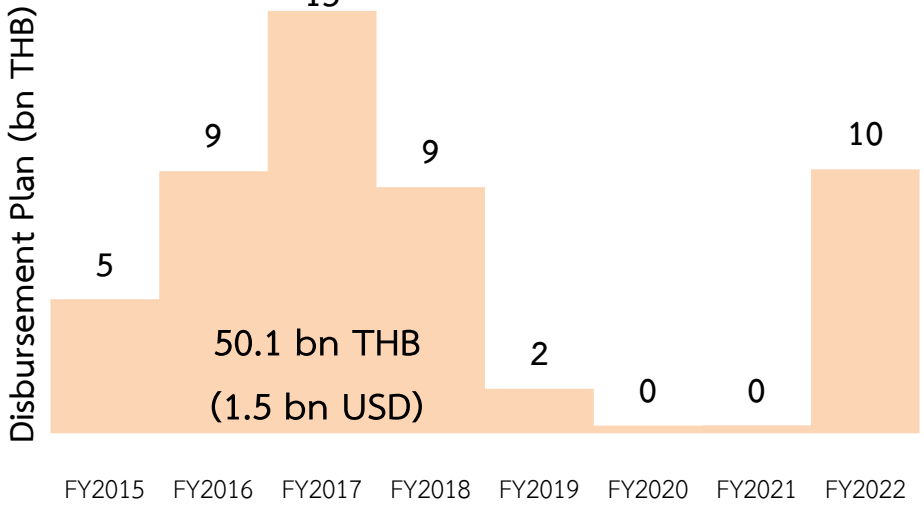
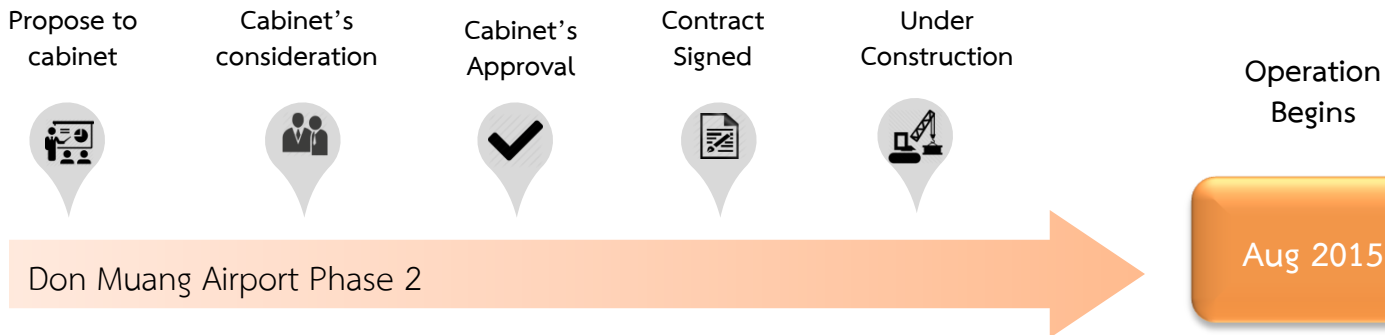
4. Infrastructure Investment: Progress and funding

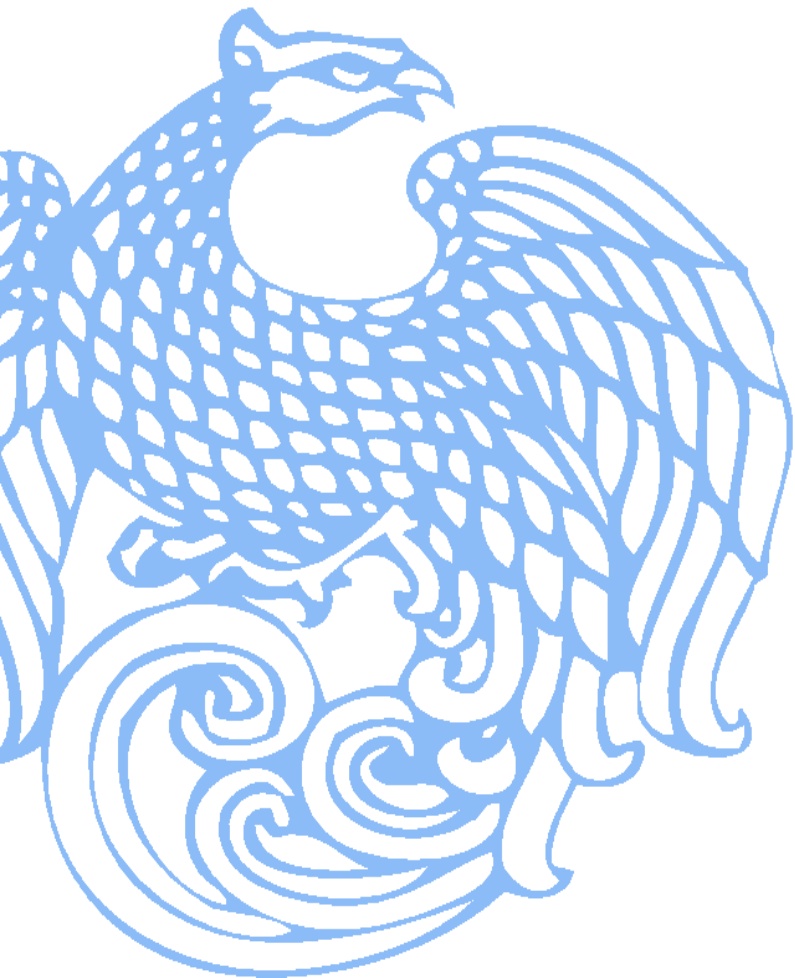


4. Infrastructure Investment: Progress and funding

5

Air Transport





Thank you