INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/114

THAILAND

May 2015

2015 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; 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 2015 Article IV consultation with Thailand, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF, for Executive Board's consideration on March 30, 2015, following discussions that ended on January 29, 2015, 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 March 10, 2015.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board as expressed during its March 30, 2015 consideration of the staff report that concluded the Article IV consultation with Thailand.
- A **Statement by the Executive Director** for Thailand.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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International Monetary Fund
Washington, D.C.

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THAILAND

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

March 10, 2015

KEY ISSUES

Context. Thailand's economy is undergoing a modest recovery after a sharp contraction in early 2014, when domestic demand was adversely affected by political unrest in Bangkok. The government was replaced in May 2014 in a military coup, which led to the end of large-scale street demonstrations and an improvement of business and consumer confidence.

Outlook. The recovery is expected to continue, with GDP increasing 3.7 percent in 2015, although the economy is lacking a strong growth engine. With output below potential and sharply lower fuel prices, annual CPI inflation is projected to fall to 0.1 percent, undershooting the new target range. Risks to the outlook are slightly to the downside, reflecting political and policy uncertainty and potential surge in global financial volatility.

Macroeconomic policy mix. The government's plans for near-term fiscal stimulus followed by consolidation within a medium-term framework are appropriate. Monetary accommodation remains appropriate, and a further loosening may be useful if fiscal stimulus is delayed. The exchange rate is broadly consistent with medium-term fundamentals.

Fiscal policy. Fuel price reform and elimination of the rice pledging scheme have reduced distortions by replacing price interventions with targeted income support. They have also freed up some fiscal room, which can be used to finance the government's much-needed infrastructure investment program. An increase in the VAT, once the recovery is firmly entrenched, will help keep public debt sustainable in the medium term.

Financial stability. Thailand has taken a number of important steps to strengthen the financial stability framework, including the decision to extend the Bank of Thailand's supervisory and regulatory mandate to Specialized Financial Institutions. Credit growth has moderated considerably. Nevertheless, pockets of vulnerability remain; mainly, high household debt and the growth of nonbank financial intermediaries.

Structural policies. Thailand's growth has slowed significantly in the last few years. Looking forward, an aging population will present new challenges. Measures to augment dwindling labor supply, increase infrastructure investment, improve education and training, provide new incentives for R&D and high-value-added production, and step up regional integration are expected to boost inclusive growth.

Approved By
Hoe Ee Khor and Catherine Pattillo

Discussions took place in Bangkok and Khon Kaen during January 15–29, 2015. The staff comprised Messrs. Breuer (head), Klyuev, Sun, and Yoneyama (all APD). Mr. Khor (APD) participated in policy discussions. Ms. Tangcharoenmonkong (OED) accompanied the mission.

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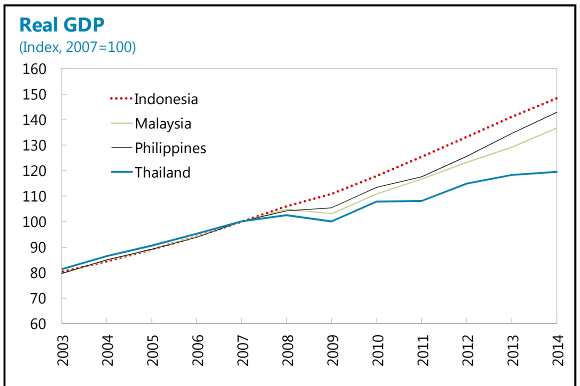
OVERVIEW

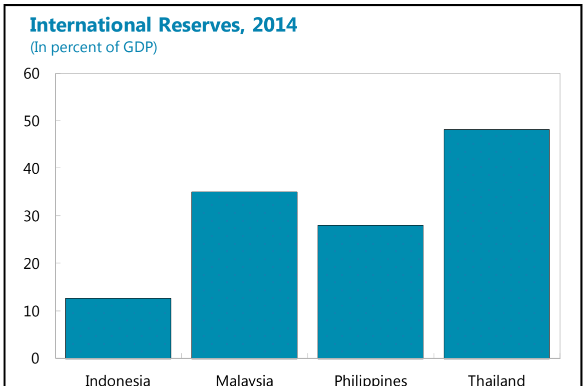
1. **Political context.** Thailand is going through a political transition. A decade of intermittent political conflict and a succession of exogenous shocks have hampered policymaking and weakened economic performance. A military coup in May 2014 ended large-scale social protests in Bangkok and pacified the country, and a modest recovery has taken place. Nonetheless, there is still some uncertainty as to how the polarization in the political system will be resolved even as the authorities indicate that a new constitution will be approved this year and new elections will take place in 2016.

2. **Slower growth.** Thailand's growth rate since the global financial crisis has fallen behind those of its neighbors and below its pre-crisis performance.[1] The reasons include Thailand's high openness to trade, which exposed it to the global slowdown; large negative supply shocks, in particular, devastating floods in 2011 and the impact of Japan's Tohoku disaster;[2] slow technological upgrading, with considerable capacity in industries with flagging global demand; the apparent interruption in the flow of workers from agriculture into more productive sectors of the economy; and political instability. Looking forward, a rapidly aging population will generate headwinds to growth.



Sources: *World Economic Outlook;* and IMF staff calculations.

3. **Resilience.** Despite a series of large shocks, solid fundamentals have helped maintain macrofinancial stability. Thailand has ample international reserves, and the flexible exchange rate has been an effective buffer against balance-of-payments shocks. The fiscal position is prudent and public debt is moderate. Economic institutions are credible. The banking system is well capitalized, profitable and liquid.



Sources: Haver Data Analytics; and IMF staff calculations.

4. **Way forward.** The country's challenge is to reignite growth both in the short run and in the medium term while maintaining stability. While monetary and fiscal stimulus should support economic recovery in the near term, a medium-term

[1] This issue is discussed at length in Isnawangsih and others, 2013, *The Big Split: Why Did Output Trajectories, in the ASEAN-4 Diverge After the Global Financial Crisis?* IMF WP/13/222.

[2] The impact on Thailand was particularly strong because of the dependence of Thailand's car industry on critical components supplied by Japanese manufacturers.

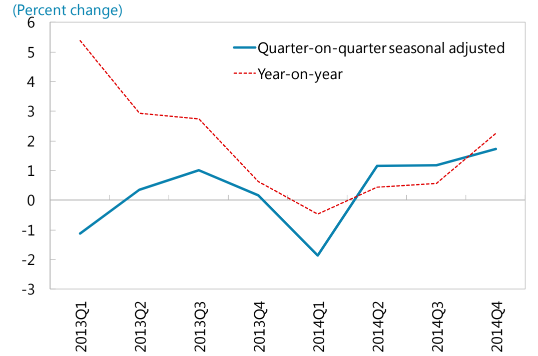
strategy is needed to tackle structural challenges and reinvigorate inclusive growth. To address these issues, the government has embarked on a comprehensive reform agenda that cuts across many areas, including education, healthcare, social inequalities, infrastructure investment, and other policies to enhance growth, regional integration, and governance (Appendix I).

ECONOMIC CONTEXT

A. Macroeconomic Developments

5. **Growth.** While political instability has affected growth, a tentative recovery has started in recent months. Following the intensification of political unrest starting in November 2013, the economy contracted sharply in the first quarter of 2014. The end of large-scale street protests following the military coup in May 2014 has contributed to an improvement in private sector confidence and a modest recovery. The economy grew by 1.5 percent (yoy) in the second half, with real GDP growth averaging 0.7 percent for the year. With flat final domestic demand and exports and a switch from large inventory accumulation in 2013 to a drawdown in 2014, it was a dramatic import compression (-4.8 percent) that allowed positive GDP growth for the year (Figure 1).

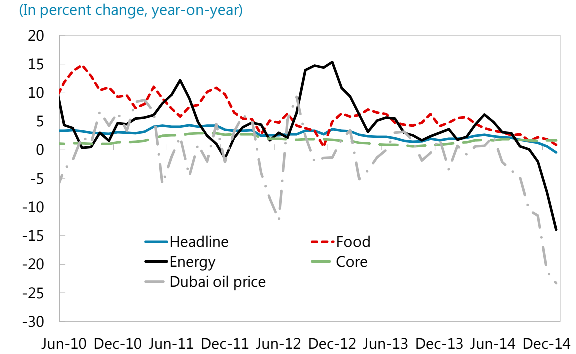
Quarterly GDP Growth
(Percent change)



Sources: Haver Data Analytics; and IMF staff calculations.

6. **Inflation.** Core inflation has been stable since April 2014, moving within a very narrow range (Figure 2). However, energy prices declined precipitously starting in the second half of last year, even though the pass-through of lower global oil prices has been offset to a considerable extent by ongoing energy price reform (see ¶17). Food price inflation also slowed dramatically. As a result, headline CPI inflation fell sharply in the last few months and turned negative (-0.4 percent) in January 2015.

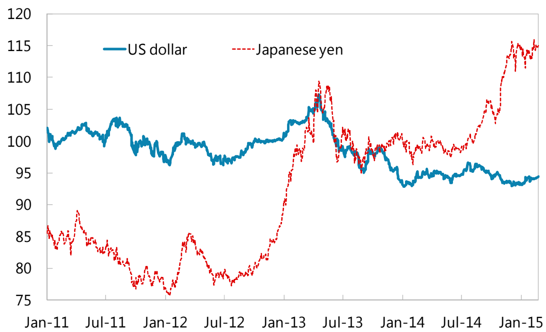
Thailand CPI and Oil Prices
(In percent change, year-on-year)



Sources: CEIC Data Co. Ltd.; and Bloomberg LP.

7. **External balance.** In recent months, the baht/USD exchange rate has been relatively stable in the face of considerable volatility in global financial markets, while the nominal and real effective exchange rates have appreciated noticeably. The current account balance improved significantly to 3.8 percent of GDP in 2014 from a deficit of 0.6 percent in 2013. The main reason is the sharp drop in the price of oil,[3] which more than offset the impact of declines in the prices of Thailand's export commodities, notably rice and rubber. Import compression was another contributing factor, with real net exports increasing despite a lackluster export performance and a fall in tourist arrivals as a result of the political situation. A financial account deficit roughly offset the current account surplus, and international reserves declined by US$10 billion to US$157 billion over the course of 2014, primarily due to valuation changes.

Thai Baht Exchange Rates
(Index, 2013=100, increase=appreciation)



Sources: Haver Data Analytics; and IMF staff calculations.

B. Outlook and Risks

8. **Outlook.** A moderate rebound from a low base is expected for 2015. Private consumption will be supported by pent-up demand and lower fuel prices. Investment should rebound after two years of decline as various government agencies have cleared the backlog of project approvals. Tourism is expected to continue the recovery started in recent months. However, the recovery of domestic demand is expected to be moderate since private investment is hampered by low capacity utilization, weak demand prospects, and political uncertainty, while consumption is held back by high household debt and tighter credit conditions. Moreover, ramping up public investment is taking longer than anticipated. With the economy lacking a strong engine, staff forecast growth of 3.7 percent in 2015. Inflation will largely be driven by oil price dynamics and the government's energy price policy. In the baseline, headline inflation is expected to pick up by end 2015, but year-average is projected at 0.1 percent.

9. **Risks.** Risks to the outlook are tilted somewhat to the downside (Appendix II). Domestic risks to the economy come from possible policy slippages, weaker-than-expected private demand, and political uncertainty. External risks include a surge in global financial volatility and protracted slow growth in advanced and emerging economies. On the upside, consumption, investment and exports may experience a stronger boost from lower oil prices.

10. **Authorities' views.** The authorities broadly agreed with staff on the outlook. However, they viewed risks to growth as roughly balanced, with downside risks—coming mostly from the external front, particularly from the increased economic and policy divergence across key economies—offset

[3] Thailand's net imports of oil are around 800 thousand barrels per day.

by an upside from faster-than-expected government spending boosting confidence and low oil prices stimulating domestic demand. They also noted that Thailand has sufficient buffers to deal with any potential global financial volatility.

REGAINING MOMENTUM WHILE SAFEGUARDING STABILITY

A. Fiscal Policy—Boosting Potential Growth in a Sustainable Way

11. **Recent developments.** In 2014, the fiscal position weakened in response to the sluggish economy, earlier-approved tax cuts and other measures. The corporate income tax was reduced from 30 to 23 percent in January 2012 and again to 20 percent in January 2013. Together with the slowdown of the economy, the general government revenue decreased from 24.1 percent of GDP in FY2012/13 to 22.5 percent in FY2013/14.[4] At the same time, general government expenditures remained at 24.3 percent of GDP, even as infrastructure spending dropped significantly on account of political unrest. The debt-to-GDP ratio of the overall public sector, including state-owned enterprises (SOEs) reached 45.5 percent in FY2013/14, well below the government's ceiling of 60 percent. (Figure 3).

Thailand: Fiscal Developments, 2009/10–15/16 1/
(In percent of fiscal year GDP, unless otherwise stated)

						Proj.	
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
General Government							
Revenue	22.4	22.6	23.1	24.1	22.5	22.7	23.0
Expenditure	23.2	23.2	24.9	24.3	24.3	24.7	25.0
Overall balance	-0.8	-0.6	-1.8	-0.2	-1.8	-1.9	-2.0
Cyclically adjusted primary balance	0.3	0.4	0.1	0.9	0.0	-0.3	-0.4
Debt-to-GDP ratio 2/	29.3	29.8	32.4	31.9	31.6	33.8	34.0
Public Sector							
Overall balance	-1.5	-0.7	-2.8	0.3	-1.7	-1.8	-2.1
Debt-to-GDP ratio	42.6	41.7	45.4	45.5	45.5	47.5	47.2

Sources: Thai authorities; and IMF staff projections.
1/ Fiscal year runs from October to September
2/ Central Government

12. **The FY2014/15 budget.** The new government formulated a prudent budget, which gives priority to restoring confidence while keeping the deficit largely unchanged at 2 percent of GDP. Furthermore, with the fiscal stimulus package of about 3 percent of GDP announced in October 2014, the authorities intended to boost spending in the first half of the year, in particular on infrastructure projects, supplemented by carry-over of unspent funds from previous years.

[4] Fiscal year starts October 1.

Preliminary data suggest that budget execution in the first quarter did not meet the authorities' expectations.

13. **Fiscal strategy.** In the current juncture, fiscal policies should support the economic recovery in the context of a medium-term fiscal framework that clearly signals the commitment by the authorities to fiscal discipline. Higher public spending now, in particular on high-return infrastructure, training and other areas that will boost potential growth, should be framed in a multi-year setting that comes along with credible plans for reforms on both the revenue and expenditure side.

14. **Medium-term fiscal framework.** The mission strongly supports the authorities' plan to prepare a new fiscal responsibility law (Public Finance Act). The new law should require the formulation of a medium-term fiscal framework by the Cabinet that would show the expected path of public debt as percent of GDP—in staff's views, the current debt ceiling of 60 percent of GDP prescribed in the Cabinet-approved fiscal Sustainability Framework is appropriate. The framework is also expected to include a fiscal policy statement with a multi-year macroeconomic outlook, fiscal objectives and targets, fiscal risk statement, debt sustainability analysis (see Appendix IV for staff's DSA) and long-term fiscal projections.

15. **Infrastructure projects.** Staff welcomes the formulation of a multi-year public investment plan for large infrastructure projects that aim at significantly enhancing connectivity with neighboring countries and reducing logistic costs. Moreover, moving the projects to the budget, both by the government and SOEs, is a welcome development that contributes to enhancing transparency and accountability. The formulation of a medium-term fiscal framework will help strengthen the link between budget and infrastructure investments, which are expected to increase only gradually in the coming years. Given past unsuccessful attempts of ramping up public investments, the authorities should consider carrying out an evaluation of the public investment process with a view to identifying bottlenecks and potential efficiency gains.[5]

Infrastructure Investment Plans for FY2015–2022

Projects	Amount (billions of Baht)	Executing Agency				
		Central Government (34%)	State Enterprises (58%)		Private Participation (8%)	
			Borrowing/ Government on-lending	Own funds	PPP	Infrastructure funds
Roads, motorways, dredging and irrigation	850-1000	Land, consultants, civil works	Civil works		Civil works, fee collection, maintenance	
Railway	900	Land, consultants	Civil works	Rolling stock		
Roads	290	Land, consultants, civil works	Civil works			
Air transport	150		Aircraft		Airport	
Others	50					
Total	**2,400**	**816**	**1,392**		**192**	

Source: Thai authorities.

[5] The staff's baseline fiscal projections are consistent with the budget approved for 2014/15 but assume a lower implementation rate for public investment projects (50 percent) for subsequent years.

16. **State-owned enterprise reform.** Staff welcomes the authorities' plan to strengthen transparency and governance of SOEs, and to carry out a strategic review of all SOEs. SOEs play a large role in service delivery, in particular in the transport and energy sectors. Their debt amounts to 9 percent of GDP and 19 percent of total public debt. The authorities' plan to restructure state enterprises such as the State Railway of Thailand and the Bangkok Mass Transit Authority are opportune, as these entities play an important role in transport infrastructure.

17. **Subsidy reform.** Staff welcomes the subsidy reforms by the authorities, which have contributed to rationalizing public expenditures while enhancing fiscal transparency.

- *Fuel subsidies*. The authorities are implementing an energy pricing reform to reduce large price cross-subsidies between energy sources, while ensuring that the vulnerable population is protected through means-testing procedures (Appendix III). In addition, excises on diesel are being gradually reinstated while LPG subsidies are reduced. The retail price of gasoline has been reduced by passing through the lower international price. Staff welcomes the ongoing energy price reform. The authorities should take advantage of the lower international oil prices to fully reinstate excises, which would generate an additional 0.5 percent of GDP starting in 2015, while continuing to protect vulnerable groups with transfers that are means-tested.

- *Rice scheme. T*he authorities have abolished the rice pledging scheme that allowed farmers to sell rice at above-market prices to the government, and introduced a new scheme that provides direct cash transfers to small-scale farmers only. This is expected to result in savings of about ½ percent of GDP per year.

- *Public obligation services*. Government transfers to SOEs amount to about 0.8 percent of GDP in the *FY2014/15 b*udget and support the provision of public obligation services at below-cost prices. As part of an effort to enhance fiscal transparency, the authorities should improve the disclosure of public service obligations of SOEs, which could be included in an annual consolidated report that covers fiscal risks.

18. **Tax policy.** Staff welcomes the authorities' plan to introduce an inheritance tax while strengthening property taxes, with a view to enhancing the progressivity of the tax system. While these taxes and energy reform are the priorities for now, the authorities should consider, under the medium-term fiscal framework, the gradual increase of the VAT rate to 10 percent, from the current 7 percent, starting only when the economic recovery is well entrenched, while introducing programs to mitigate the impact on vulnerable groups. Higher VAT is critical to bring the fiscal balance back towards equilibrium over the next few years, by offsetting the revenue loss from the recent reduction in personal and corporate income taxes. It would also allow for higher infrastructure spending and for the needs of an aging population in the coming years.

19. **Tax administration and tax expenditures.** The authorities are undertaking a strategic review of the tax administration, in particular the Revenue Department, and have initiated a technical dialogue on this issue with the Fund. In the face of a changing environment, there are

opportunities to improve the core tax administration processes, including those for registering taxpayers, filing and processing tax returns and payments, and collecting tax arrears.

20. **Authorities' views.** The authorities broadly agreed with the staff view of the overall strategy.

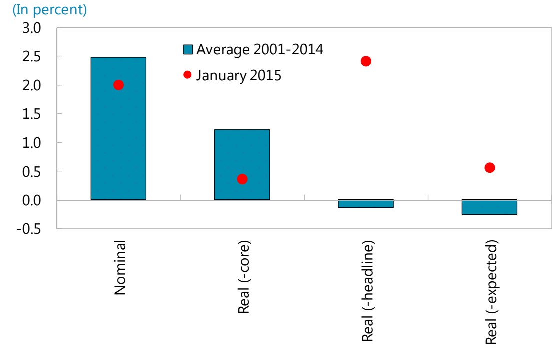
- The authorities emphasized that the short-term priority is to stimulate the domestic economy through expansionary fiscal policy, while committing to fiscal discipline by adopting new legislation on fiscal responsibility, drawing on international best practices. They noted that the FY2015/16 budget, which is currently under consideration, envisages an increase in the allocation of funds for capital expenditures. At the same time, the authorities reiterated the importance of striking the right balance between speedy spending and the need to ensure high transparency. The review of the governance of state enterprises is also underway, with the "The State Enterprises Policy Committee[6]" taking the lead in proposing the restructuring of some entities.

- The authorities noted the sensitivity in raising the VAT rate, while recognizing the need to enhance tax revenue in a medium-term setting. They agreed that a sustained economic recovery is necessary before increasing the VAT rate.

B. Monetary Policy—Supporting Growth in a Low-Inflation Environment

21. **Policy stance.** While the current monetary stance is accommodative, there is scope for further easing if the recovery is weaker than anticipated. The Bank of Thailand (BOT) cut the policy rate by 25 basis points in November 2013 and March 2014 to support the economy during the period of heightened political unrest, and has maintained the rate at 2 percent since then (Figure 4). Under current policies, the large negative output gap (estimated at -2.8 percent in 2014) is projected to close only gradually. With negative headline inflation, moderate core inflation, and noticeable slowdown in credit growth, further easing may be justified if fiscal stimulus is slow to materialize or if private sector response disappoints. In light of the banks' tightening of lending standards, in staff's views a lower policy rate would not exacerbate financial stability risks, including from a rapid acceleration in consumer loan growth.

Thailand's Policy Rate
(In percent)



Sources: Haver Data Analytics; and IMF staff calculations.

[6] Also known as the Super Board and chaired by the Prime Minister, this committee was established in June 2014, to recommend policies, management, and development plans for all SOEs.

22. **Inflation target.** The Cabinet has approved the use of headline inflation instead of core inflation and has set the target for the year-average CPI inflation at 2.5±1.5 percent for 2015. If inflation falls outside the band, the BOT is to provide an explanation for the deviation, its expectation regarding the timing of returning inflation to the target band, and contemplated monetary policy response in an open letter to the Minister of Finance. In fact, as headline inflation turned negative in January, BOT issued a letter in which it ascribed the negative inflation to a sharp one-off fall in oil prices and sought to dispel concerns about generalized deflation by emphasizing the stability of inflation expectations. It also highlighted the positive impact of the terms-of-trade improvement on the economy and the long lags in monetary policy transmission and concluded that its current accommodative stance should help lift headline inflation back within the target band by year-end. Staff welcomes the switch to using headline inflation target, which is likely to facilitate communication with the public by focusing on the most relevant and best understood measure. On the other hand, the focus on the year-average measure of inflation may present communication challenges. In addition, given the lags in monetary policy transmission and the importance of anchoring expectations, setting indicative targets beyond the one-year horizon could be considered.

23. **Authorities' views.** The authorities viewed the current monetary policy stance as sufficiently accommodative given the steady path of economic recovery in 2015. They agreed that the cyclical stance of the economy suggested a need for stimulus, but believed that fiscal measures would be the main factor supporting the economic recovery, while the effectiveness of monetary policy transmission may be weakened in the current environment of low interest rate. They were also concerned about unintended consequences of lower rates on financial stability. The authorities explained that setting headline inflation as the monetary policy target would help facilitate central bank communication and therefore anchor public inflation expectations more effectively. In addition, targeting annual average inflation would provide them additional flexibility in dealing with temporary shock, but does not preclude monitoring and, if warranted, reacting to monthly inflation numbers.

C. Maintaining External Resilience

24. **Current account.** The current account surplus is expected to rise somewhat in 2015 due to lower oil prices, and then decline in the medium term.

- Export growth has slowed significantly since 2012 on account of weaker global demand, government's intervention in the rice market, and lower commodity prices. Thailand's export share in global markets has declined slightly since early this decade, indicating emerging competitiveness problems. These problems can be partially observed in a declining share of electronic products in total exports, which was not fully offset by an increase in automotive exports. Looking forward, exports are projected to grow only modestly on account of weak global demand.

- The rapid growth of tourism, in particular from China, has been the main driver of service exports, although political unrest adversely affected tourism in 2014. However, tourism appears to be gaining momentum as shown by a strong recovery in tourist arrivals in December 2014.

- Imports fell sharply in 2014, due to the decline in oil prices, but more importantly to a sharp demand contraction. Going forward, a gradual recovery in imports is expected with the implementation of public infrastructure programs and recovery of oil prices.

Thailand Imports

Percent of GDP

	2013	**2014**
Oil products	13.1	12.3
Other	51.6	48.5
Total	**64.7**	**60.8**

25. **Capital and financial account.** The capital and financial account balances have deteriorated in the last two years. Overall, the capital and financial account registered a deficit of about US$15 billion in 2014.

- Foreign direct investment (FDI) remains the largest form of capital inflows. Inward FDI declined from US$13 billion in 2013 to US$12 billion in 2014, while outward FDI remained at US$7 billion in 2013 and 2014. As a result, net FDI turned positive in 2013 and 2014 (from a deficit in 2012). The government has taken steps to encourage inward FDI and liberalize outward FDI. These steps may contribute to more startup of newly approved foreign investment projects and a sustained increase of Thai FDI, especially to China and neighboring countries.

- Recent trends in portfolio flows to Thailand have been similar to those in other industrialized ASEAN countries, driven mainly by changing risk appetite of investors. Although there were net portfolio outflows in 2014, Thailand's bond and equity markets remained resilient.

- The net international investment position (NIIP) deteriorated from -2 percent of GDP in 2009 to -18 percent of GDP in 2013. Given the overall current account surplus during that period, the deterioration likely reflects valuation effects and data revision. Going forward, the NIIP is expected to remain broadly stable in the medium term.

26. **External sector assessment.** Thailand's 2014 current account (CA) and real effective exchange rate (REER) are close to levels consistent with medium-term fundamentals and appropriate policies. This assessment is based on the External Balance Assessment (EBA), a regression based model analysis, and incorporates the impact of oil price declines and delayed public investment in 2014 (Appendix VI). While the CA surplus is expected to widen in 2015 on account of lower oil prices, it is expected to narrow to balance in the medium term. The REER is within a range of ±5 percent of the equilibrium level. The international reserves stand at 213 percent of the Fund's reserve adequacy metric. Thailand's external debt is projected to remain relatively low over the medium term, gradually declining from 37.9 percent of GDP in 2014 to 33.6 percent of GDP in 2020 (Appendix V).

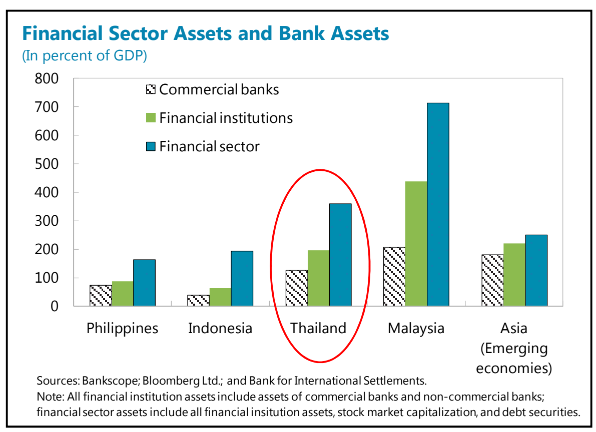
27. **Regional integration.** Thailand is increasingly taking advantage of its geographic location by intensifying its integration with Cambodia, Laos, Myanmar, and Vietnam (CLMV) and southern China (Appendix VII). Multilateral infrastructure projects are improving the mobility of goods and

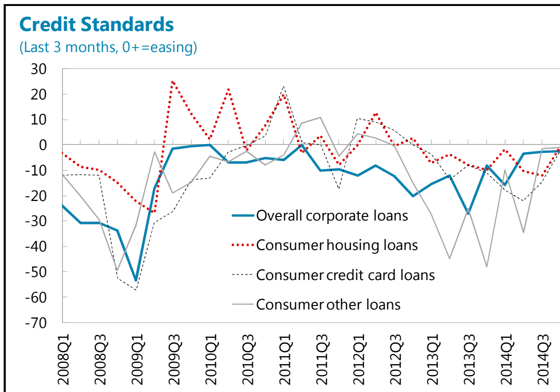
labor, while rapid growth in the neighboring economies has already expanded markets for Thai goods and services. Both Thai and foreign companies have relocated some basic processing and assembly activities to Special Economic Zones (SEZs) in the neighboring countries to take advantage of lower labor cost in those countries. Some Thai conglomerates have become globally competitive, and the launch of the ASEAN Economic Community (AEC) in 2015 may provide new opportunities for investment and trade, including the reduction of tariffs for Thai goods in neighboring CLMV countries.

28. **Authorities' views.** The authorities project that the current account in 2015–20, while remaining in surplus, will decline gradually toward near-balance. They expected the financial account, especially foreign portfolio flows, to remain volatile mainly due to volatility in global financial markets. However, Thailand's strong local investor base, both institutional and retail, should enable orderly adjustments. The flexible exchange rate provides an important first line of defense against external shocks. The authorities noted that Thailand's competitiveness has been deteriorating and Thailand has been losing its share of FDI relative to regional peers. However, the prospects are promising as they are supported by strong fundamentals, planned public infrastructure projects, geographical advantages, and the (Thai) Board of Investment's (BOI) new approach to investment incentives. The recently established SEZs in five border provinces facilitate regional integration.

STRENGTHENING FINANCIAL STABILITY FRAMEWORK

29. **Financial landscape.** Thailand's financial landscape has changed since the global financial crisis. The financial sector in Thailand is large, with assets near 359 percent of GDP. Commercial banks assets account for 128 percent of GDP, higher than in Indonesia and the Philippines (Appendix VIII). Growth in non-commercial banks financial assets has outpaced that of commercial bank assets since 2008. As a result, while commercial bank credit-to-GDP ratio increased from 99 percent in 2007 to 128 percent in 2013, total financial institution credit rose from 154 percent of GDP to 197 percent in the same period. In particular, non-commercial-banks, including SFIs and non-bank financial institutions (NBFIs), provided almost 60 percent of household loans. Moreover, credit cooperatives, as a whole, have become a non-negligible player, with their assets equal to 13 percent of total credit of commercial bank and SFIs in 2013 (Figure 6).





Sources: Bank of Thailand; and Haver Data Analytics.

30. **Interconnectedness.** The interconnectedness among financial institutions on both the domestic and external fronts has risen. For instance, other depository corporations, including commercial banks, have become net borrowers from other financial corporations and from abroad since early 2008, with total borrowing amounting to about 18 percent of their liabilities at end-2014. Non-commercial-banks, including SFIs and credit cooperatives, are borrowing from the interbank money market, with 17 percent of SFI liabilities and 23 percent of credit cooperatives liabilities being funded by other financial institutions. However, credit cooperatives are less well regulated and supervised, and in general have weaker profitability than commercial banks.

31. **Credit.** As noted, total financial institution credit rose from 154 percent of GDP in 2007 to 197 percent in 2013. In the last two years, however, credit growth has slowed considerably, whole Thai corporate foreign currency borrowing has also declined since 2013. Both supply and demand factors have played a role. On the supply side, banks and SFIs have become more cautious in their lending standards to households and small and medium enterprises (SME), while the expiration of tax incentives for car purchase, lower investment and high household debt have dampened credit demand. Market observers have noted that Thai corporates have a cautious approach to borrowing due to the lessons from the Asian financial crisis. In view of the slowing credit growth, low share of real estate loans, and no apparent real estate boom, staff does not see a need to tighten macroprudential policies despite the low-interest-rate environment. Looking forward, credit is expected to provide a smaller contribution to growth given the high leverage of households.

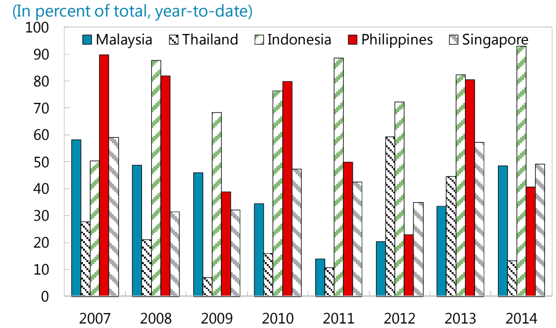
32. **Commercial banks.** Commercial banks weathered the global financial crisis and political turmoil well. Banks appear to be well capitalized, liquid, and profitable. While nonperforming loans (NPLs) are rising, they remain low, and commercial banks appear well prepared to deal with them. Banks are also expected to be able to handle well even higher NPLs if an economic downturn where to lead to debt repayment problems, including from low income households that appear to be over indebted. Basle III regulations on capital have been implemented. However, liquidity risks have risen as seen in the high loan-to-deposit ratio and higher reliance on wholesale funding. While commercial banks have become more cautious in lending to households and SMEs, they do not face capital or liquidity constraints to expand credit (Figure 7).

33. **Household debt.** After rising very fast for a number of years, the growth of household debt has moderated. Thailand's household debt-to-GDP ratio rose from 55 percent in 2007 to 84 percent in 2014. Commercial banks provided only about 40 percent of household loans, while SFIs and NBFIs supplied the rest. More than two thirds of household loans were used for consumption (including purchases of cars and other durables), farming, and business, with the remainder used to buy real estate and land. The authorities should strengthen monitoring the quality of consumption loans,

whose collateral value tends to be lower than that of housing. Mirroring the relatively low share of real estate loans, Thailand has not gone through a real estate boom in recent years, except in selected urban locations. Mitigating the risks are strong financial buffers, with household financial assets at about twice the level of household debt. Household savings increasingly go to other forms of financial instruments and vehicles, such as retail bonds and mutual funds (Figure 8).

34. **Corporate sector debt.** Nonfinancial corporates appear to have reduced their bank loans in recent years, partly due to the availability of alternative financing—domestic bonds and debentures, as well as external loans and international debt securities. The currency mismatch risk has receded with the declining share of foreign currency borrowing in total debt issuance after 2012. At the same time, some Thai conglomerates have undertaken rapid debt-financed external expansions in recent years. The authorities need to remain vigilant to this trend, mindful that cross-ownership of related firms could result in opaque balance sheets.

Foreign Currency Borrowings of Non-Financial Corporates
(In percent of total, year-to-date)



Source: Dealogic.
Note: Includes both issuance of syndicated loans and bonds by non-financial corporations.

35. **Regulation of non-commercial-banks.** SFIs and NBFIs represent a large and growing segment of the Thai financial sector. SFIs are interconnected with commercial banks via interbank loans and exposure to the same customers. Staff welcomes the authorities' plan to extend the BOT's supervisory and regulatory mandate to SFIs and encourages them to adopt an operational plan swiftly. At the same time, the authorities should undertake a strategic review of the SFIs, including their mandate, services, and financial operations with a view of clarifying their mandates and focusing their operations in areas not covered by commercial banks. Given that SFIs face different legal frameworks, a separate transitional plan is likely to be needed for each. In addition, credit cooperatives, whose role and interconnectedness within the financial system are on the rise, are regulated by the Ministry of Agriculture (MOA), which appears to have insufficient supervisory resources to oversee large credit cooperatives. Therefore, supervision of credit cooperatives should be strengthened substantially, including through the technical assistance of the BOT to the MOA.

36. **Financial stability framework.** Staff welcomes the steps that the BOT has taken to strengthen the financial stability framework, including the publication of Financial Stability Reports (FSRs) and the establishment of a Financial Stability Committee. In the latest FSR, the BOT's stress test of an interest rate shock (amounting to 2 percent) suggested that Thai firms can withstand this shock, even as loan growth would slow down and banks' nonperforming assets would increase somewhat. Staff encourages the authorities to strengthen data collection to close data gaps in non-commercial banks. In addition, staff urges vigilance regarding financial risks related to household debt and large Thai conglomerates. Finally, the authorities should review the crisis management framework including the modalities for liquidity provision and bank resolution, as well as the protocols for information sharing and policy coordination among various financial regulators.

37. **Authorities' views.** The authorities see the main risk as over-indebtedness among low-income households that borrowed from SFIs, while they believe that middle- and upper-middle income groups may still have borrowing space. The authorities have placed high priority on strengthening the work on financial stability as a strategic objective, including monitoring, mitigating, and managing systemic risks. To this end, they have created a Financial Stability Committee within the BOT that is tasked with systemic risk monitoring and mitigation. This committee is composed of high-level executives from relevant departments such as monetary policy, financial markets operations, financial institutions policy, banking supervision, and others. In addition, the two FSRs, which were published in 2013 and 2014, identified credit risks from household and SME loans with domestic consumption-related businesses as the main risks to the financial sector. To strengthen the effectiveness of financial surveillance, the BOT encourages the savings and credit cooperatives to include their clients in the national credit bureau database. By linking with this database, the cooperatives will benefit from information supplied by other financial intermediaries.

REINVIGORATING INCLUSIVE GROWTH

38. **Structural challenges.** Thailand faces rapid population aging, with the dependency ratio expected to trough this year and then start rising swiftly (Appendix IX). Nearly 40 percent of the labor force is employed in low-productivity agriculture, and the reallocation of resources to higher value-added sectors appears to have stalled (Appendix X). A significant share of Thailand's export capacity is in electronics, with some products facing low global demand growth (hard disk drives, fax machines, digital cameras). While Thailand's ranking in overall global competitiveness is strong (31 of 144), it ranks much lower on innovation, technological readiness, and education quality.[7]

39. **Avoiding the middle-income trap.** Increasing productivity growth is crucial, and can be achieved through several complementary channels. Implementing the ambitious public infrastructure investment plans will alleviate bottlenecks and boost connectivity within Thailand and with neighboring countries. Putting greater emphasis on practical subjects and cognitive skills in schools, improving teacher standards, and aligning vocational training with labor market demand would prepare the workforce better for the challenges of the modern economy.[8] The welcome replacement of rice and rubber price guarantees with targeted transfers should encourage movement of farm workers to higher-productivity sectors.

40. **Addressing demographic challenge.** There is scope to offset the impact of unfavorable demographics by raising participation rates and by facilitating immigration. Older persons, whose share in the population is rapidly increasing, may be induced to stay employed longer by more flexible and accommodative working arrangements. The mandatory retirement at age 60 for

[7] World Economic Forum, *Global Competitiveness Indicators*.

[8] World Bank, 2012, *Leading with Ideas: Skills for Growth and Equity in Thailand.*

government employees should be reconsidered. In addition, Thailand would benefit from streamlining its immigration system and opening its doors to more migrants.

41. **Authorities' views.** The authorities emphasized that Thailand is in the process of laying a more solid foundation to future growth potential through numerous reforms aimed at modernizing the economy. A new 7-year strategic plan launched by the Board of Investment incentivizes R&D and innovation and promotes high value-added manufacturing. The ongoing public infrastructure program will help eliminate logistic bottlenecks. A plan to improve access to finance by SMEs will create an enabling environment to facilitate structural transformation of the economy. SOE reform will improve their efficiency and transparency. The authorities also noted that the mandatory retirement age has already been raised for some categories of civil servants and a broader increase is under discussion.

STAFF APPRAISAL

42. **Outlook.** The economy is recovering gradually from the disruption inflicted by a series of shocks, including political unrest. A recovery in domestic demand is projected to boost GDP growth by 3.7 percent in 2015, but with public investment projects slow to take off the ground and a weak global environment, the economy is still lacking a strong engine of growth, and risks are to the downside.

43. **Policy overview.** Both monetary and fiscal stimuli are needed in the near term to support the fledgling economic recovery. Over the medium term, fiscal consolidation and structural reforms are essential to accelerate growth, while maintaining stability.

44. **Fiscal policy.** Staff welcomes the ongoing energy price reform aimed at eliminating price distortions and replacing price subsidies with targeted income support. In the same vein, replacing price support for rice and rubber with transfers to needy farmers will reduce price distortions and increase fiscal space. Staff endorses the broad strategy of providing fiscal stimulus in the near term, particularly by accelerating infrastructure investment, followed by consolidation within a medium-term framework. Raising the VAT rate once the recovery is firmly entrenched will be essential for strengthening the revenue system and capping the public debt within the government's ceiling in the face of the ambitious public investment program.

45. **Monetary policy.** With the economy still below potential, the current accommodative monetary policy stance remains appropriate. However, further easing of the monetary stance may be considered if fiscal stimulus is weaker than expected and the economic recovery remains sluggish. Staff endorses the transition from targeting core to headline inflation, as it will facilitate communication and enhance accountability.

46. **External sector.** An improvement in the terms of trade has boosted the current account in the short term. The exchange rate reacted flexibly to domestic and external shocks, including volatile capital flows. On the whole, the baht has been broadly stable against the U.S. dollar over the course

of 2014, but has appreciated in nominal and real effective terms, particularly since July. Both the current account balance and the real exchange rate are assessed to be close to levels consistent with medium-term fundamentals and appropriate policies.

47. **Financial sector.** Credit growth has slowed, but the degree of interconnectedness in the financial system has increased and remains a source of vulnerability. Staff welcomes the recent measures to enhance financial stability, including the publication of the Financial Stability Report and the extension of BOT's regulation and supervision to include SFIs and the formation of the Financial Stability Committee. At the same time, the oversight of the fast-growing credit cooperative sector needs to be strengthened.

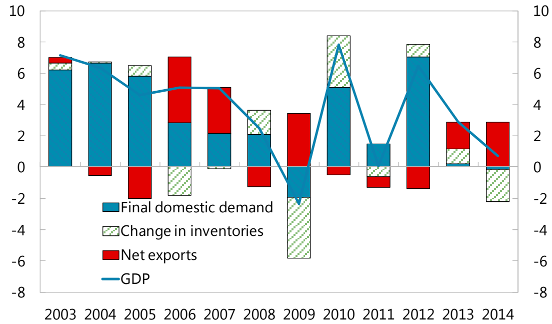
48. **Structural policies.** The government has taken a number of important structural measures to reduce price distortions, enhance public infrastructure, promote high-value-added manufacturing, boost regional integration, and improve education and training that are likely to spur productivity growth and lift inclusive growth over the medium term. In light of the tight labor market, the authorities should consider measures that would offset the impact of population aging on labor supply, including raising the mandatory retirement age for civil servants and regularizing migration from neighboring countries.

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

Figure 1. Real Sector Developments

Domestic demand slowdown depressed growth in last two years.

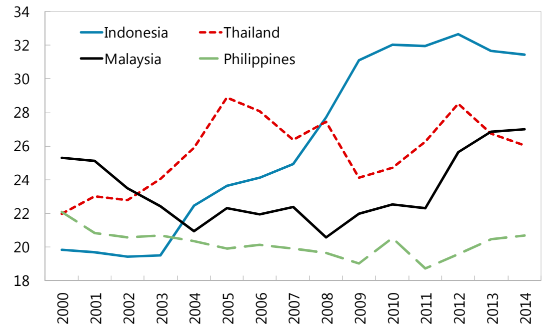
Growth Decomposition
(In percent)



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

Investment has come off its 2012 peak associated with post-flood reconstruction.

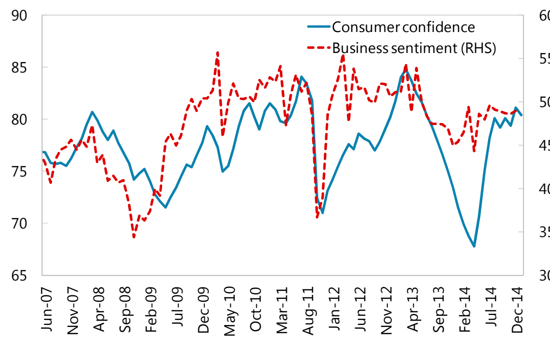
Investment
(In percent of GDP)



Source: IMF, *World Economic Outlook*.

Private sector confidence, shaken by political turmoil, has recovered somewhat after the coup but remains low.

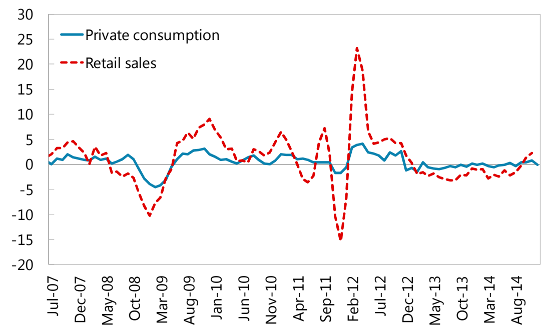
Consumer Confidence and Business Sentiment Index



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

Private consumption is picking up gradually.

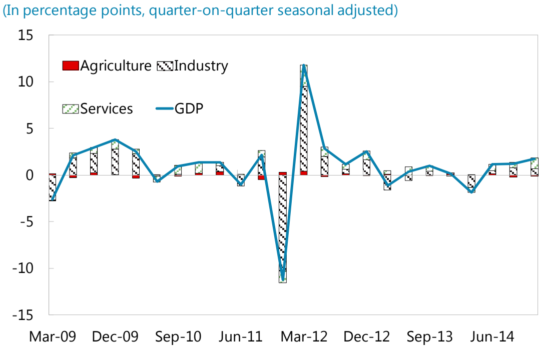
Private Consumption and Retail Sales
(In percent, 3-month change in 3-month moving average)



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

Industry and services lifted GDP toward the end of 2014…

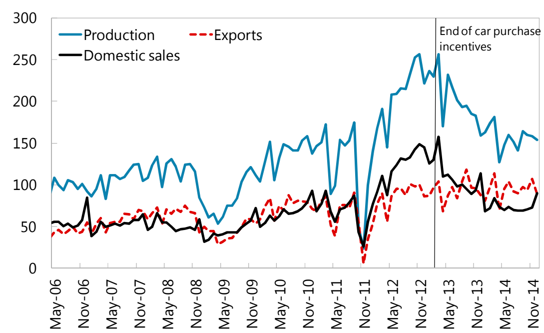
Growth Contributions by Industry
(In percentage points, quarter-on-quarter seasonal adjusted)



Sources: Haver Data Analytics; and IMF staff calculations.

…even though car production has fallen after tax incentives expired.

Car Production and Sales
(In thousand units)



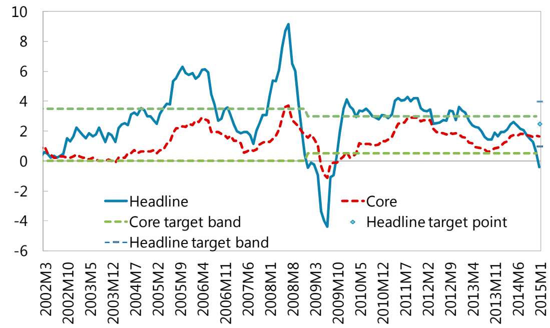
Source: CEIC Data Co. Ltd.

Figure 2. Inflation and Capacity Indicators

Core inflation is in the middle of the past target band while headline inflation has fallen to negative territory…

Headline and Core CPI Inflation

(In percent, year-on-year)

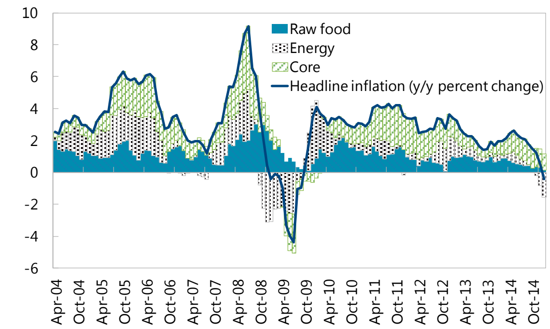


Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

…as energy and food prices declined.

Contributions to Headline Inflation

(In percentage points)

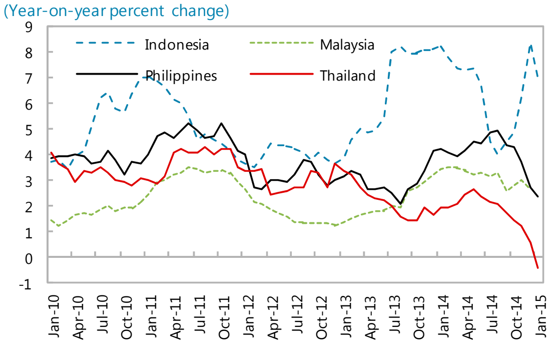


Sources: Haver Data Analytics; and IMF staff calculations.

Inflation is lower than elsewhere in the region.

Inflation

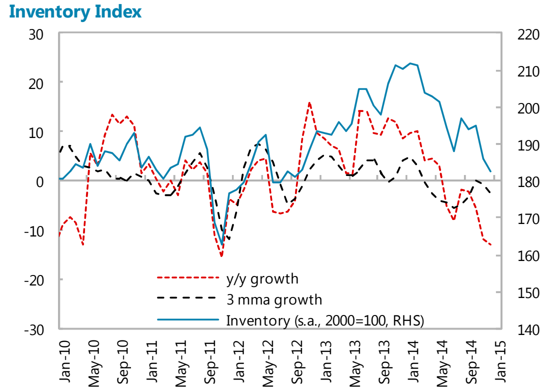
(Year-on-year percent change)



Sources: APDCORE; and IMF stafff calculations.

Inventories are coming down from bloated levels.

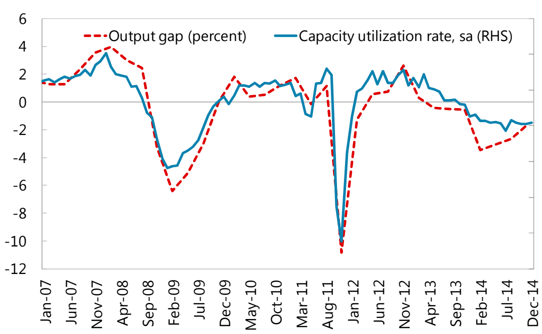
Inventory Index



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

Spare capacity is considerable…

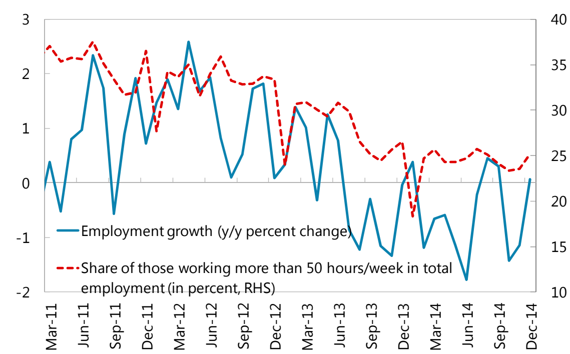
Output Gap and Capacity Utilization Rate



Sources: Haver Data Analytics; and IMF staff calculations.

…and the labor market is showing some slack.

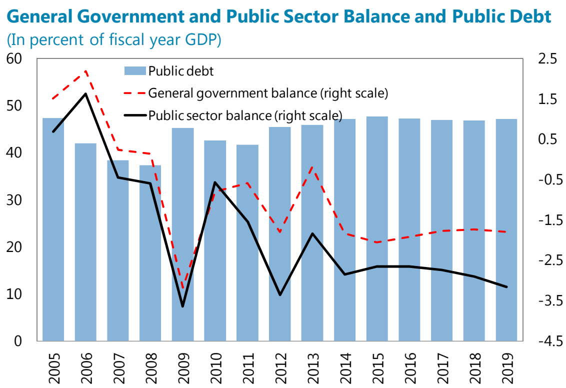
Labor Market



Sources: Haver Data Analytics; and IMF staff calculations.

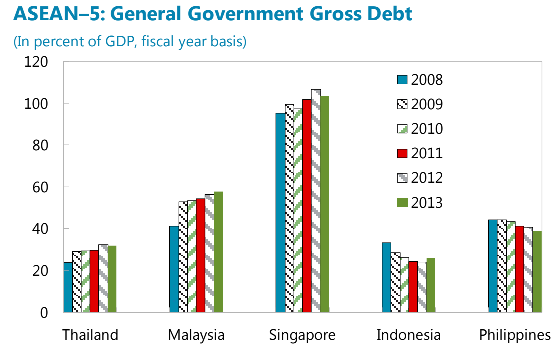
Figure 3. Public Finances

Fiscal balances have worsened, reflecting responses to the flood, stimulus measures and lower growth.



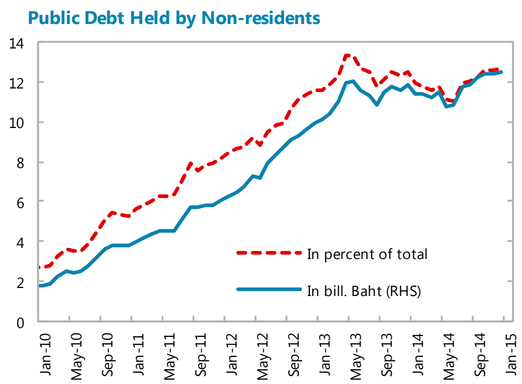
Sources: CEIC Data Co., Ltd.; and IMF staff estimates and projections.

As a result, the debt has increased somewhat.



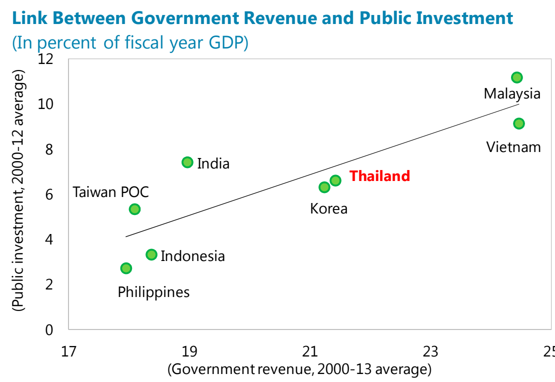
Sources: CEIC Data Co. Ltd; Bank of Thailand; IMF, *World Economic Outlook*; and IMF staff estimates.

Non-resident holdings of baht-denominated public debt have stabilized after increasing rapidly until early 2013.



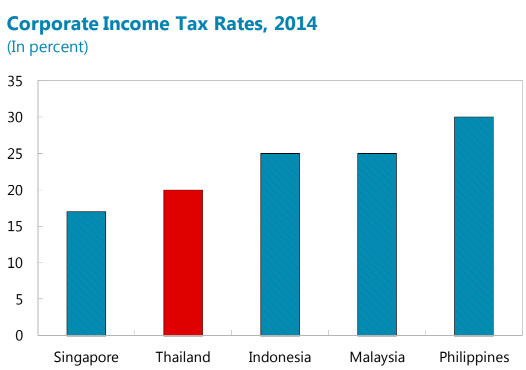
Sources: CEIC Data Co. Ltd.; and IMF staff calculation

Thailand needs to boost public investment.



Sources: IMF, *World Economic Outlook*; and IMF staff estimates.

Corporate income tax rates have been reduced to enhance growth...



Source: National authorities.

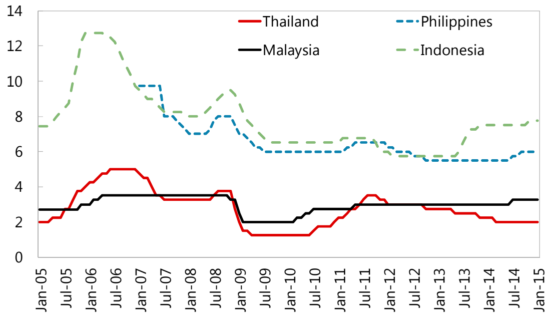
...while the VAT rate remains in the lower range in the region.

Source: National authorities.
1/ Rate of the Goods and Services Tax scheduled to be introduced in April 2015.

Figure 4. Monetary Policy Instruments

Monetary policy stance is accommodative.

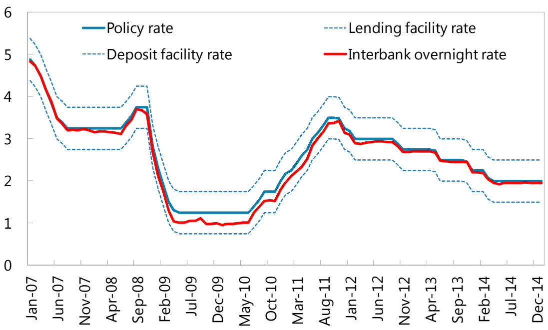
ASEAN-4: Policy Rates
(In percent, end of period)



Source: Haver Data Analytics.

Money market rates have been steered close to the policy rate.

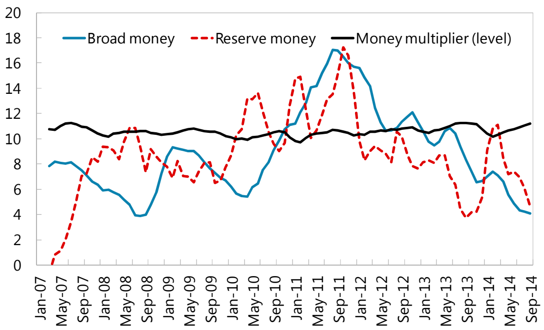
Interest Rates
(In percent per annum)



Sources: CEIC Data Co. Ltd.; and Haver Data Analytics.

Money supply growth has slowed.

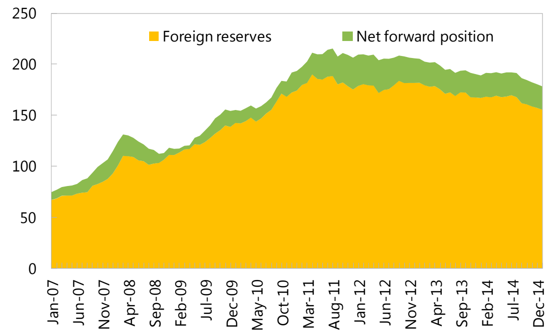
Money Supply
(Year-on-year percent change, 3-month moving average)



Source: Haver Data Analytics; and IMF staff calculations.

International reserves have declined…

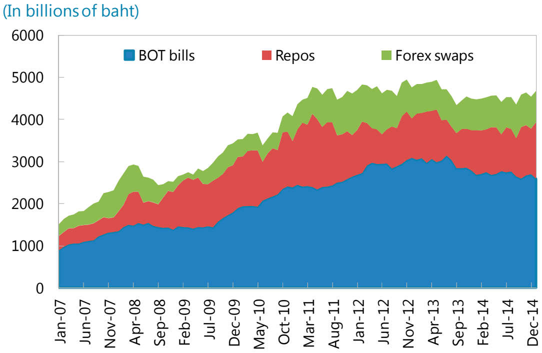
Bank of Thailand's International Reserves
(In billions of US dollars)



Source: Haver Data Analytics.

…reducing the need for liquidity absorption.

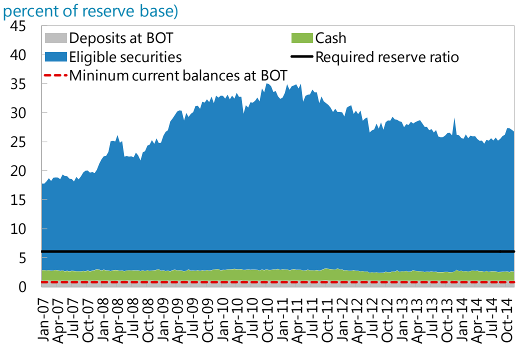
Bank of Thailand's Sterilization Instruments
(In billions of baht)



Source: Bank of Thailand.

Banks are liquid, with large holdings of repo-eligible securities.

Liquid Assets of Commercial Banks
(In percent of reserve base)

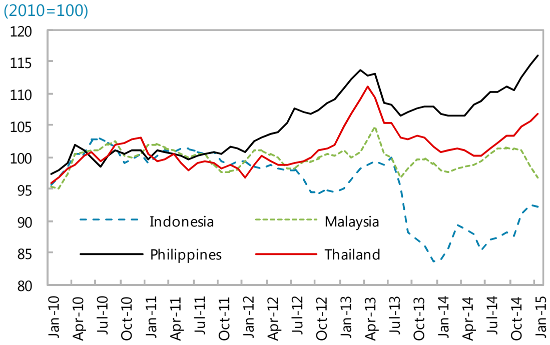


Sources: Bank of Thailand; and IMF staff calculations.

Figure 5. External Sector

The REER has been appreciating since mid 2014.

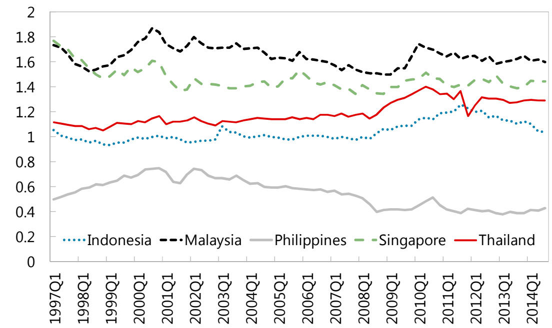
Real Effective Exchange Rate
(2010=100)



Sources: APDCORE; and IMF stafff calculations.

Thailand's export share in global markets declined since early this decade…

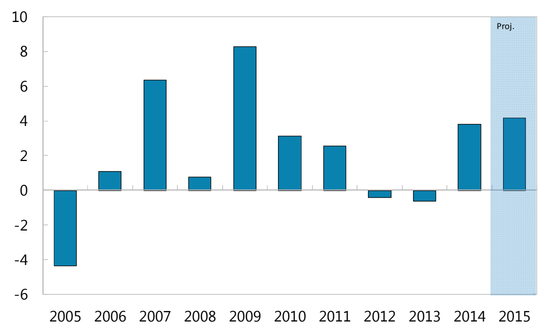
Export Market Share in ASEAN-5
(In percent of the World, seasonally adjusted)



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

Thailand's current account balance has been volatile in recent years.

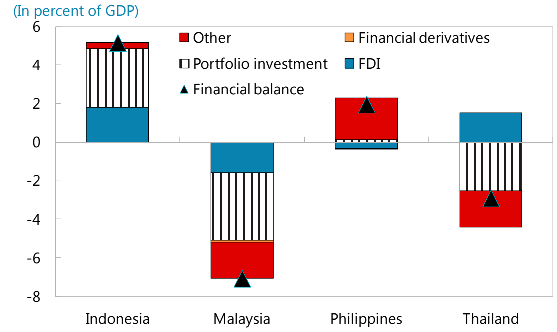
Current Account Balance
(In percent of GDP)



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

FDI dominated net capital inflows to Thailand.

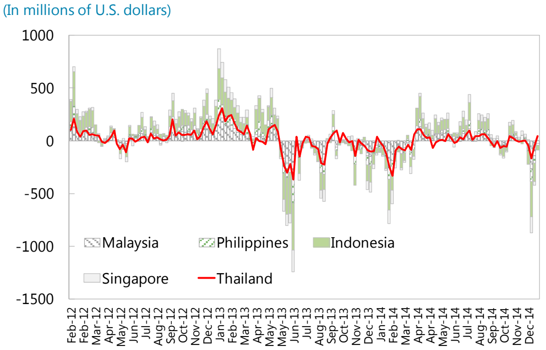
Financial Balance in ASEAN-4, 2014*
(In percent of GDP)



Sources: CEIC Data Co. Ltd.; and IMF staff calculations.
*Year to date up to Q3 for Philippines and to November for Thailand.

Portfolio flows to Thailand followed the pattern of its peers.

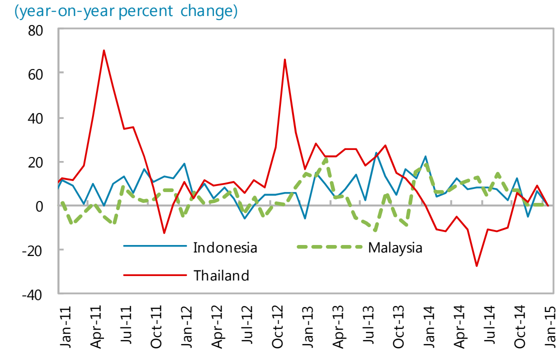
Equity and Bonds Net Flow
(In millions of U.S. dollars)



Sources: EPFR Global, accessed through Haver Analytics.

Tourist arrivals are slowly recovering after a sharp dip during the political unrest.

Tourist Arrival
(year-on-year percent change)

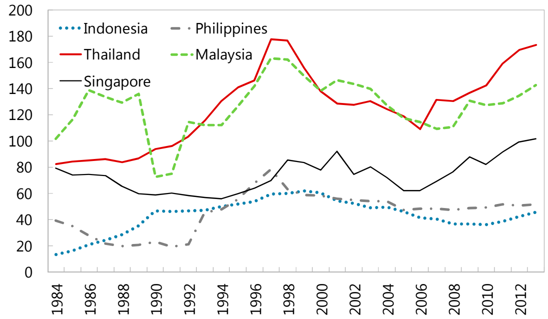


Sources: APDCORE; and IMF stafff calculations.

Figure 6. Financial Sector Developments

All financial institution credit rose sharply from 2006 to 2011…

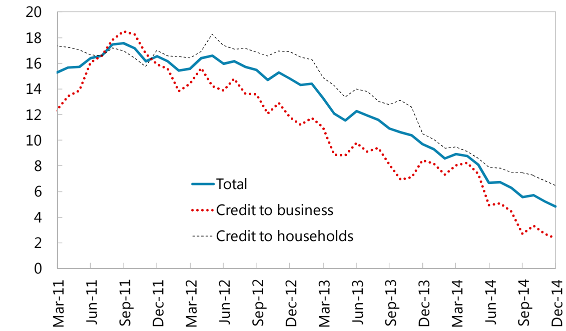
Domestic Credit Provided by Financial Sector
(In percent of GDP)



Sources: World Bank, *World Development Indicators*; and IMF staff calculations.

…but credit by deposit-taking institutions, including commercial banks and SFIs, has decelerated since 2012.

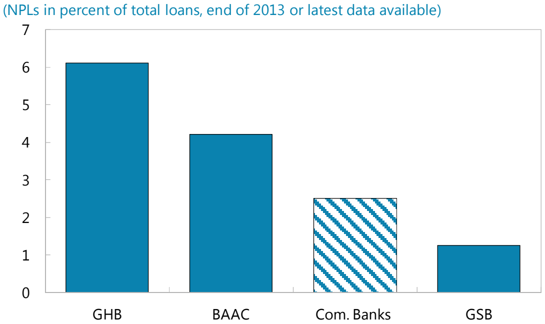
Loan Growth
(Other depository corporations, year-on-year percent change)



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

Asset quality in SFIs is weaker than in commercial banks.

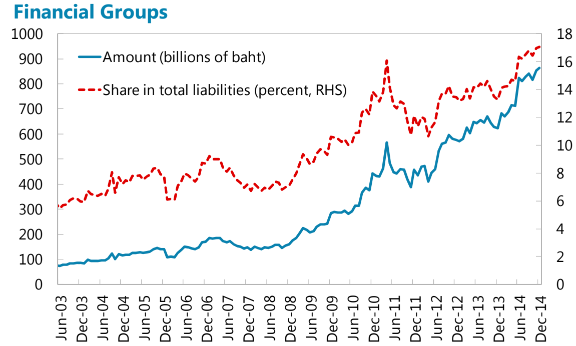
Asset Quality 1/
(NPLs in percent of total loans, end of 2013 or latest data available)



Sources: BankScope; CEIC Data Co. Ltd.; and IMF staff estimates.
1/ Major SFIs.

SFIs' liabilities to other financial institutions have been increasing from low levels.

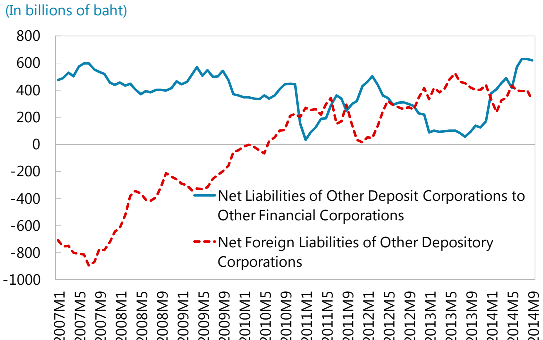
SFIs' Liabilities to Other Deposit Corporations and Other Financial Groups



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

Deposit-taking institutions continued to be the net borrowers from Thai NBFIs and overseas.

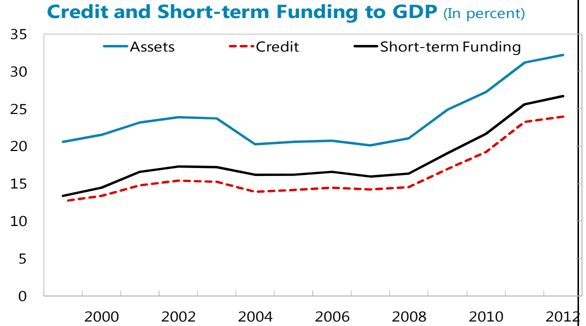
Net Liabilities of Other Depository Corporations
(In billions of baht)



Sources: IMF, *Integrated Monetary Database*; and IMF staff estimates.

Non-commercial-banks, including SFIs and NBFIs, have been growing steadily.

Non-commercial-banks in Thailand: Ratios of Assets, Credit and Short-term Funding to GDP (In percent)



Sources: BankScope; IMF staff estimates.

Figure 7. Financial Soundness Indicators

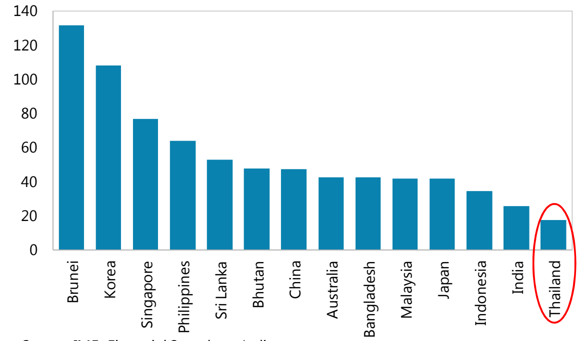
Thailand commercial banks' capital buffers are strong…

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

Source: IMF, *Financial Soundness Indicators*.

…but one-year liquidity coverage should improve.

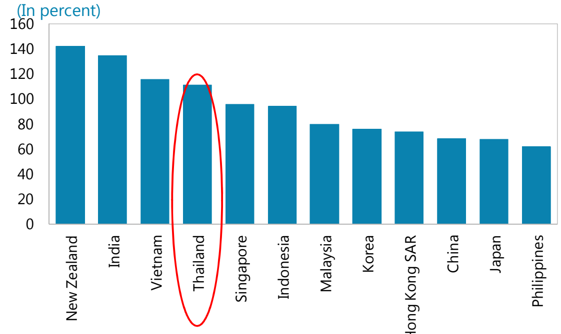
Liquid Assets to Short-Term Liabilities
(In percent)



Source: IMF, *Financial Soundness Indicators*.

Thailand loan-to-deposit ratio is the highest in the ASEAN-5.

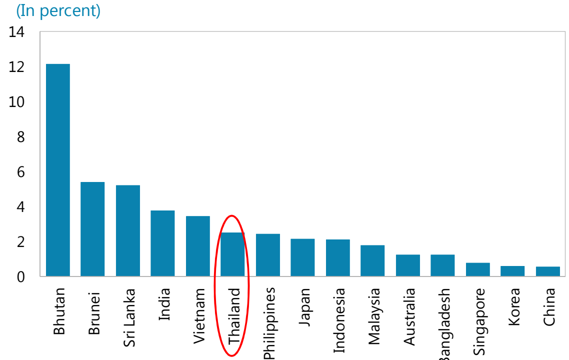
Loan to Deposit Ratio
(In percent)



Note: In the case of Thailand, the ratio includes interbank positions; without the latter, the ratio would be lower by 14 percentage points.
Sources: CEIC Data Co. Ltd.; Haver Analytics; and IMF staff calculations.

…while asset quality is moderately high.

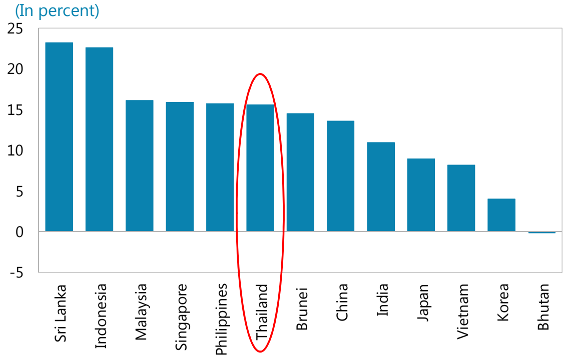
Nonperforming Loans to Total Gross Loans
(In percent)



Source: IMF, *Financial Soundness Indicators*.

Thailand commercial banks are profitable, as shown by return on equity…

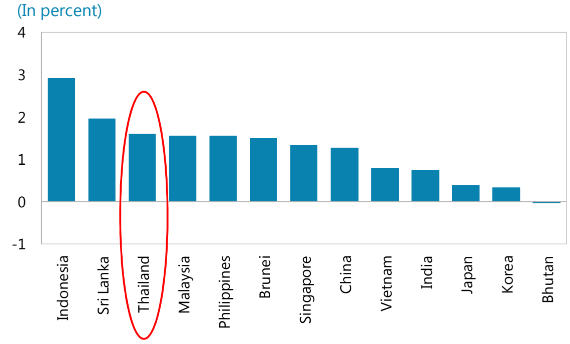
Return on Equity
(In percent)



Source: IMF, *Financial Soundness Indicators*.

…as well as by return on asset.

Return on Assets
(In percent)



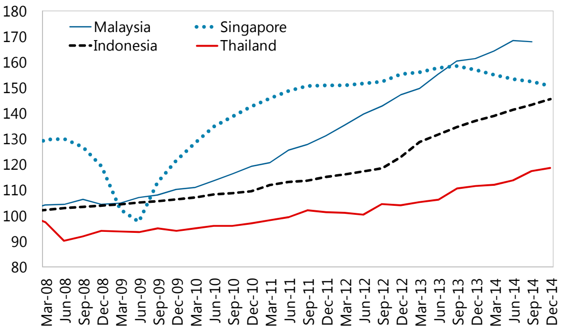
Source: IMF, *Financial Soundness Indicators*.

Figure 8. Asset Prices and Private Debt

Increases in housing prices have been the lowest in the region…

House Price Index

(2007:Q1 = 100)

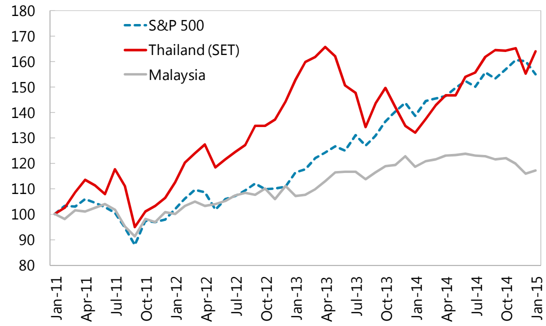


Sources: CEIC Data Co. Ltd; and IMF staff calculations.

…stock prices recovered in 2014…

Stock Market Index

(January 2011=100)

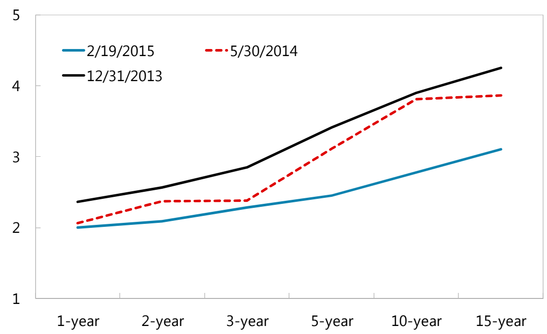


Source: Bloomberg Data LP.

Government bond yields declined as well.

Government Bond Yields

(In percent)

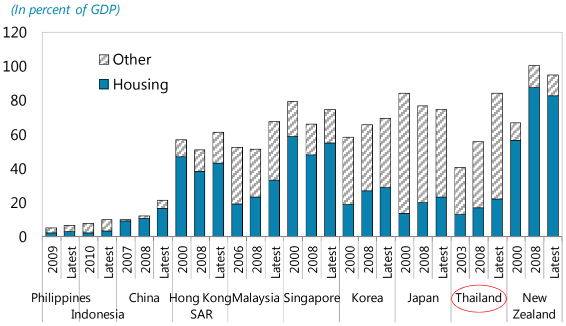


Source: Bloomberg LP.

Thailand's household debt was more concentrated in consumption loans rather than mortgage loans in contrast to other countries…

Asia: Household Debt

(In percent of GDP)

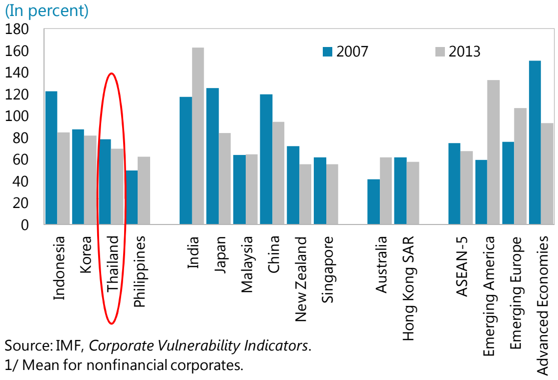


Source: CEIC Co. Ltd.; Haver Analytics; WEO; OECD; National Authorities; and staff calculations. Earliest available data is Indonesia (March 2010), Malaysia (March 2006), Philippines (March 2009), Singapore (March 2004), Thailand (March 2003), China (March 2007).

Nonfinancial corporate debt to equity ratio was not high compared with its peers.

Nonfinancial Corporate Debt to Equity Ratio 1/

(In percent)

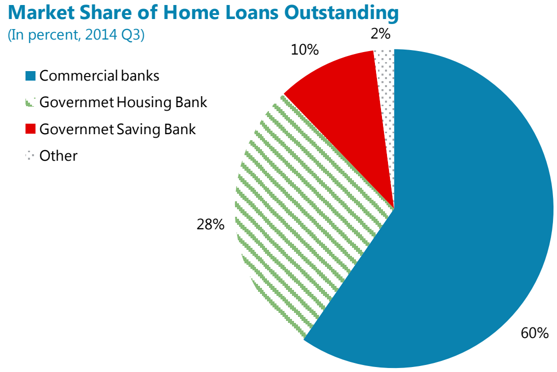


Source: IMF, *Corporate Vulnerability Indicators*.
1/ Mean for nonfinancial corporates.

SFIs and NBFIs provided 40 percent of home loans.

Market Share of Home Loans Outstanding

(In percent, 2014 Q3)

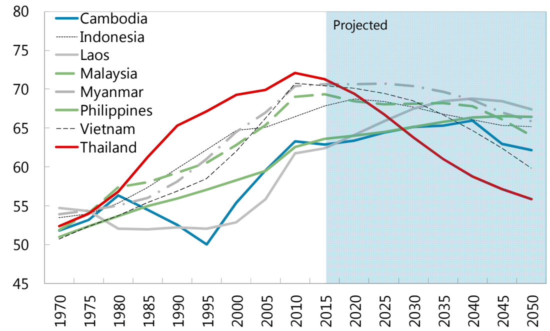


Sources: Real Estate Information Center (REIC).

Figure 9. Structural Challenges

Thailand faces a sharp demographic transition.

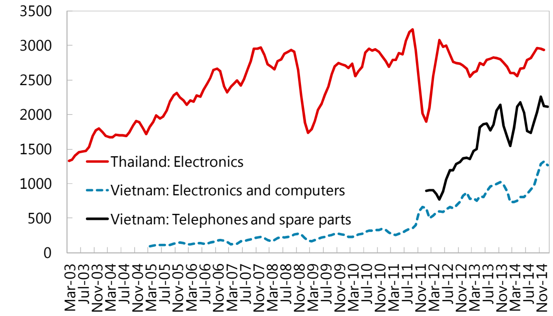
Working Age Population
(Percent of total population)



Sources: UN; and IMF staff calculations.

Thailand's electronics exports may have lost competitiveness to lower-cost producers.

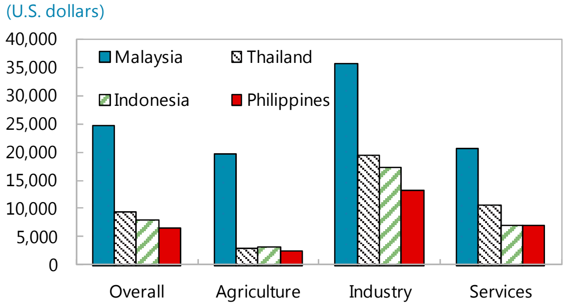
Exports
(In millions of US dollars, 3mma)



Sources: Bank of Thailand; General Statistics Office of Vietnam; and Haver Data Analytics.

Thailand's agricultural productivity is rather low…

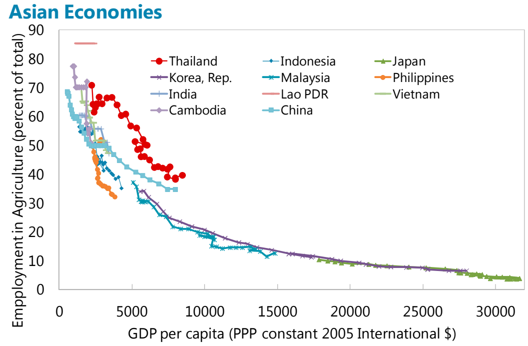
Value Added per Worker[1]
(U.S. dollars)



[1]2010 data for Japan, 2011 for China, 2012 for others.
Sources: World Bank, *World Development Indicators*

…while agricultural employment is considerably higher than would be expected for its level of income.

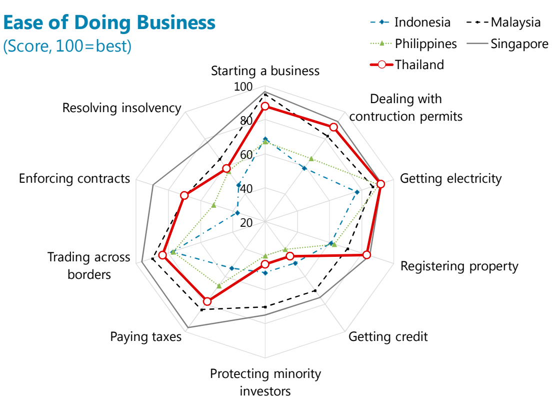
Employment in Agriculture and GDP per Capita in Selected Asian Economies



Source: World Bank, *World Development Indicators*.

Thailand has a welcoming regulatory environment…

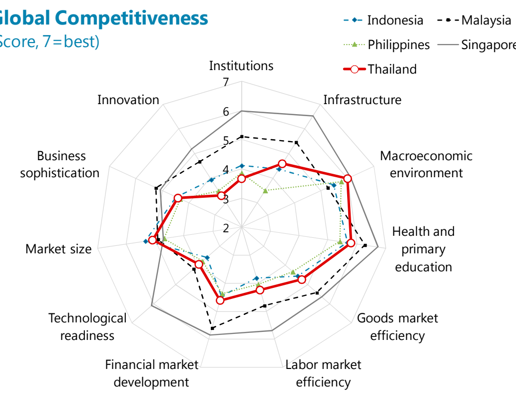
Ease of Doing Business
(Score, 100=best)



Source: World Bank, *Doing Business 2015*.

…but lags behind higher-income ASEAN countries on most structural indicators.

Global Competitiveness
(Score, 7=best)



Source: World Economic Forum, *Global Competitiveness Report 2014-15*.

Table 1. Thailand: Selected Economic Indicators, 2010–15

Main exports (percent of total 2013): machinery and appliances (13.1), automotives (14)
GDP per capita (2013): US$5,676
Unemployment rate (2013): 0.7 percent
Poverty headcount ratio at national poverty line (2011): 13.2 percent
Net FDI (2013): US$6.08 billion
Population (2013): 68.2 million

	2010	2011	2012	2013	2014	Proj. 2015
Real GDP growth (percent)	7.8	0.1	6.5	2.9	0.7	3.7
Inflation						
Headline CPI (period average, percent)	3.3	3.8	3.0	2.2	1.9	0.1
Core CPI (period average, percent)	0.9	2.4	2.1	1.0	1.6	1.7
Saving and investment (percent of GDP)						
Gross domestic investment (excl. stocks)	24.7	26.3	28.5	26.7	25.9	26.9
Private	18.8	20.8	22.8	21.2	20.7	21.2
Public	5.9	5.5	5.7	5.5	5.2	5.7
Gross national saving	28.2	30.0	30.6	25.8	29.9	31.6
Private, including statistical discrepancy	24.5	26.3	27.3	20.3	26.5	27.8
Public	3.8	3.7	3.3	5.5	3.4	3.8
Foreign saving	-3.1	-2.6	0.4	0.6	-3.8	-4.4
Fiscal accounts (percent of GDP) 1/						
Central government budgetary balance	-2.6	-1.7	-2.6	-1.9	-2.5	-2.7
Revenue and grants	18.2	18.9	19.5	19.7	19.1	19.3
Expense and net acquisition of net foreign assets	20.8	20.6	22.1	21.6	21.7	22.0
General government balance 2/	-0.8	-0.6	-1.8	-0.2	-1.8	-2.0
Public sector balance 3/	-1.5	-0.7	-2.8	0.3	-1.7	-1.9
Public sector debt	42.6	41.7	45.4	45.5	45.5	47.5
Monetary accounts (end-period, percent)						
Broad money growth	10.9	15.1	10.4	7.3	4.7	...
Narrow money growth	10.9	8.6	13.0	3.9	1.3	...
Private sector credit growth	12.3	17.0	14.6	9.6	5.0	...
Balance of payments (billions of U.S. dollars)						
Current account balance	10.0	8.9	-1.5	-2.5	14.2	17.2
(Percent of GDP)	3.1	2.6	-0.4	-0.6	3.8	4.4
Exports, f.o.b.	191.6	219.1	225.9	225.4	224.8	219.9
Growth rate (in dollar terms)	27.1	14.3	3.1	-0.2	-0.3	-2.2
Imports, f.o.b.	161.9	202.1	219.9	218.7	200.2	200.3
Growth rate (in dollar terms)	37.0	24.9	8.8	-0.5	-8.5	0.1
Capital and financial account balance 4/	21.3	-7.7	6.7	-2.6	-15.4	-17.2
Overall balance	31.3	1.2	5.3	-5.0	-1.2	0.0
Gross official reserves (end-year)	191.7	206.3	205.7	190.3	180.2	180.3
(In months of following year's imports)	11.4	11.3	11.3	11.4	10.8	10.0
(In percent of short-term debt) 5/	328.1	356.7	300.4	257.9	263.7	268.9
Exchange rate (baht/U.S. dollar)	31.7	30.5	31.1	30.7	32.5	...
NEER appreciation (annual average)	4.5	-1.6	-0.5	5.5	-3.0	...
REER appreciation (annual average)	5.3	-0.8	0.5	5.9	-3.2	...
External debt						
(In percent of GDP)	31.5	30.2	35.7	36.7	37.7	37.9
(In billions of U.S. dollars)	100.6	104.3	130.7	141.9	140.9	149.2
Public sector 6/	12.7	16.2	26.2	25.2	26.2	23.7
Private sector	87.9	88.1	104.5	116.7	114.7	125.5
Debt service ratio 7/	4.7	3.5	4.2	4.0	4.4	4.3
Memorandum items:						
Nominal GDP (In billions of baht)	10,105	10,540	11,375	11,899	12,141	12,718
(In billions U.S. dollars)	318.9	345.7	366.0	387.3	373.8	393.6

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

1/ On a fiscal year basis. The fiscal year ends on September 30.
2/ Includes budgetary central government, extrabudgetary funds, and local governments.
3/ Includes general government and nonfinancial public enterprises.
4/ Includes errors and omissions.
5/ With remaining maturity of one year or less.
6/ Excludes debt of state enterprises.
7/ Percent of exports of goods and services.

Table 2. Thailand: Macroeconomic Framework, 2009–20

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
							Projections					
Real GDP growth (percent)	-2.3	7.8	0.1	6.5	2.9	0.7	3.7	4.0	4.1	4.0	3.9	3.8
Consumption	0.1	5.1	1.3	6.8	1.1	0.7	2.9	3.4	3.3	3.3	3.4	3.3
Gross fixed investment	-9.2	9.4	3.3	13.2	-2.0	-2.8	7.2	5.4	5.5	5.3	4.7	4.5
Headline CPI inflation (period average, percent)	-0.9	3.3	3.8	3.0	2.2	1.9	0.1	2.5	2.1	2.2	2.2	2.2
Core CPI inflation (period average, percent)	0.3	0.9	2.4	2.1	1.0	1.6	1.7	1.8	1.9	2.0	2.1	2.1
Saving and investment (percent of GDP)												
Gross domestic investment (excluding stocks)	24.1	24.7	26.3	28.5	26.7	25.9	26.9	27.3	27.7	28.1	28.3	28.6
Private	17.6	18.8	20.8	22.8	21.2	20.7	21.2	21.2	21.3	21.3	21.4	21.4
Public	6.5	5.9	5.5	5.7	5.5	5.2	5.7	6.1	6.4	6.7	6.9	7.1
Gross national saving	29.5	29.1	29.2	29.3	28.6	29.4	31.5	29.9	29.5	29.2	29.3	29.4
Private, including statistical discrepancy	27.3	25.3	25.5	26.0	23.1	26.0	27.7	26.0	25.4	25.0	25.0	25.1
Public	2.2	3.8	3.7	3.3	5.5	3.4	3.8	3.9	4.2	4.3	4.3	4.3
Foreign saving (- = current account surplus)	-8.3	-3.1	-2.6	0.4	0.6	-3.8	-4.4	-2.3	-1.4	-0.7	-0.4	-0.2
Fiscal accounts (percent of GDP, fiscal year basis)												
Central government budgetary balance	-4.2	-2.6	-1.7	-2.6	-1.9	-2.5	-2.7	-2.7	-2.6	-2.6	-2.7	-2.6
General government balance	-3.2	-0.8	-0.6	-1.8	-0.2	-1.8	-2.0	-2.0	-1.9	-1.9	-2.0	-1.9
Revenue and grants	20.8	22.4	22.6	23.1	24.1	22.5	22.7	23.0	23.0	23.1	23.1	23.2
Expense and net acquisition of nonfinancial assets	24.0	23.2	23.2	24.9	24.3	24.3	24.7	25.0	24.9	24.9	25.1	25.0
Public sector balance	-3.6	-1.5	-0.7	-2.8	0.3	-1.7	-1.9	-2.1	-2.2	-2.4	-2.6	-2.5
Total public sector debt (end-period)	45.2	42.6	41.7	45.4	45.5	45.5	47.5	47.2	47.0	47.0	47.4	47.8
Balance of payments (billions of U.S. dollars)												
Exports, f.o.b.	150.8	191.6	219.1	225.9	225.4	224.8	219.9	229.9	243.3	258.1	273.3	290.7
(Volume growth)	-14.2	16.4	8.3	2.5	0.2	0.7	4.7	5.1	5.7	5.8	5.7	5.8
Imports, f.o.b.	118.2	161.9	202.1	219.9	218.7	200.2	200.3	216.4	233.3	249.8	266.1	284.8
(Volume growth)	-23.2	26.7	13.4	7.1	1.6	-6.8	10.4	5.1	5.5	5.7	5.6	5.6
Trade balance	32.6	29.8	17.0	6.0	6.7	24.6	19.6	13.4	10.0	8.3	7.1	6.0
Services, income, and transfers	-10.7	-19.7	-8.1	-7.5	-9.1	-10.4	-2.4	-3.8	-3.7	-5.0	-4.9	-4.8
Current account balance	21.9	10.0	8.9	-1.5	-2.5	14.2	17.2	9.6	6.4	3.3	2.2	1.1
(Percent of GDP)	8.3	3.1	2.6	-0.4	-0.6	3.8	4.4	2.3	1.4	0.7	0.4	0.2
Financial account balance 1/	2.2	21.3	-7.7	6.7	-2.6	-15.4	-17.2	-9.6	-6.4	-3.3	-2.2	-1.1
Overall balance	24.1	31.3	1.2	5.3	-5.0	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Gross official reserves (including net forward position, US$ billions)	154.1	191.7	206.3	205.7	190.3	180.2	180.3	180.3	180.3	180.3	180.3	180.3
(In months of following year's imports of goods)	11.4	11.4	11.3	11.3	11.4	10.8	10.0	9.3	8.7	8.1	7.6	7.1
(In percent of short-term debt) 2/	362	328	357	300	258	264	269	278	362	375	389	411
External debt (percent of GDP)	28.6	31.5	30.2	35.7	36.7	37.7	37.9	37.3	35.6	35.2	34.1	33.6
Debt-service ratio (percent of exports of goods and nonfactor services)	7.6	4.7	3.5	4.2	4.0	4.4	4.3	4.6	4.6	4.1	3.8	3.6

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

1/ Includes errors and omissions.

2/ With remaining maturity of one year or less.

Table 3. Thailand: Balance of Payments, 2010–20 1/

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

				Projections					
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Trade balance (in percent of GDP)	1.6	1.7	6.6	5.0	3.2	2.3	1.8	1.4	1.1
Current account balance	-1.5	-2.5	14.2	17.0	9.6	6.4	3.3	2.2	1.1
(In percent of GDP)	-0.4	-0.6	3.8	4.3	2.3	1.4	0.7	0.4	0.2
Trade balance	6.0	6.7	24.6	19.6	13.4	10.0	8.3	7.1	6.0
Exports, f.o.b.	225.9	225.4	224.8	219.9	229.9	243.3	258.1	273.3	290.7
(In percent of GDP)	61.7	58.2	60.1	55.9	54.7	54.9	55.1	55.4	56.0
Imports, f.o.b.	219.9	218.7	200.2	200.3	216.4	233.3	249.8	266.1	284.8
(In percent of GDP)	60.1	56.5	53.6	50.9	51.5	52.6	53.3	54.0	54.8
Of which: oil and oil products	47.4	52.0	47.5	27.6	33.8	38.8	43.0	46.4	49.5
Services+Income	-7.5	-9.1	-10.4	-2.6	-3.8	-3.7	-5.0	-4.9	-4.8
Services	-3.4	3.7	2.1	6.9	6.7	7.0	7.2	7.5	7.3
Of which: tourism receipts	33.8	42.1	38.4	44.7	47.7	51.0	54.2	57.4	61.3
Income and transfers	-4.0	-12.8	-12.4	-9.5	-10.4	-10.7	-12.2	-12.4	-12.2
Capital and financial account balance	14.0	0.5	-15.3	-17.0	-9.6	-6.4	-3.3	-2.2	-1.1
Foreign direct investment, net	-2.2	6.1	5.1	6.7	6.1	5.8	5.5	4.6	4.1
Portfolio investment, net	6.0	-7.3	-10.7	-11.7	-8.0	-6.2	-4.4	-3.4	-3.0
Financial derivatives, net	0.4	-1.0	-0.3	-0.3	-0.3	-0.3	-0.5	-0.3	-0.4
Other investment, net	9.5	2.5	-9.4	-11.8	-7.6	-5.9	-4.2	-3.2	-2.1
Errors and omissions	-7.2	-3.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
(In percent of GDP)	-2.0	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	5.3	-5.0	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Gross official reserves (incl. net forward position, US$ billion)	205.7	190.3	180.2	180.3	180.3	180.3	180.3	180.3	180.3
(In months of following year's imports)	11.3	11.4	10.8	10.0	9.3	8.7	8.1	7.6	7.1
(In percent of short-term debt) 2/	300	258	264	269	278	362	375	389	411
(In percent of ARA metrics)	235	221	213	206					
Export growth	3.1	-0.2	-0.3	-2.2	4.5	5.8	6.1	5.9	6.4
Export volume growth	2.5	0.2	0.7	4.7	5.1	5.7	5.8	5.7	5.8
Export unit value growth	0.6	-0.4	-1.0	-2.8	-0.2	0.3	0.4	0.3	0.4
Import growth	8.8	-0.5	-8.5	0.1	8.0	7.8	7.1	6.6	7.0
Import volume growth	7.1	1.6	-6.8	10.4	5.1	5.5	5.7	5.6	5.6
Import unit value growth	1.6	-2.1	-1.8	-13.5	3.5	2.2	1.4	0.8	0.9
External debt/GDP	35.7	36.7	37.7	37.9	37.3	35.6	35.2	34.1	33.6
(In billions of U.S. dollars)	130.7	141.9	140.9	149.2	156.9	157.9	165.0	168.4	174.3
Debt service ratio 3/	4.2	4.0	4.4	4.4	4.6	4.6	4.1	3.8	3.6
GDP (US$ billion)	366.0	387.3	373.8	393.6	420.4	443.3	468.7	493.2	519.4

Sources: Data provided by the 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/ With remaining maturity of one year or less.

3/ In percent of exports of goods and services.

Table 4. Thailand: Monetary Survey, 2008–14

(In billions of baht, unless otherwise stated)

	2008	2009	2010	2011	2012	2013	2014
Bank of Thailand							
Net foreign assets	3,872	4,525	5,082	5,441	5,359	5,444	5,262
Net domestic assets	-2,833	-3,422	-3,839	-4,075	-3,861	-3,863	-3,594
Narrow money	1,041	1,175	1,302	1,414	1,598	1,661	1,683
Currency in circulation	752	844	937	1,036	1,136	1,189	1,200
Deposits at Bank of Thailand	289	331	365	378	462	472	482
Reserve money - Monetary base (M0)	1,040	1,103	1,243	1,365	1,498	1,581	1,668
Monetary survey							
Net foreign assets	4,132	4,570	4,884	5,426	4,943	5,007	4,997
Net domestic assets	5,812	6,047	6,895	8,134	10,024	11,055	11,815
Domestic credit	9,568	10,014	11,015	12,779	14,719	15,889	16,772
Net credit to central government	204	292	155	201	352	235	399
Credit to nonfinancial public enterprises	325	366	372	392	354	334	321
Credit to financial corporations	520	625	668	699	846	892	901
Total credit to private sector	8,514	8,726	9,801	11,469	13,145	14,403	15,129
Credit to other nonfinancial corporations	4,136	3,847	4,132	4,837	5,393	5,838	6,012
Credit to other resident sector	4,378	4,879	5,669	6,632	7,752	8,565	9,118
Other items (net)	-3,756	-3,967	-4,120	-4,645	-4,695	-4,834	-4,957
Broad money	9,944	10,617	11,779	13,560	14,967	16,062	16,812
Currency	752	844	937	1,036	1,136	1,189	1,200
Deposits	289	331	365	378	462	472	482
Quasi-money	8,903	9,442	10,476	12,146	13,369	14,401	15,129
Memorandum items:							
Broad money growth (y/y percent change)	9.2	6.8	10.9	15.1	10.4	7.3	6.3
Narrow money growth (y/y percent change)	4.1	12.8	10.9	8.6	13.0	3.9	8.5
Credit to private sector growth (y/y percent change)	8.8	2.5	12.3	17.0	14.6	9.6	6.4
Contribution to broad money growth							
Net foreign assets (in percent)	5.9	4.4	3.0	4.6	-3.6	0.4	0.5
Net domestic assets (in percent)	3.3	2.4	8.0	10.5	13.9	6.9	5.8
Domestic credit (in percent)	7.5	4.5	9.4	15.0	14.3	7.8	7.0

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

Table 5. Thailand: Medium-Term Fiscal Scenario, 2010/11–2019/20 1/

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

							IMF Projections					
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
A. Central government												
1. Revenue	17.0	18.2	18.9	19.5	19.7	19.1	19.3	19.6	19.6	19.7	19.7	19.8
Tax revenue	14.9	15.8	16.9	16.9	17.4	16.7	16.9	17.2	17.2	17.3	17.3	17.4
Taxes on income and profits	7.2	6.9	8.0	7.8	8.1	7.4	7.4	7.4	7.5	7.5	7.6	7.6
Taxes on goods and services	6.7	7.9	7.8	7.9	8.3	8.3	8.6	8.8	8.8	8.8	8.8	8.8
Taxes on international trade	0.9	0.9	0.9	1.1	0.9	0.9	0.8	0.8	0.8	0.9	0.9	0.9
Taxes not elsewhere classified	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	2.0	2.4	2.0	2.7	2.2	2.4	2.4	2.4	2.4	2.4	2.4	2.4
2. Total expenditure	21.2	20.8	20.6	22.1	21.6	21.7	22.0	22.3	22.2	22.3	22.4	22.4
Expense	19.2	18.4	19.0	20.4	19.7	20.4	20.2	20.4	20.2	20.1	20.1	20.1
Compensation of employees	7.2	7.6	5.6	6.1	5.8	5.6	5.8	6.0	6.0	5.9	5.9	5.9
Purchase/use of goods and services	5.1	4.9	3.9	3.9	3.4	5.1	3.7	3.7	3.6	3.6	3.6	3.6
Interest	1.1	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Social benefits	1.3	0.4	1.9	2.0	1.9	1.7	1.9	1.9	1.9	1.9	1.9	1.9
Expense not elsewhere classified	4.5	4.3	6.3	7.1	7.4	6.8	7.6	7.6	7.5	7.5	7.5	7.5
Net acquisition of nonfinancial assets	2.0	2.4	1.6	1.7	1.9	1.2	1.8	1.9	2.0	2.1	2.3	2.2
3. Net lending/borrowing (budgetary)	-4.2	-2.6	-1.7	-2.6	-1.9	-2.5	-2.7	-2.7	-2.6	-2.6	-2.7	-2.6
4. Extrabudgetary balance	0.9	0.5	0.3	0.4	1.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3
5. Social security balance	0.3	1.4	0.2	-0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
6. Net lending/borrowing (consolidated)	-3.1	-0.6	-1.1	-2.3	-0.5	-2.0	-2.1	-2.2	-2.1	-2.1	-2.1	-2.1
B. Local government												
7. Revenue	3.8	3.5	4.1	4.6	4.5	4.6	4.6	4.6	4.6	4.6	4.6	4.6
8. Total expenditure	3.8	3.7	3.5	4.1	4.2	4.4	4.4	4.4	4.4	4.4	4.4	4.4
9. Net lending/borrowing	-0.1	-0.2	0.5	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
C. General government												
Revenue	20.8	22.4	22.6	23.1	24.1	22.5	22.7	23.0	23.0	23.1	23.1	23.2
Tax revenue	16.7	17.5	18.8	18.8	19.7	18.5	18.7	19.0	19.0	19.1	19.1	19.1
Taxes on income and profits	7.2	6.9	8.0	7.8	8.1	7.4	7.4	7.4	7.5	7.5	7.6	7.6
Taxes on goods and services	8.2	9.3	9.4	9.4	10.1	9.6	9.9	10.1	10.1	10.1	10.1	10.1
Taxes on international trade	0.9	0.9	0.9	1.1	0.9	0.9	0.8	0.8	0.8	0.9	0.9	0.9
Taxes not elsewhere classified	0.5	0.4	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Social contributions	0.9	1.3	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	3.1	3.5	2.9	3.5	3.5	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Total expenditure	24.0	23.2	23.2	24.9	24.3	24.3	24.7	25.0	24.9	24.9	25.1	25.0
Expense	20.8	19.8	20.1	21.4	20.8	21.4	21.2	21.4	21.2	21.1	21.1	21.1
Compensation of employees	8.4	8.6	7.1	7.9	7.7	6.7	6.9	7.1	7.1	7.0	7.0	7.0
Purchase/use of goods and services	7.3	7.4	6.2	6.6	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Interest	1.1	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Social benefits	2.7	1.2	2.3	2.5	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Expense not elsewhere classified	1.3	1.3	3.2	3.2	3.4	5.1	4.7	4.7	4.5	4.4	4.4	4.4
Net acquisition of nonfinancial assets	3.2	3.5	3.1	3.4	3.5	2.9	3.5	3.6	3.7	3.8	3.9	3.9
Net lending/borrowing (consolidated)	-3.2	-0.8	-0.6	-1.8	-0.2	-1.8	-2.0	-2.0	-1.9	-1.9	-2.0	-1.9
General Government cyclically adjusted primary balance	-1.1	0.3	0.4	0.1	0.9	0.0	-0.3	-0.4	-0.6	-0.7	-0.7	-0.7
Memorandum items:												
Central government net lending/borrowing (budgetary)	-4.2	-2.6	-1.7	-2.6	-1.9	-2.5	-2.7	-2.7	-2.6	-2.6	-2.7	-2.6
Central government net lending/borrowing (consolidated)	-3.1	-0.6	-1.1	-2.3	-0.5	-2.0	-2.1	-2.2	-2.1	-2.1	-2.1	-2.1
Local government net lending/borrowing	-0.1	-0.2	0.5	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
General government net lending/borrowing (consolidated)	-3.2	-0.8	-0.6	-1.8	-0.2	-1.8	-2.0	-2.0	-1.9	-1.9	-2.0	-1.9
Public enterprise balance 2/	-0.5	-0.7	-0.1	-1.0	0.5	0.1	0.1	-0.1	-0.3	-0.5	-0.7	-0.6
Public sector balance	-3.6	-1.5	-0.7	-2.8	0.3	-1.7	-1.9	-2.1	-2.2	-2.4	-2.6	-2.5
Public sector debt 3/	45.2	42.6	41.7	45.4	45.5	45.5	47.5	47.2	47.0	47.0	47.4	47.8
Central government	29.2	29.3	29.8	32.4	31.9	31.6	33.8	34.0	34.1	34.1	34.4	34.6
Non-financial Public Enterprises	12.5	10.9	10.1	9.8	9.4	9.0	8.6	8.1	7.9	8.0	8.2	8.4
Specialized Financial Institutions guaranteed debt, and Autonomous Agency Debt	2.4	1.8	1.5	3.3	4.2	4.9	5.1	5.1	5.0	4.9	4.9	4.8
Public sector consumption	21.9	21.0	21.0	22.8	22.3	23.2	22.9	23.1	22.9	22.8	22.9	22.9
Public sector investment 4/	5.3	5.1	4.8	5.2	5.9	5.0	5.6	6.0	6.3	6.6	6.9	6.8
General government	3.2	3.4	3.1	3.4	3.5	2.9	3.5	3.6	3.7	3.8	3.9	3.9
Public enterprises	2.1	1.7	1.7	1.7	2.4	2.1	2.2	2.4	2.6	2.8	3.0	2.9

Source: IMF Staff estimates and projections.

1/ The fiscal year runs from October 1 to September 30.
2/ Public enterprise balance has been changed to numbers and projections based on GFS numbers.
3/ Public debt includes any debt incurred by the central government, extrabudgetary funds or autonomous agencies, and state-owned enterprises.
Special financial institutions' debt guaranteed by government is also included.
4/ Fiscal basis; differs from national account.

Table 6. Thailand: Banks' Financial Soundness Indicators, 2009–14

	2009	2010	2011	2012	2013	2014 Sep.
			(In percent)			
Capital adequacy						
Regulatory capital to risk-weighted assets	15.8	16.1	14.8	16.2	15.5	16.9
Regulatory Tier 1 capital to risk-weighted assets	11.7	11.9	11.0	11.0	11.9	13.3
Asset quality						
Nonperforming loans net of provisions to capital	19.5	13.8	10.6	7.7	7.7	8.2
Nonperforming loans to total gross loans	5.2	3.9	2.9	2.4	2.3	2.5
Earnings and profitability						
Return on assets	1.3	1.6	1.6	1.6	1.8	1.8
Return on equity	12.1	14.1	14.4	14.9	15.9	15.6
Liquidity						
Liquid assets to total assets (liquid asset ratio)	20.8	18.3	17.4	19.0	17.7	17.2
Liquid assets to short term liabilities	26.9	24.9	22.5	25.9	24.0	24.1

Source: IMF, *Financial Soundness Indicators* database.

Appendix I. Reform Agenda

Reforms. The authorities are currently working on a broad set of reforms through the national reform council- a deliberate forum created to analyze and prepare reforms to the legislative body called The National Legislative Assembly.

Scope and timeline. The government envisages moving forward in three phases and has identified 11 areas for undertaking policies, some of which would lead to reforms. The first phase, which was completed by the Military leaders that comprise the National Council for Peace and Order before the formation of the current government, aimed at pacifying the country after a period. The second phase began with the promulgation of the interim constitution in July 2014 and the ensuing formation of the National Legislative Assembly and the Council of Ministers. The third stage will see the organization of a general election under a new Constitution. Under this broadly-defined timeline, the government intends to undertake policies and reforms in 11 areas that cut across a large spectrum of issues that Thailand is facing.

11 areas of policies under the new government
1. Protecting and Upholding the Monarchy
2. Maintaining National Security and Foreign Affairs
3. Reducing Social Inequality and Creating Opportunities to Access Public Services
4. Education, Learning, and Fostering Religions, Arts and Culture
5. Improving the Quality of Public Health Services and Public Health
6. Enhancing the Country's Economic Potential
7. Promoting Thailand's Role and Exploring Opportunities in the ASEAN Community
8. Developing and Promoting the Application of Science, Technology, Research and Development, and Innovation
9. Maintaining the Security of the Resource Base and Creating Balance between Conservation and Sustainable Use
10. Promoting Administration of State Affairs that Upholds Good Governance and Prevents and Suppress Corruption and Malfeasance in the Public Sector
11. Improving Laws and the Judicial Process
Source: Thai Authorities

Economic agenda. In the area of enhancing economic potential, the government has announced its intentions to push for many of the long-awaited reform agendas that they view as critically important in enhancing Thailand’s competitiveness, while addressing social inequality. Reforms mentioned cover such areas as energy prices (Appendix III), the tax structure, transport infrastructure, management of state enterprises, and promotion of innovation and industries with high value-added sectors.

Appendix II. Thailand—Risk Assessment Matrix

Nature/Source of Threat	Likelihood	Impact	Policies to Minimize Impact
		External Risks	
A surge in financial volatility	***H***	***M*:** While high international reserves and sound commercial banks would mitigate the impact, a surge in global financial market volatility could be disruptive, particularly against the backdrop of vulnerabilities in the nonbanks and SFIs and growing linkages between cross-border financial flows and domestic credit expansion	Allow exchange rate flexibility to be the first line of defense, with judicious currency intervention to avoid excessive volatility and overshooting. Provide liquidity to ensure orderly markets. Hold monetary policy and use fiscal stimulus to bolster demand if market volatility and capital outflows affect the real economy.
Protracted period of slower growth in advanced economies	***H***	***M*:** Deterioration in the advanced countries economic outlook or a low import propensity of their recovery would depress demand for Thailand's exports.	Structural reforms and infrastructure development would raise returns to private investment and strengthen of growth.
Protracted period of slower growth in emerging economies	***H***	***H*:** Given Thailand's integration in regional supply chains, a slowdown in major Asian economies would have a severe effect on the country.	Slower export growth can be offset by additional policy stimulus, combined with structural reforms, infrastructure investment, and partial reorientation toward fast-growing regional markets (CLMV).
		Domestic Risks	
Slippages in implementing government's economic program	***M***	***M*:** Slippages in implementation would have a negative impact on the economy directly and by undermining private sector confidence, thus weakening domestic demand in an economy already facing a negative output gap. Half-hearted reforms and insufficient investment would also affect the economy's potential in the long run.	Lower the policy rate if fiscal stimulus is not forthcoming. Accelerate structural reform agenda.
Tepid private sector response to political stabilization and reform	***M***	***M*:** Weak domestic demand would weigh on growth.	Use available room for additional fiscal and monetary stimulus. Announce an ambitious reform agenda to bolster private sector confidence.
Renewed political instability	***M***	***H*:** Consumer and business confidence would be damaged, dampening private investment and purchases of durable goods. Public investment plans would be put on hold again. Supply-side disruptions and international sanctions are possible. Capital flight would put pressure on credit and asset markets.	Allow automatic stabilizers to work. Provide ample liquidity to banks to minimize disruptions in the financial system. If capital outflows are modest, hold the interest rate and let the exchange rate depreciate, but use reserves to guard against overshooting.
Stronger response to oil price decline (upside)	***M***	***M*:** If greater passthrough to fuel users is allowed, or consumers and businesses react more vigorously than expected to the increase in purchasing power and decline in cost, domestic demand will be lifted.	Given the weak cyclical state of the economy and the strong current account position, stronger domestic demand would be welcome news and would not require offsetting measures in the near term.

"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. Energy Price Reform in Thailand

Background. Thailand has a long history of controlling prices for economically or socially important energy products. The oil shock of 1973 resulted in the creation of an Oil Fund to smooth price swings. Socially sensitive fuels, in particular, diesel and Liquefied Petroleum Gas (LPG), have been subsidized through the Oil Fund or exempted from excise taxes. More recently, biofuels such as gasohol have benefited from lower taxes as a means of diversifying the fuel supply and promoting domestically produced energy products.

Impact. Price controls have resulted in distortions in energy consumption, including a shift from gasoline to diesel by automobile users and illegal use of subsidized LPG intended for cooking by the industrial sector. A surge in global oil prices led to the depletion of the Oil Fund balance, which reached a deficit of 9 billion baht end-July 2014. Furthermore, excise taxes were reduced, which led to a significant loss of fiscal revenue. Excise taxes on diesel, for example, were cut from 5.841 baht/liter to 0.0055 baht/liter in 2011, as a means of keeping domestic retail prices relatively stable even as international prices rose. The excise tax exemption on diesel alone is estimated to have cost 100 billion baht (about 1 percent of GDP) per year in terms of revenue shortfall.

Reforms. The previous government started to adjust the LPG price in 2011. While LPG price for low-income household was maintained constant at B 18.13/liter, the price for industry and automotive use was gradually raised over a period of one year by reducing subsidies. In September 2012, LPG price for industry and automobile use had reached B 30.13/liter and B 21.38/liter, respectively.

The current government, as part of its reform agenda, has been pursuing additional reforms in the energy price sector with the objective to eliminate large price cross-subsidies between energy sources, while ensuring that the vulnerable population is protected.

This has been implemented by reducing subsidies and reinstating excises and Oil Fund levies on fuels such as diesel and LPG. Excises and Oil Fund levies on other fuels have been reduced. As a consequence, the deficit of the Oil Fund was eliminated by November 2014. At the same time, lower international prices have been passed through to retail prices to a varying degree. The retail price of gasoline, which was 50 percent higher than that of diesel at the beginning of September 2014, is now 35 percent higher (as of January 30, 2015). LPG prices, which differed according to final use, have been unified with the exception of a subsidized price for vulnerable groups. LPG price for low-income households and street food vendors have been kept constant at B 18.13/liter, subject to means tested measures. In addition, low-income households enjoy free electricity up to 50Wh a month.

Below is a summary of recent developments.

- *Gasoline*. The decline in the international price was partially passed through. As the average cost of gasoline declined by B 11/liter (from B 23.65/liter to B 12.89/liter) between September 1, 2014 and January 30, 2015, the retail price also declined by B 11/liter (from B 44.86/liter to B 33.96/liter).

- *Diesel*. The lower international oil price was partially passed through to retail prices. While the average cost of diesel declined by B 10/liter between September 1, 2014 and January 30, 2015 (from B 24.46/liter to B 14.22/liter), the retail price declined by B 5/liter (B 29.99/liter to B 24.16/liter). This is due to the partial reinstatement of the excises (from B 0.83/liter to B 3.58/liter) and Oil Fund levies (from B 1.25/liter to 3.60/liter). The current excises (B 3.58/liter) are still below what they used to be before 2011 (B 5.84/liter).

- *Liquefied Petroleum Gas*. The differentiation of retail prices according to use (industry, cooking, automobile, and low-income households) is reported to have resulted in the surge of illegal use of subsidized LPG by certain sectors. This has led to the introduction of means-testing that requires low-income households and street food vendors to register with the Ministry of Energy in order to benefit from the subsidized LPG (B 18.13/liter). Furthermore, LPG prices were unified in January 2015 into a single price (B 24.16/liter). While this meant lower LPG price for the industry (from B 29.33/liter to B 24.16/liter), prices went up for the other uses (for cooking, from B 22.63/liter to B 24.16/liter; and for automobiles, from B 21.38/liter to B 24.16/liter). LPG retail prices for all uses are now above the average cost (B 14.48/liter).

Price Structure of Gasoline, Diesel and LPG 1/

		Average Cost	Subsidies	Excises 2/	Oil & Consv. Funds	Marketing Margin	VAT	Retail
As of Sept. 1, 2014	Gasoline	23.65	0.00	6.16	10.00	2.11	2.93	44.86
	Diesel	24.46	0.00	0.83	1.25	1.50	1.96	29.99
	LPG for industry	19.99	-9.30	2.39	11.07	3.26	1.92	29.33
	LPG for cooking	19.99	-9.30	2.39	4.81	3.26	1.48	22.63
	LPG for automobile	19.99	-9.30	2.39	3.64	3.26	1.40	21.38
	LPG for low-income households	19.99	-9.30	2.39	0.60	3.26	1.19	18.13
As of Jan. 30, 2015	Gasoline	12.89	0.00	6.16	9.40	3.29	2.22	33.96
	Diesel	14.22	0.00	3.58	3.60	2.06	1.64	25.09
	LPG	14.48	-3.48	2.39	5.94	3.26	1.58	24.16
	LPG for low-income households	14.48	-3.48	2.39	0.30	3.26	1.19	18.13

Source: Thai authorities

1/ For gasoline and diesel, prices are in baht/liter. For LPG, prices are in baht/kg.

2/ Include both the state and municipal taxes.

Conclusion. Staff welcomes the energy price reforms by the authorities, which would contribute to rationalizing public expenditures and enhancing fiscal transparency. While the reform is still ongoing, it has already resulted in less price differentiation across different fuels while increasing the fiscal revenue. The Oil Fund balance strengthened by 0.2 percent of GDP between July and December 2014, turning from a deficit of B 7 billion into a surplus of B 15 billion. Excise tax and import duty on petroleum products also increased. If the reform is fully implemented, revenue from the excise tax and import duty on petroleum products is expected to increase by close to 1 percent of GDP (from 0.6 of GDP in 2014).

Appendix IV. Thailand—Public Debt Sustainability Analysis

1. **Background.** The debt sustainability analysis (DSA) framework for market access countries is used to assess Thailand's debt sustainability. The new framework expands upon the previous DSA to include: (i) an assessment of the realism of baseline assumptions; (ii) an analysis of risks associated with the debt profile; (iii) macrofiscal risks; (iv) a stochastic debt projection taking into account past macrofiscal volatility; and (v) a standardized summary of risks in a heat map.

2. **Macroeconomic assumptions.** After the slowdown of the economy in 2014 on account mostly of the political instabilities, real growth is projected to average 4 percent in the medium term.

3. **Fiscal assumptions.** In staff's baseline projections, overall public sector deficit will gradually increase from 1.9 to 2.6 percent of GDP between FY2015 and 2019 before coming down to 2.5 percent in FY2020. Regarding the planned infrastructure programs, staff assumes an implementation rate of 50 percent compared to the planned disbursement schedules.

4. **Data coverage.** Coverage of public debt in Thailand is fairly large. In addition to the central government, nonfinancial State Owned Enterprises (SOEs) and Specialized Financial Institutions (SFIs) are also covered, with the latter limited to debt with government guarantee. Local authorities' debt is not included in the public debt and excluded from this DSA.

5. **Realism of baseline assumptions.**

- The median forecast error for real GDP growth during 2005−2013 is -2.2 percent of GDP and may look relatively large at first glance. However, this was the period during which Thailand went through a series of unexpected shocks that had significant impact on the growth, such as the Global Financial Crisis, the flood in 2011 and more recent political unrests.

- Past assumptions on primary balance and inflation are comparable to other countries.

6. **The DSA framework suggests that Thailand's public debt is likely to remain sustainable in the medium term under various sets of macroeconomic and fiscal shocks. However, vigilance is needed to ensure that risks stemming from financial sector contingency liabilities are well contained.**

- Under the baseline[1], the debt-to-GDP ratio is projected to hover around 47 percent of GDP, which is below the government's ceiling of 60 percent and far below the benchmark of 70 percent. This contrasts with the historical scenario under which the debt-to-GDP is reduced steadily to about 38 percent in FY2020 on the back of sustained fiscal surplus and a stronger growth.

[1] The baseline scenario assumes current policies and an implementation rate of 50 percent of infrastructure projects.

- The fan chart, which incorporates feedback effects between macroeconomic variables and relies on historical data to calibrate shocks, illustrates the impact of additional risks to the baseline. Even under the worst quartile case, the debt-to-GDP ratio will remain well under the benchmark of 70 percent, suggesting that Thailand's debt is likely to remain sustainable in the medium term even in the worst case scenario.

- Of the four macro-fiscal shock scenarios, namely, primary balance shock, interest rate shock, growth shock and exchange rate shock, growth shock has the largest impact on debt ratios. Real GDP growth is reduced by 10-year historical standard deviation (4 percent) for two consecutive years from FY2015, resulting in a deterioration of the primary balance. This leads to higher interest rate and lower inflation (0.25 percentage point per 1 percent of GDP worsening of the deficit). The consequence is that the debt-to-GDP ratio reaches close to 54 percent of GDP in FY2020, but still below the government's ceiling of 60 percent and far below the benchmark of 70 percent.

- Financial sector contingent liabilities shocks have by far the largest impact on debt ratios. A one-time capital injection equivalent to 10 percent of commercial banks assets results in a one-off increase in government spending of 14 percent of GDP. If the shock is augmented to include SFIs, the government spending increase jumps to 18 percent of GDP. These shocks are combined with an increase in interest rate (0.25 percentage points per 1 percent of GDP worsening of the deficit) and one standard-deviation shock to growth. By 2020, the debt-to-GDP ratio reaches 66 percent. Under an augmented shock scenario that involves SFIs in addition to the commercial banks, the debt-to-GDP ratio reaches 71 percent. While these scenarios may entail low probability, they underscore the importance of enhancing the regulatory frameworks on financial institutions, including SFIs.

7. **Heat map.**

- Despite its low share of foreign currency-denominated and short-term debt in the public debt, Thailand faces risks arising from its external financing requirement (defined as current account balance plus amortization of the country's total short-term external debt at remaining maturity) and large share of public debt held by foreigners. At 17 percent, the external financing requirement exceeds the upper threshold of early warning benchmarks (15 percent) but the large official foreign reserves of more than 40 percent of GDP provides comfortable buffers.

- The share of the public debt held by foreigners (including official lenders such as the World Bank) is 17 percent of total, slightly exceeding the lower threshold of early warning benchmarks (15 percent). The existence of a well functioning domestic bond market underpinned by a wide group of investor types provides some comfort in this regard.

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

(in percent of GDP unless otherwise indicated)

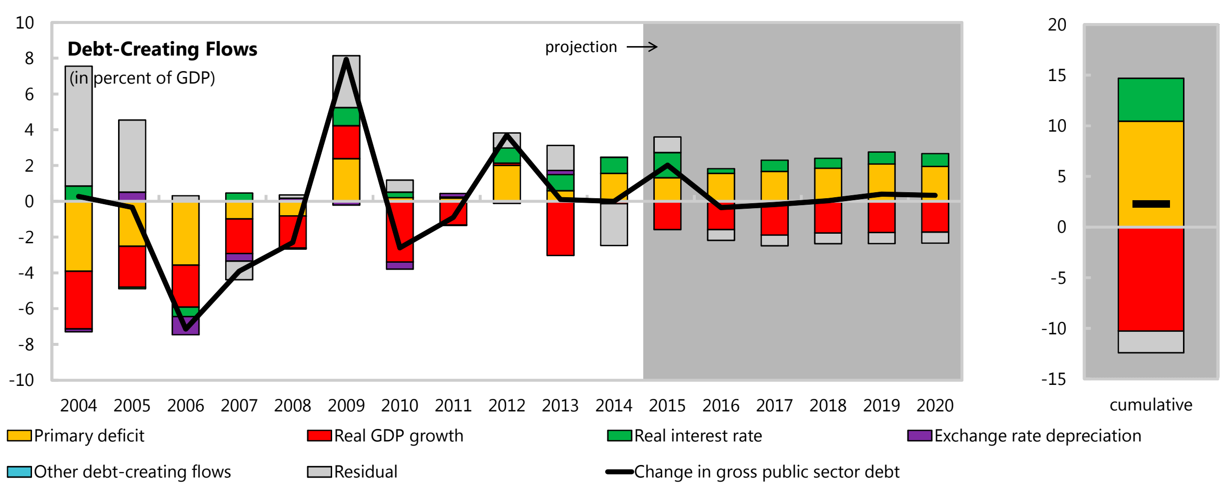
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020
Nominal gross public debt	44.1	45.5	45.5	47.5	47.2	47.0	47.0	47.4	47.8
Public gross financing needs	7.2	8.4	9.5	9.2	9.3	9.4	9.6	9.9	9.9
Real GDP growth (in percent)	3.7	7.3	0.3	3.6	3.5	4.2	4.0	3.9	3.8
Inflation (GDP deflator, in percent)	3.5	1.6	1.6	0.2	2.7	1.9	2.1	1.9	1.8
Nominal GDP growth (in percent)	7.4	9.0	1.9	3.8	6.3	6.3	6.2	5.9	5.7
Effective interest rate (in percent) [3/]	3.5	2.6	2.4	3.4	3.4	3.4	3.5	3.5	3.5

As of February 18, 2015		
Sovereign Spreads		
Spread (bp) 2/		86
CDS (bp)		106
Ratings	Foreign	Local
Moody's	Baa1	Baa1
S&Ps	BBB+	A-
Fitch	BBB+	A-

Contribution to Changes in Public Debt

	Actual			Projections							
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance [8/]
Change in gross public sector debt	-0.6	0.10	0.00	2.0	-0.3	-0.2	0.0	0.4	0.3	2.3	
Identified debt-creating flows	-2.2	-1.30	2.34	1.1	0.3	0.4	0.6	1.0	1.0	4.4	
Primary deficit	-0.8	0.6	1.6	1.3	1.6	1.7	1.9	2.1	2.0	10.5	-1.0
Primary (noninterst) revenue and grants	23.7	25.7	24.1	24.3	24.6	24.6	24.7	24.7	24.7	147.6	
Primary (noninterest) expenditure	22.9	26.3	25.6	25.6	26.2	26.3	26.5	26.8	26.7	158.1	
Automatic debt dynamics [4/]	-1.4	-1.9	0.8	-0.2	-1.3	-1.2	-1.2	-1.1	-1.0	-6.1	
Interest rate/growth differential [5/]	-1.3	-2.1	0.8	-0.2	-1.3	-1.3	-1.2	-1.1	-1.0	-6.0	
Of which: real interest rate	0.3	0.9	0.9	1.4	0.3	0.6	0.6	0.7	0.7	4.3	
Of which: real GDP growth	-1.6	-3.0	-0.1	-1.6	-1.6	-1.9	-1.8	-1.7	-1.7	-10.3	
Exchange rate depreciation [6/]	-0.2	0.2	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other debt-creating flows (specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [7/]	1.6	1.4	-2.3	0.9	-0.6	-0.6	-0.6	-0.6	-0.6	-2.2	

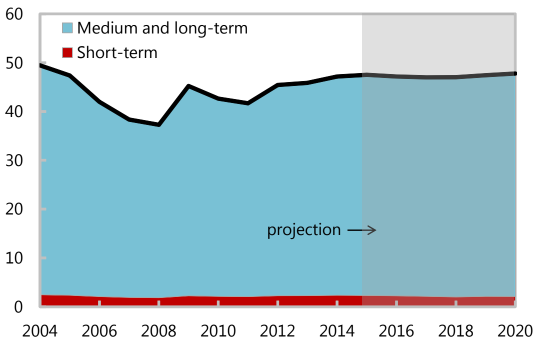


Source: IMF staff.
1/ Public sector is defined as non-financial public sector.
2/ Bond Spread over U.S. Bonds.
3/ Defined as interest payments divided by debt stock at the end of previous year.
4/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = 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).
5/ The real interest rate contribution is derived from the denominator in footnote 4 as r - π (1+g) and the real growth contribution as -g.
6/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).
7/ For projections, this line includes exchange rate changes during the projection period.
8/ 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.

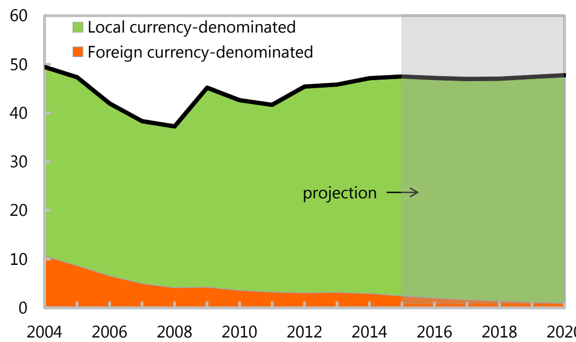
Thailand Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



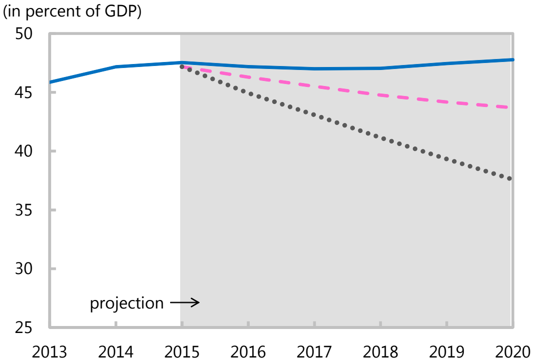
By Currency
(in percent of GDP)



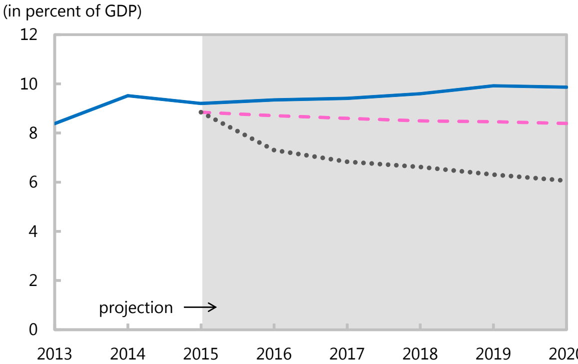
Alternative Scenarios

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	2015	2016	2017	2018	2019	2020
Real GDP growth	3.6	3.5	4.2	4.0	3.9	3.8
Inflation	0.2	2.7	1.9	2.1	1.9	1.8
Primary Balance	-1.3	-1.6	-1.7	-1.9	-2.1	-2.0
Effective interest rate	3.4	3.4	3.4	3.5	3.5	3.5
Constant Primary Balance Scenario						
Real GDP growth	3.6	3.5	4.2	4.0	3.9	3.8
Inflation	0.2	2.7	1.9	2.1	1.9	1.8
Primary Balance	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Effective interest rate	3.4	2.7	2.8	2.8	2.8	2.9

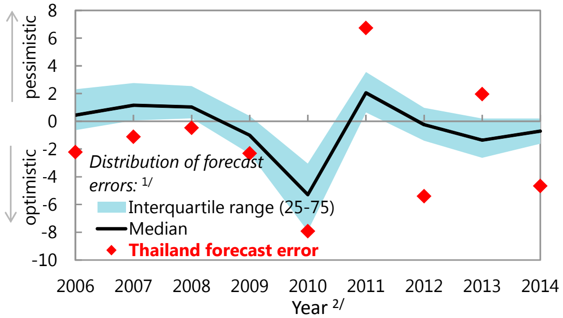
Historical Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	3.6	3.4	3.4	3.4	3.4	3.4
Inflation	0.2	2.7	1.9	2.1	1.9	1.8
Primary Balance	-1.3	0.1	0.1	0.1	0.1	0.1
Effective interest rate	3.4	2.7	2.7	2.6	2.5	2.6

Source: IMF staff.

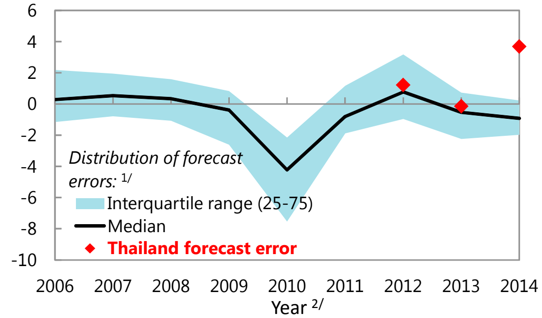
Thailand Public DSA - Realism of Baseline Assumptions

Forecast Track Record, versus all countries

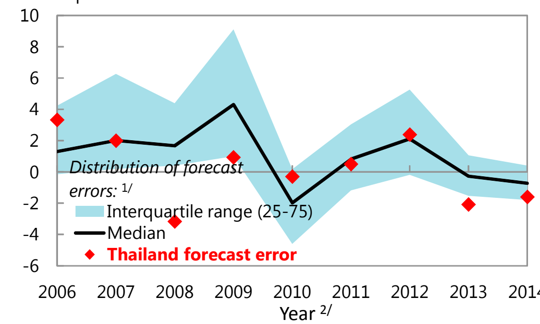
Real GDP Growth
(in percent, actual-projection)
Thailand median forecast error, 2006-2014: **-2.21**
Has a percentile rank of: **3%**



Primary Balance
(in percent of GDP, actual-projection)
Thailand median forecast error, 2006-2014: **1.22**
Has a percentile rank of: **86%**

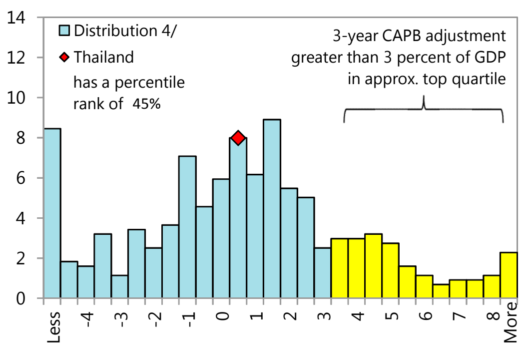


Inflation (Deflator)
(in percent, actual-projection)
Thailand median forecast error, 2006-2014: **0.50**
Has a percentile rank of: **38%**

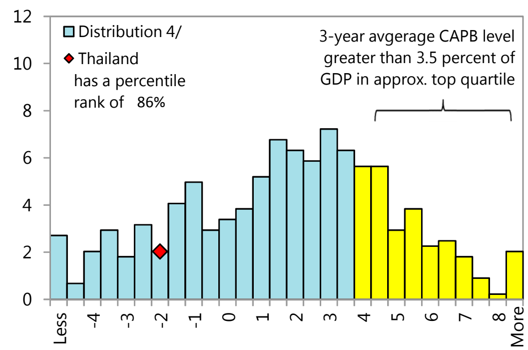


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

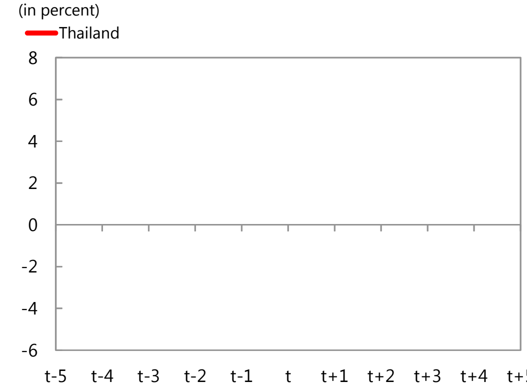


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

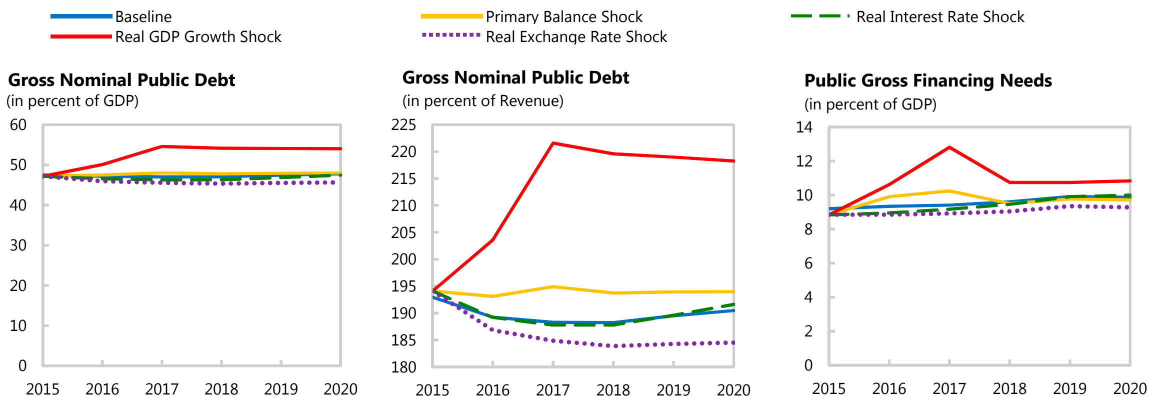
Real GDP growth
(in percent)



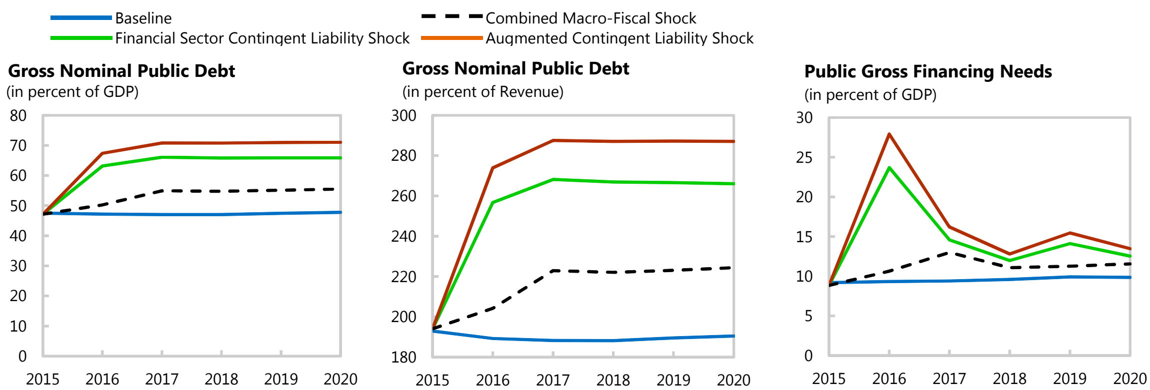
Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Thailand.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Thailand Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

	2015	2016	2017	2018	2019	2020
Primary Balance Shock						
Real GDP growth	3.6	3.5	4.2	4.0	3.9	3.8
Inflation	0.2	2.7	1.9	2.1	1.9	1.8
Primary balance	-1.3	-2.5	-2.6	-1.9	-2.1	-2.0
Effective interest rate	3.4	2.7	2.8	2.9	2.9	3.0
Real Interest Rate Shock						
Real GDP growth	3.6	3.5	4.2	4.0	3.9	3.8
Inflation	0.2	2.7	1.9	2.1	1.9	1.8
Primary balance	-1.3	-1.6	-1.7	-1.9	-2.1	-2.0
Effective interest rate	3.4	2.7	3.2	3.5	3.7	4.0
Combined Shock						
Real GDP growth	3.6	-0.4	0.3	4.0	3.9	3.8
Inflation	0.2	1.7	0.9	2.1	1.9	1.8
Primary balance	-1.3	-2.9	-4.3	-1.9	-2.1	-2.0
Effective interest rate	3.4	2.7	3.2	3.6	3.8	4.1
Financial Sector Contingent Liability Shock						
Real GDP growth	3.6	-0.4	0.3	4.0	3.9	3.8
Inflation	0.2	1.7	0.9	2.1	1.9	1.8
Primary balance	-1.3	-15.8	-1.7	-1.9	-2.1	-2.0
Effective interest rate	3.4	3.1	4.3	3.9	3.7	3.7

	2015	2016	2017	2018	2019	2020
Real GDP Growth Shock						
Real GDP growth	3.6	-0.4	0.3	4.0	3.9	3.8
Inflation	0.2	1.7	0.9	2.1	1.9	1.8
Primary balance	-1.3	-2.9	-4.3	-1.9	-2.1	-2.0
Effective interest rate	3.4	2.7	2.9	3.0	3.0	3.1
Real Exchange Rate Shock						
Real GDP growth	3.6	3.5	4.2	4.0	3.9	3.8
Inflation	0.2	4.4	1.9	2.1	1.9	1.8
Primary balance	-1.3	-1.6	-1.7	-1.9	-2.1	-2.0
Effective interest rate	3.4	2.7	2.8	2.8	2.8	2.9
Augmented Contingent Liability Shock						
Real GDP growth	3.6	-0.4	0.3	4.0	3.9	3.8
Inflation	0.2	1.7	0.9	2.1	1.9	1.8
Primary balance	-1.3	-20.2	-1.7	-1.9	-2.1	-2.0
Effective interest rate	3.4	2.7	4.9	4.4	4.0	3.9

Source: IMF staff.

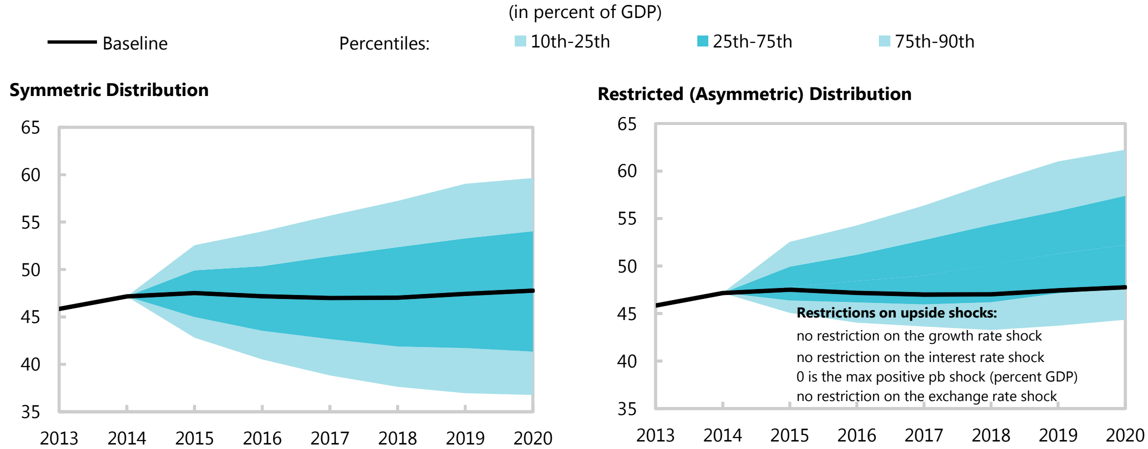
Thailand Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

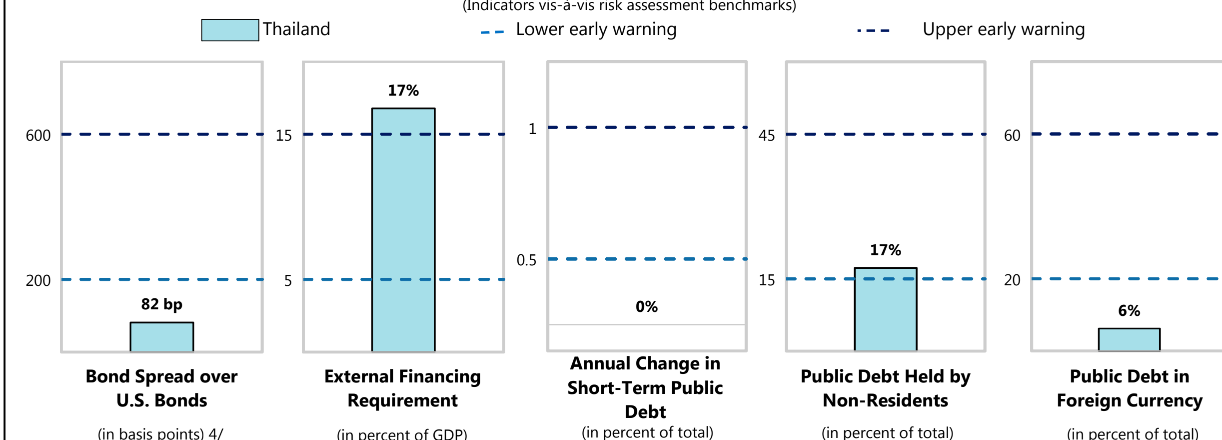
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

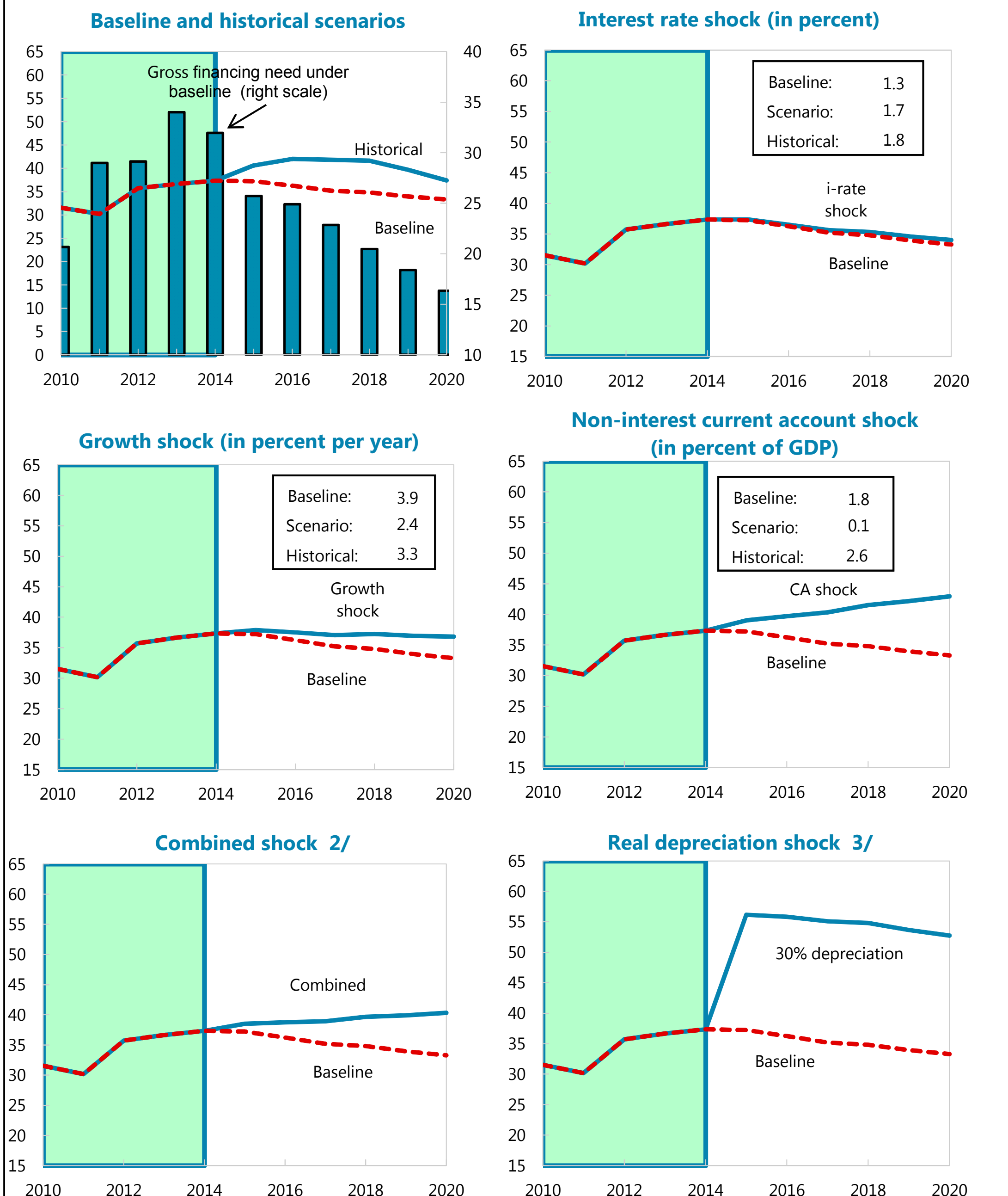
4/ An average over the last 3 months, 20-11-14 through 18-2-15.

Appendix V. Thailand—External Debt Sustainability Analysis

Summary. Thailand's external debt[1] is projected to remain relatively low over the medium term, gradually declining from 37 percent of GDP in 2014 to 33 percent of GDP in 2020. Stress tests indicate that external debt would remain stable under various scenarios including weaker GDP growth, a lower current account balance, and a one-time 30 percent depreciation of the baht. Under most of 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 56 percent of GDP. However, this scenario does not take into account the adjustment that trade flows would have if such a depreciation were to occur, i.e. a sharp improvement in the current account that would significantly bring down the debt ratio.

[1] Does not include domestic debt held by non-residents.

Figure B1. Thailand: External Debt Sustainability: Bound Tests 1/
(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/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2015.

Appendix VI. Thailand—External Assessment

	Thailand	Overall Assessment
International investment position and trajectory	**Background.** The net international investment position (NIIP) had been improving steadily from the large deficit hit in 2000 (-48 percent of GDP), until 2009, when the NIIP came close to balance (-2 percent of GDP). Subsequently, large increases in direct and portfolio investment valuations raised foreign liabilities and lowered the NIIP to -18 percent of GDP in 2013. Net foreign liabilities are expected to remain broadly stable. **Assessment.** The deterioration of the NIIP during 2010 – 2014 appears to be due largely to valuation changes, as on average the current account was in surplus. There are limited risks to external debt sustainability because Thailand's external debt is projected to remain low and net foreign liabilities (as a percent of GDP) are expected to stabilize. That said, the rising share of short-term external debt in total external debt (almost 44 percent) needs close monitoring.	**Overall Assessment:** The external position is broadly consistent with medium-term fundamentals and desirable policy settings. Reserves are more than adequate. **Potential policy responses:** A medium-term infrastructure investment policy is key to unlocking growth by boosting private investment, which would justify temporarily larger current account deficits. The authorities should continue to allow the exchange rate to follow fundamentals. The more-than-adequate reserves can support two-way flexibility of the baht while still providing some scope for intervention to smooth excessive volatility. In view of the net capital outflows, slowing credit growth, low share of real estate loans, and no apparent real estate boom, there is no need to tighten macroprudential policies despite the low-interest-rate environment.
Current account	**Background**. Thailand's current account (CA) has been quite volatile over the last decade, ranging from a 4¼ percent of GDP deficit to 8¼ percent of GDP surplus, against the backdrop of a relatively stable trend real appreciation and volatile economic fundamentals. The current account surplus came down sharply from its peak in 2009 at 8¼ percent of GDP to -0.6 percent in 2013 and rose to 3.8 percent in 2014 and is expected to remain close to balance over the medium term. **Assessment**. Staff assesses Thailand's 2014 CA to be close to the level consistent with medium-term fundamentals and appropriate policies, within a range of -5 to +5 percent of GDP). This is supported also by the EBA CA model estimate of a gap of 1.4 percent of GDP, which incorporates the impact of the oil price declines and the delayed investment (in cyclically adjusted terms, the EBA estimated CA norm and CA outcome are -0.8 and 0.7 percent of GDP, respectively).	
Real exchange rate	**Background.** Barring the global financial crisis, the Thai baht generally has been appreciating in real effective terms since 2005. After appreciating strongly during late 2012 and the first four months of 2013, the real effective exchange rate (REER) weakened until the first half of 2014 and then strengthened in the second half of 2014. As of end-2014, the REER (annual average) was about 3.2 percent weaker than its 2013 average level. **Assessment**. Staff assesses the REER to be broadly consistent with medium-term fundamentals and appropriate policies, within a range of -5 percent below to +5 percent above such a level. The EBA estimates do not point clearly to a REER gap (the EBA REER regression model estimates an REER slightly on the weak side in 2014 by 1.9 percent).	
Capital and financial accounts: **flows and policy measures**	**Background**. Equity and bond flows declined and became negative in 2013 and 2014 due to Fed's tapering talk and political uncertainties. **Assessment.** While capital flows to banks reflect mostly hedging activities of the trade sector and therefore follow the trade balance, portfolio flows benefited from the relatively better fundamentals of the Thai economy compared with advanced economies, but faced headwinds from the withdrawal of unconventional monetary policies, emerging market sell-offs and domestic political uncertainties. The authorities have allowed exchange rate flexibility to smooth capital flow volatility. Capital inflows are expected to continue, although they will be partially offset by outward investment as the authorities push forward with their financial account liberalization plans.	
FX intervention and reserves level	**Background**. The exchange rate is largely floating without evidence of intervention. International reserves declined primarily on valuation changes. Gross official reserves are about 48 percent of GDP in 2014, over three times short-term debt, and at 213 percent of the IMF's composite metric. Thailand's net forward FX position has declined to six percent of GDP in 2014. **Assessment.** Thailand's gross reserves are more than adequate and there is no need to build up reserves for precautionary purposes. The exchange rate should continue to react flexibly to domestic and external shocks, including volatile capital flows	

Appendix VII. Thailand's Regional Integration

Regional integration between Thailand and the Cambodia, Laos, Myanmar, and Vietnam (CLMV countries) has proceeded at a fast pace in the last decade. This dynamic integration process can be seen from various perspectives, including trade, investment, migration, and the ASEAN Economic Community (AEC).

Trade. Trade integration between Thailand and CLMV countries has proceeded at a fast pace. Although demand for Thailand's exports from China, Japan, and ASEAN-4 fell, Thailand's exports to CLMV expanded in 2014. As a result, the shares of Thailand exports to CLMV countries continued to rise. In particular, Thailand's exports to Cambodia and Laos as a share of total Thai exports have almost tripled in the last decade and have increased more than 70 percent in the last four years. At the same time, Thailand's imports from CLMV countries as a share of total Thai imports have also been rising steadily, albeit at a slower pace than exports. In particular, both Laos and Myanmar's exports to Thailand as a share of total Laos and Myanmar's exports reached more than 33 percent in 2013.

FDI. Thailand and the CLMV countries have also witnessed rapid growth in bilateral direct investment. More than 10 percent of Thailand outward FDI is destined to CLMV. Moreover, after receiving inward FDI from CLMV countries during 2009−10, Thailand inward FDI from CLMV countries turned negative, indicating CLMV's investment flowing from Thailand back to CLMV. These developments show that Thailand has been playing an increasingly active role in promoting investment integration with CLMV countries.

Migration. CLMV countries are the main source of foreign workers in Thailand, with Myanmar accounting for two thirds of all immigrants. In turn, Thailand has become a major migration destination for Cambodia, Laos, and Myanmar. For instance, there were 1.8 million registered immigrants (mostly from Myanmar) and approximately 1 million unregistered immigrants.

AEC. The ASEAN Economic Community will further promote integration between Thailand and CLMV countries. Bold steps forward in regional integration, especially further cuts in tariffs and elimination of behind-the-border barriers, could reap substantial dividends for Thailand and CLMV countries, including upgrading of the service sector. Progress with integration can also help unlock structural reforms yielding further gains. Looking forward, the AEC is expected to help transform ASEAN into a region with free movement of goods, services, investment, skilled labor, and freer flow of capital.

Integration with CLMV countries

Thailand's export market share in CLMV countries increased rapidly....

Export Market Share
(In percent of total of exports)

	2004	2009	2013
Cambodia	0.6	1.0	1.7
Lao PDR	0.8	1.0	1.9
Myanmar	3.3	3.1	4.8
Vietnam	0.6	1.1	1.6

Sources: IMF *Directions of Trade* ; IMF staff calculation.

Import market share from CLVM also increased, though at a slower pace....

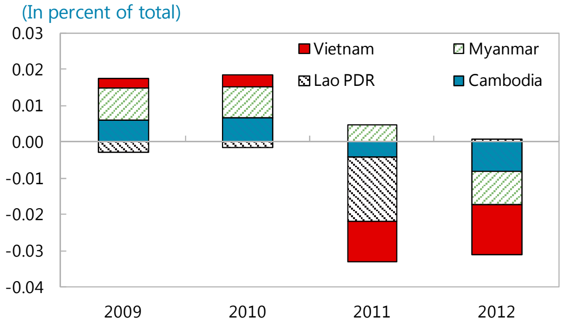
Import Market Share
(In percent of total of exports)

	2004	2009	2013
Cambodia	1.4	2.1	1.6
Lao PDR	0.0	0.1	0.1
Myanmar	2.5	2.8	3.2
Vietnam	0.1	0.3	0.5

Sources: IMF *Directions of Trade* ; IMF staff calculation.

Inward FDI from CLMV turned out to be negative in 2011 and 2012....

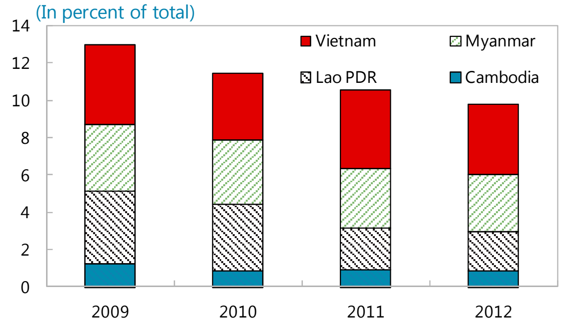
Thailand Inward FDI
(In percent of total)



Sources: IMF's *Coordinated Direct Investment Survey*; and IMF staff calculations.

Thailand FDI to CLMV has been more than 10 percent of total Thai outward FDI....

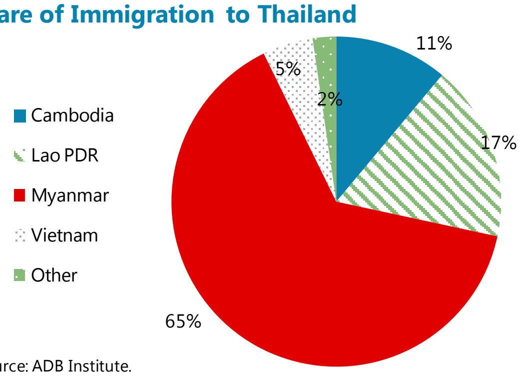
Thailand Outward FDI
(In percent of total)



Sources: IMF's *Coordinated Direct Investment Survey*; and IMF staff calculations.

CLMV are the major sources of Thai immigrants, with Myanmar being the largest source...

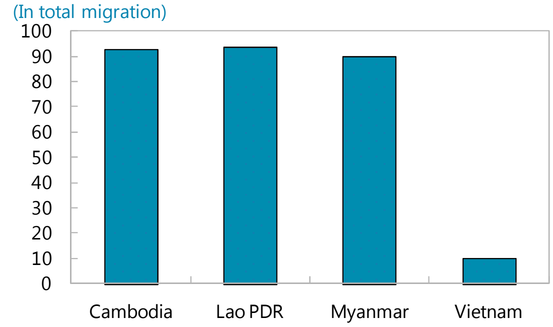
Share of Immigration to Thailand



Source: ADB Institute.

Thailand have become the major immigrant destination for Cambodia, Laos, and Myanmar....

Share of Thailand Migration
(In total migration)



Source: ADB Institute.

Appendix VIII. Global Liquidity Transmission and the Changing Financial Landscapes in the ASEAN-5 Countries

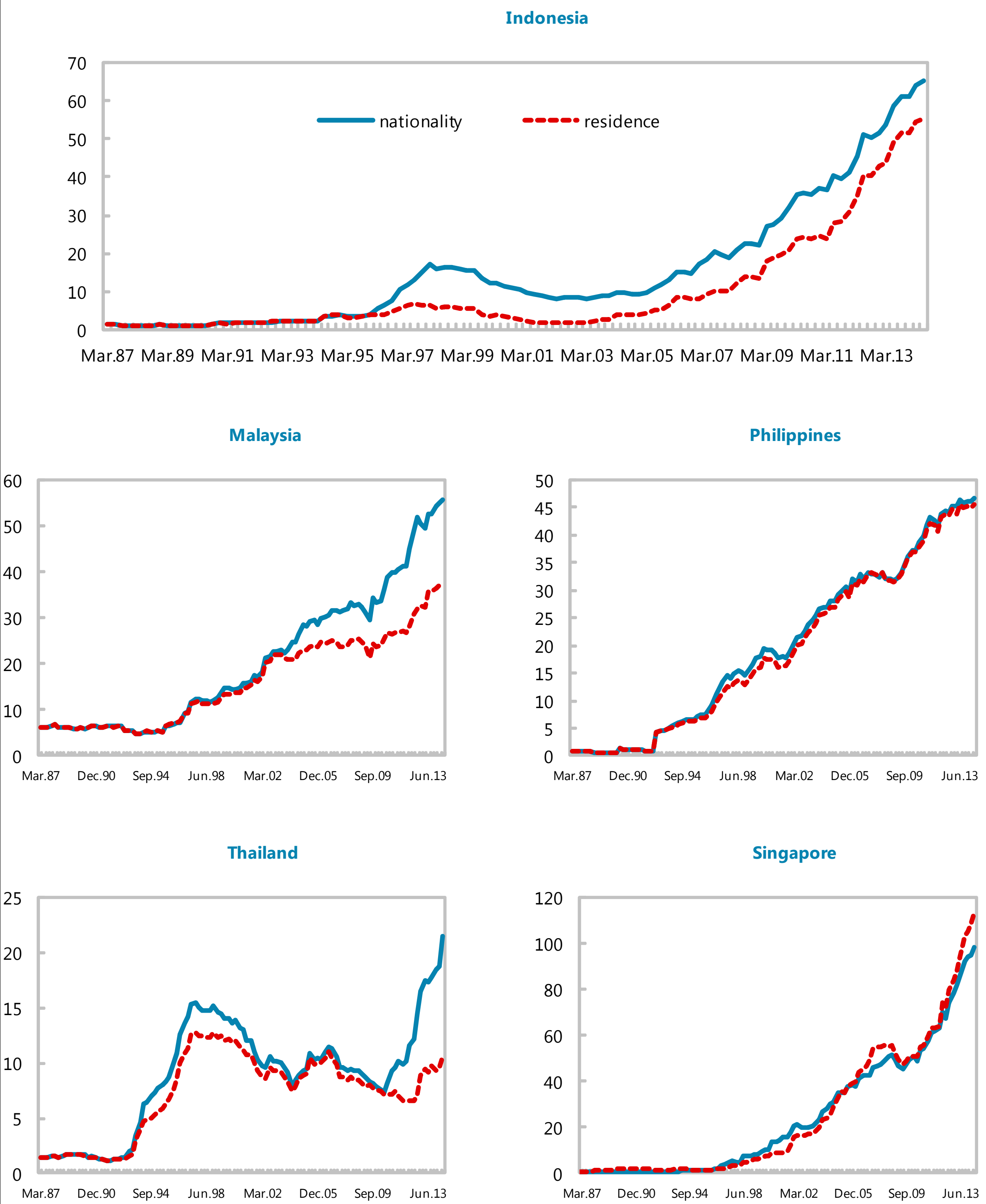
The transmission of global liquidity has changed the financial landscapes in the ASEAN-5 countries (Thailand, Indonesia, Philippines, Indonesia, and Singapore, ASEAN-5) in the last decade, which in turn, has led to changes in financial stability risks. Policymakers should strengthen liquidity management, enlarge regulatory perimeters to include non-commercial-banks, and establish a formal and transparent financial stability framework.

Global liquidity expansion. Global liquidity has been expanding since early 2000s, and the strong post-crisis monetary policy easing by major central banks spurred a further surge. The money supply of the G4 (the United States, the United Kingdom, Euro Area, and Japan) − a proxy for global liquidity—rose from US$ 15 trillion in 2000 to US$ 36 trillion in 2014. Foreign exchange reserves, a proxy for official liquidity, increased six-fold from US$ 2 trillion in 2000 to over US$ 12 trillion in 2014. International debt security issuance by emerging market economies, a proxy for private liquidity, increased four-fold from US$ 554 billion in 2000 to US$ 2.6 trillion in 2014. External loans to emerging markets, another proxy for private liquidity, increased four-fold from US$ 777 billion in 2000 to US$ 3.1 trillion in 2014.

Global liquidity transmission to the ASEAN-5. Global liquidity has transmitted to ASEAN-5 through various channels, including portfolio inflows, international debt security issuance, and external bank loans and deposits. Between December 2000 and June 2014, ASEAN-5 saw a rapid increase in international debt security issuance (by nationality), which from US$70 billion in 2000 to US$ 288 billion,[1] while external loans and deposits, increased from US$ 272 billion to US$ 787 billion.

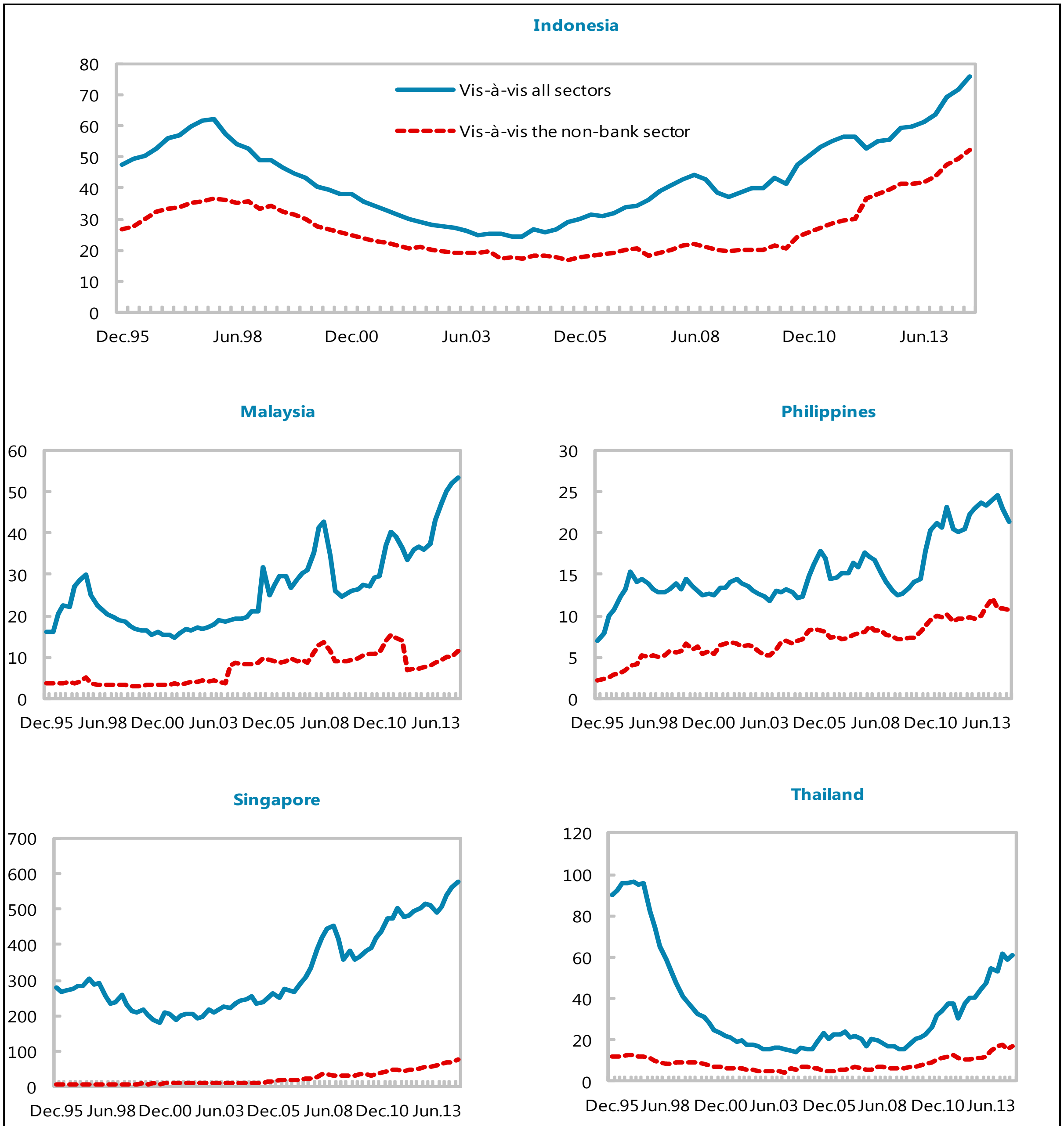
[1] Nationality is determined by the location of the reporting entity's controlling parent institution. Residence is determined by the location of the reporting entity.

Figure 1. International Debt Security Issuance to the ASEAN-5 (In billions of U.S. dollars)



Source: BIS Debt Securities Statistics, Table 11A and 12A.

Figure 2. External Loans and Deposits to the ASEAN-5 (In billions of U.S. dollars)



Sources:BIS Locational Banking Statistics Table 7A and 7B; IMF staff estimates.

Changing financial landscapes. Near-zero policy rates and large asset purchases by the Federal Reserve and other major central banks have boosted asset prices and fuelled investor appetite for risk. Large cross-border financial inflows have amplified domestic financial expansion in ASEAN-5, leading to changes in the financial landscapes in the ASEAN-5.

Non-commercial-banks. A feature of the changing financial landscapes in the ASEAN-5 is the growth of non-commercial-banks**,** though at different paces in different countries.

- In Indonesia, they grew steadily with asset-to-GDP ratio increasing from less than three percent in 2006 to five percent in 2013. And non-commercial-bank assets as a share of total assets of all financial institutions grew from six percent in 2006 to nine percent in 2013.

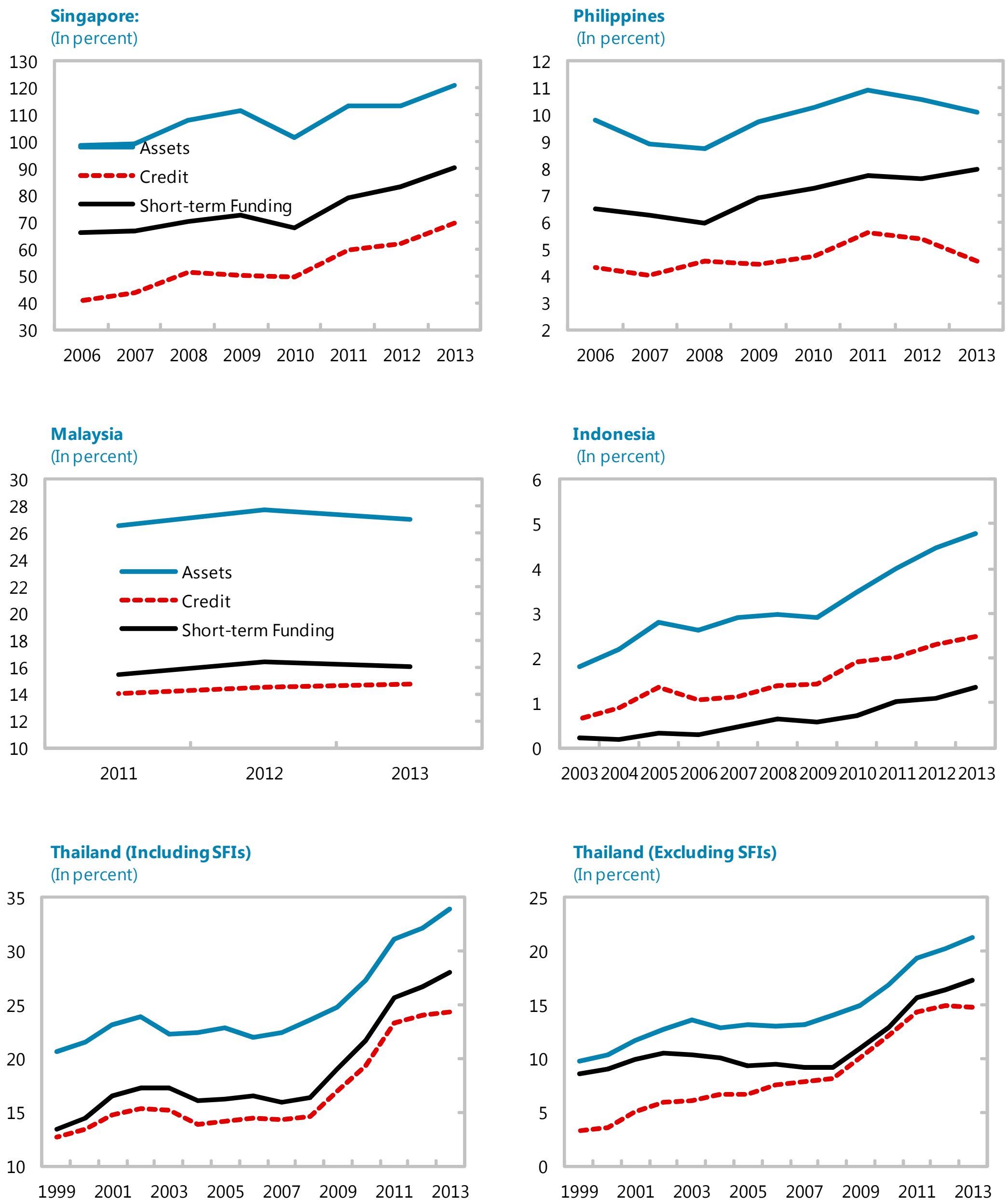
- In Malaysia, they developed at a slower pace than its peers recently, with their asset-to-GDP ratio remaining high around 26−28 percent during 2011 and 2013.

- In the Philippines, they developed steadily, with their asset-to-GDP ratio remaining around 10 percent during 2006 and 2013.

- Non-commercial-banks in Singapore developed to a higher stage, with asset-to-GDP ratio increasing from less than 100 percent in 2006 to 120 percent in 2013. The non-commercial-bank short-term funding as a share of total funding of all financial institutions grew from 22 percent in 2006 to almost 24 percent in 2013.

- In Thailand, these institutions developed rapidly. Excluding SFIs, non-commercial-banks' asset-to-GDP ratio increased from 13 percent in 2006 to 21 percent in 2013, and non-commercial-bank assets as a share of total assets of all financial institutions grew from 10 percent in 2006 to 14 percent in 2013.

Figure 3. Non-commercial bank Development in the ASEAN-5: Ratios of Assets, Credit, and Liquidity to GDP



Sources: BankScope; Haver Analytics; IMF staff estimates.

Risks to financial stability. There is a risk that protracted monetary accommodation and resulting search for yield could be fueling credit mispricing and buildup of systemic liquidity risk, especially in the nonbank sector. Therefore, ASEAN-5 should closely monitor potential risks to financial stability, such as credit, liquidity, and exchange rate risks. These risks could be nontrivial given the weak global economic recovery and lingering uncertainties about the full ramifications of the China slowdown and rebalancing.

Policies implications for Thailand. The changing financial landscapes and the resulting challenges point to the need for the authorities in the ASEAN-5 to consider measures to maintain financial stability.

- **Regulation on non-commercial-banks.** The authorities should enlarge financial regulatory perimeters to non-commercial-banks, including SFIs, and contain the rapid growth of leverage.

- **Liquidity management.** The authorities should prepare for the possible liquidity tightening arising from the expected U.S. monetary policy normalization. Useful measures include encouraging greater exchange rate flexibility and taking macroprudential and cooperative measures to provide liquidity when global liquidity shortages actually materialize.

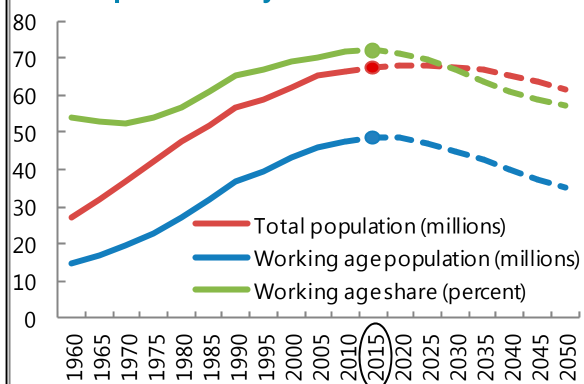
- **Financial stability framework.** The authorities should continue to strengthen a formal and transparent financial stability framework. Useful measures include giving the central banks a more formal mandate to ensure financial stability in bringing both expertise and incentives to the task of mitigating systemic risk; strengthening data collection to cover data gap and monitor the buildup of financial stability risks; enhancing coordination and information sharing among regulators across jurisdictions.

Appendix IX. Thailand's Demographic Challenge

Thailand is undergoing one of the fastest demographic transitions in the world. This poses severe challenges to growth, old-age security, and public finances. To address these challenges, Thailand needs higher productivity growth, increased labor force participation (particularly by the elderly), and a more open immigration system.

Population trends. Thailand is undergoing a steep demographic transition. According to UN population projections,[1] Thailand's total population will peak in 2023, while its working age population (age 15−64) will start declining this year as a share of total population and in 2018 in absolute numbers.

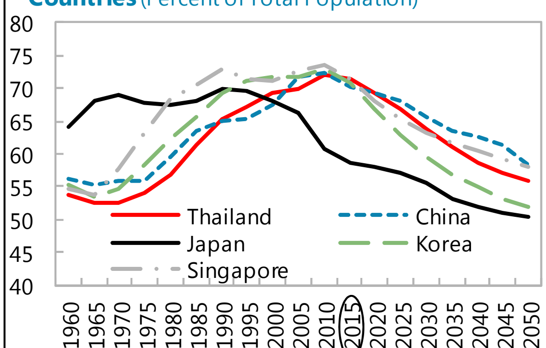
UN Population Projections for Thailand



Source: United Nations, *World Population Prospects*.

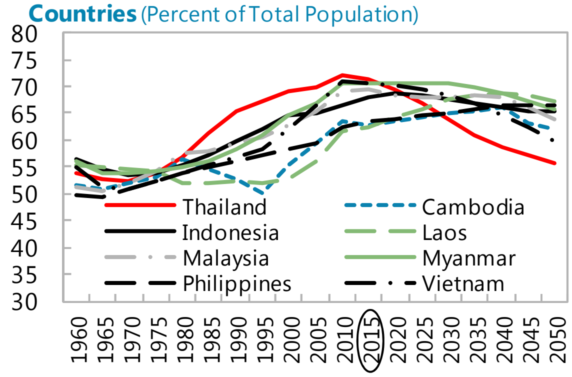
Regional context. The challenge Thailand is facing is unusually severe. The pace of demographic transition is similar to that in Korea and Singapore, but those countries are experiencing it at much higher levels of income. Among emerging economies in the region, only China's transition is almost as rapid, but China is developing considerably faster than Thailand. In contrast, under every conceivable scenario, Thailand will grow old before growing rich. Emerging ASEAN economies other than Thailand are facing a noticeably slower transition.

Working Age Population in Selected Asian Countries (Percent of Total Population)



Source: United Nations, *World Population Prospects*.

Working Age Population in Selected ASEAN Countries (Percent of Total Population)

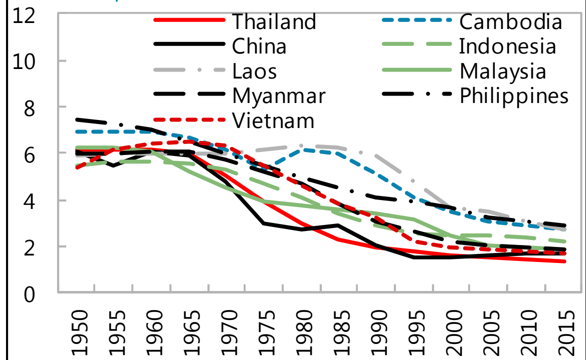


Source: United Nations, *World Population Prospects*.

[1] United Nations, 2013, *World Population Prospects: The 2012 Revision*.

Drivers. The main reason is a sharp drop in fertility. In Thailand, the total fertility rate fell from 5.2 to 2.2 in just 20 years between 1970 and 1990 (one of the steepest declines in history), and currently stands at 1.4, which is considerably below the replacement rate. The usual factors associated with development, such as increasing income, education and urbanization, undoubtedly played a role. At the same time, a switch from pro-natalist policies of the post-war period to anti-natalism in the 1970s and 1980s likely contributed to the sharpness of the decline.[2] An increase in longevity (life expectancy went up from 64 in 1980 to 74 in 2012) is another important driver of aging.

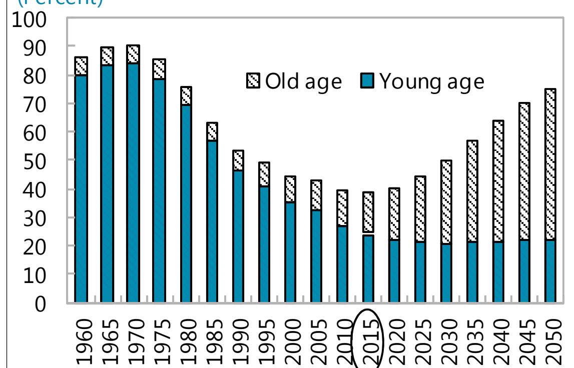
Fertility Rates
(Children per Woman)



Source: United Nations, *World Population Prospects*.

Implications. Population aging presents a number of challenges. Up until now, Thailand has benefited from a demographic dividend, with labor force growing faster than population for several decades. The dependency ratio is at its trough, and is among the lowest in ASEAN. Going forward, the ratio will start climbing, driven by old-age dependency, with negative implications for growth, old-age security, and public finances.

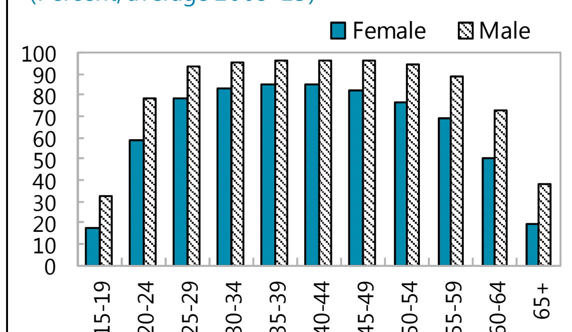
Thailand's Dependency Ratio
(Percent)



Source: United Nations, *World Population Prospects*.

Impact on growth. Contraction in working age population will reduce Thailand's potential growth rate. Assuming employment shrinks in proportion to working age population, the labor input will decline by 0.3 percent in 2020 and at even faster rates going forward.[3] A more precise calculation needs to take into account age- and gender-specific labor force participation rates. Within working age population, the share of youths will decrease while the share of older people will go up. Both of these groups have lower participation rates than prime age adults, and the net effect of this shift is ambiguous a priori. If we assume that going forward the age- and gender-specific participation rates will remain at their average levels of the last five years, employment projections will look slightly less

Thailand: Labor Force Participation Rate
(Percent, average 2009-13)



Source: International Labor Organization.

[2] United Nations Population Fund, 2011, *The Impact of Demographic Change in Thailand*.

[3] With the unemployment rate below one percent, in Thailand there is essentially no difference between labor force and employment, and no margin to raise the employment rate for a given labor force participation rate.

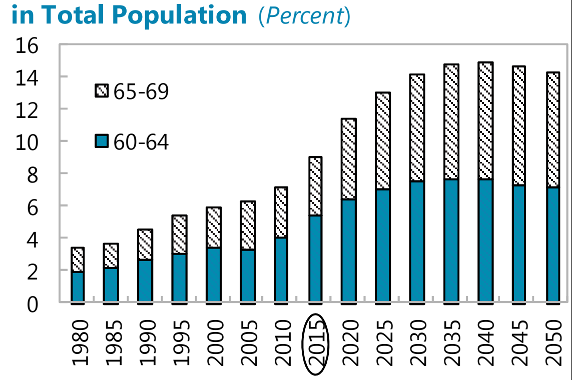
pessimistic, with labor input declining by 0.1 percent in 2020 and 0.3 percent in 2023. Still, this correction only pushes the negative trend back a couple of years.

Impact on public finances. As elsewhere, aging will lead to higher health care spending, particularly in the public sector given Thailand's universal coverage. In contrast to health care, Thailand's large informal sector is not covered by the public pension scheme and receives only minimal assistance from the non-contributory old-age allowance. With increased longevity and evolving cultural norms, traditional networks might not be able to provide adequate support to the elderly coming out of the informal sector. As a result, the public sector may have to step in with additional support. At the same time, the existing formal sector social security scheme may not be sustainable, given low contribution rates and low retirement age.

Addressing the challenge. A multifaceted approach is required to deal with the demographic challenge. In very broad terms, the impact of population aging on labor supply could be counteracted by increasing labor productivity and by measures aimed at augmenting labor supply. In Thailand, key to enhancing productivity is implementing the government's infrastructure investment plans, improving the quality of education and training, and reallocating resources toward higher-value-added activities.

Augmenting labor supply. Two key reservoirs are the elderly and migrant workers. The share of hexagenarians in Thailand's population is rising sharply, and engaging them in productive work is essential to cushion the effects of aging. That would be facilitated by accommodating work environment (including flexible hours and part-time arrangements), improved health care, and targeted training and by removing institutional obstacles such as mandatory retirement of government employees at age 60. Many of these measures are already being implemented or considered by the government. Some of them, as well as improved quality of daycare and more generous maternity benefits, may also boost fertility and increase female labor force participation, even though the latter is already quite high by regional standards. Finally, regularizing the inflow of migrants from neighboring labor-rich countries as well as making it easier to employ high-skill foreigners would help Thailand complement the supply of native-born workers.[4]

Thailand: Share of People in Their Sixties in Total Population *(Percent)*



Source: United Nations, *World Population Prospects*.

[4] Thailand hosts over one million *registered* economic migrants, primarily from Myanmar, Cambodia and Laos. However, the total number, including undocumented workers, is estimated to be around 4 million—about 10 percent of the country's labor force.

Appendix X. Thailand's Structural Transformation in Regional Perspective[1]

Thailand stands out in international comparison as a country with a high dispersion of productivity across sectors. It has especially low labor productivity in agriculture—the sector that employs a much larger share of the population than is typical for a country at Thailand's level of income. This suggests large potential productivity gains from labor reallocation across sectors, but that process—which made a significant contribution to Thailand's growth in the past—appears to have stalled lately. The reasons include a gap between the skills possessed by rural workers and those required in the modern sectors; the government's price support programs for several agricultural commodities, particularly rice; and the uniform minimum wage.

Snapshot. While in most economies labor productivity in agriculture is lower than in other sectors, in Thailand, the difference is particularly pronounced. At the same time, the share of agricultural employment in Thailand, at nearly 40 percent, is considerably higher than what would be expected for a country at its level of income. This combination of low productivity and high employment in agriculture depresses the country's overall productivity and standard of living.

Dynamics. Reallocating workers from agriculture into manufacturing and modern services could boost productivity. Indeed, in the past, this inter-sectoral shift, reflecting structural transformation, accounted for a considerable share of productivity growth in Thailand (as well as in many other Asian economies). However, over the last few years this process has stalled, with both agricultural employment and agricultural productivity nearly stagnant.

Explanation. There are several reasons why Thailand's agricultural employment has been exceptionally high for several decades, including culture and tradition as well as educational gaps. The leveling of the share in the last few years, after trend decline, has likely been caused by a pickup in global food prices, intensified government support for agriculture (particularly the rice pledging scheme), and an increase in the minimum wage, which discourage employment in the formal sector.

Way forward. To accelerate Thailand's path toward advanced economy status, it is important to provide appropriate incentives and opportunities to its population. The government took the right step in replacing the rice pledging scheme and price support for rubber with targeted income transfers. Modernization of curriculum and increased support for rural schools would help equip future generations of Thais with appropriate skills. Better information dissemination would help direct people toward gainful employment in the formal sector. At the same time, incentives to hire newcomers to the formal labor market may be enhanced by temporary tax breaks or minimum wage waivers. Finally, various measures, including more efficient water management, enhanced agricultural research and knowledge transfer, and reformed land tenure laws (which would facilitate consolidation to take advantage of economies of scale), could help increase productivity and the standard of living of those remaining in agriculture.

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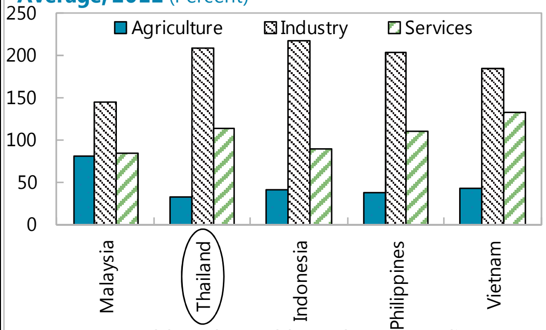
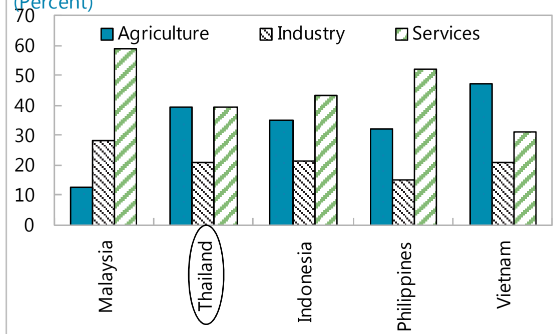
[1] This appendix is based on Vladimir Klyuev, 2015, *Structural Transformation: How Does Thailand Compare?* IMF WP/15/51.

Value Added per Worker Relative to Economy-Wide Average, 2012 (Percent)



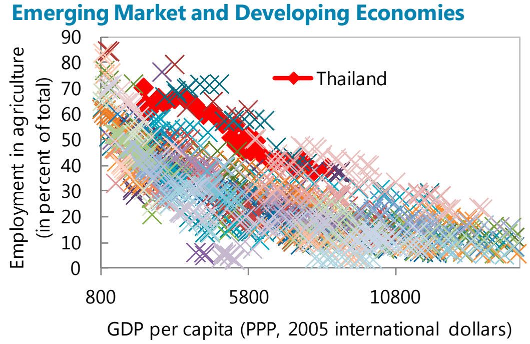
Source: World Bank, *World Development Indicators*

Employment Shares, 2012
(Percent)



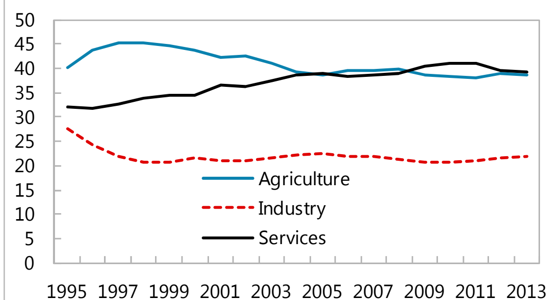
Source: World Bank, *World Development Indicators*

Employment in Agriculture and GDP per Capita in Emerging Market and Developing Economies



Source: World Bank, *World Development Indicators.*

Thailand: Employment Shares
(Percent)



Source: National Statistical Office of Thailand.

Appendix XI. Thailand—Staff Policy Advice from the 2013 Article IV Consultation

Staff Advice	Policy Actions
Strengthen the medium-term fiscal framework and embed it in the planned revision of the Public Finance Act.	The authorities are working on a fiscal responsibility law (Public Finance Act) that will require the formulation of a medium-term fiscal framework by the Cabinet. The Fund is providing technical assistance in this area.
Allow the exchange rate to continue to move flexibly, limiting foreign exchange rate intervention to preventing excessive volatility and overshooting.	The Bank of Thailand has adhered to a policy of flexible exchange rates, intervening in foreign exchange markets only to prevent overshooting.
Consider extending the current regulatory and supervisory regime of commercial banks to all deposit-taking institutions.	The government has made a decision to extend BOT's supervisory and regulatory mandate to SFIs.
Replace generalized subsidies, in particular energy and the rice pledging scheme, with programs targeted at vulnerable groups.	The rice scheme has been replaced with transfers to small-scale farmers. The authorities have started an energy price reform by reinstating excise taxes on diesel and reducing cross-subsidies among different types of fuel. Lower prices are maintained for vulnerable groups, subject to means-testing.
Address infrastructure bottlenecks.	The government has endorsed a large-scale public infrastructure investment program, to be implemented over a number of years. The authorities are planning to restructure state enterprises such as the State Railway of Thailand that will play an important role in the expansion of the infrastructure.

INTERNATIONAL MONETARY FUND

THAILAND

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

March 10, 2015

Prepared By

Asia and Pacific Department

CONTENTS

FUND RELATIONS

(As of January 21, 2015)

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 restrictions on the making of payments and transfers for current international transactions.

General Resources Account:

	SDR Million	Percent Quota
Quota	1,440.50	100.00
Fund holdings of currency	945.03	65.60
Reserve position in Fund	495.48	34.40
Lending to the Fund		
New Arrangements to borrow	39.13	

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	970.27	100.00
Holdings	974.59	100.45

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	6/19/2000	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):

	2015	2016	2017	2018	2019
Principal					
Charges/interest	0.01	0.01	0.01	0.01	0.01
Total	**0.01**	**0.01**	**0.01**	**0.01**	**0.01**

Exchange Rate Arrangement:

After more than a decade when the baht was effectively pegged closely to the U.S. dollar through a basket of currencies, the exchange rate regime was changed on July 2, 1997. Both the de jure and de facto exchange rate arrangements are classified as floating.

Last Article IV Consultation:

At the conclusion of the 2013 Article IV consultations, Executive Directors noted that skillful macroeconomic management, as well as the strong fundamentals of the Thai economy have blunted the impact of recent severe shocks and were underpinning a recovery. Looking ahead, they encouraged the authorities to persevere in their efforts to rebuild fiscal buffers, strengthen financial stability, and promote more inclusive growth. Directors considered that a gradual return to fiscal consolidation will broaden the room for policy maneuver over the medium term and create space for priority spending. They noted, however, that the achievement of the authorities' targets may require additional measures and would benefit from a stronger medium-term fiscal framework. Therefore, they supported expanding investment in infrastructure and education, and replacing generalized subsidies with targeted income support for vulnerable groups. They encouraged the authorities to stand ready to normalize the policy stance if inflationary pressures re-emerge. Directors also observed that capital flow volatility has presented challenges to macroeconomic management. They agreed that Thailand's strong international reserve position, together with exchange rate flexibility and macroprudential and capital flow measures as appropriate, will help address such volatility going forward. Directors welcomed the progress in developing the non-bank financial sector, which should boost financial inclusion and facilitate investment. They also agreed that policy actions to strengthen the regulatory and supervisory frameworks for non-bank and specialized financial institutions are essential to safeguard the soundness of the financial system. They welcomed the authorities' aim to promote more inclusive growth and endorsed plans to boost workers' skills to address skills mismatches and labor shortages. They also supported plans to expand infrastructure to lower transportation costs, promote commerce, and boost long-term growth.

Recent Technical Assistance:

FAD: A TA mission on Public Financial Management took place in October 2014, followed by another mission in March 2015 with a focus on medium-term fiscal framework. A mission on tax administration took place in February 2014 and January 2015. A mission on revenue administration – gap analysis program took place in November 2014 to conduct tax gap estimation for VAT.

MCM: A mission on the regulation of public banks (Specialized Financial Institutions) took place in January 2015.

STA: A TA mission on government finance statistics and a TA mission on property price indexes took place in October 2014.

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 Economic Monitor (June and November 2013) Thailand Development Report (Country Economic Memorandum) Improving Intergovernmental Fiscal Relations System for better service delivery Public Finance Management Report Revenue Policy Review Financial Projection Model support for Specialized Financial Institutions Strengthening Insurance Supervision Strengthening corporate governance of State Owned Enterprises and State Financial Institutions	Bi-annual On-going Ongoing Completed Completed Ongoing Ongoing On-going	Published online February 2014; Economic Update October 2014; by June 2015 June 2015 June 2015 March 2012 July 2012 December 2013 June 2014 TA – Just in time
IMF work program	2015 Article IV mission 2015 Staff Visit	January 2015 June 2015	Board discussion expected in April 2015
B. Request for work program inputs			
Fund request to Bank	Assessment of economic developments and structural policies Information sharing	Semi-annual or more frequent Semi-annual or more frequent	Ongoing Ongoing
Bank request to Fund	Assessment of macroeconomic developments and policies Information sharing Share information on Technical Assistance work on Medium Term Fiscal Framework, State Financial Institutions	Semi-annual or more frequent Semi-annual or more frequent Semi-annual	Ongoing Ongoing Ongoing

STATISTICAL ISSUES

(As of February 2015)

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. Quarterly national accounts estimates are compiled using a fixed base year (1998). The NESDB plans to introduce new quarterly GDP current price and chain-linked volume estimates in 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 2011 Socio-Economic Survey. 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.
Government finance statistics: The authorities provide data to the Fund consistent with the *Government Finance Statistics Manual*, 2001 (GFSM 2001). 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—more timely publication would be desirable. Nonetheless, the authorities publish monthly data for key GFS-based numbers for the central government budget on their website, while estimates of quarterly general government GFS are published with some lag. In addition, the authorities have started to compile GFSM 2001-based data for the non-financial state enterprises (SOEs), although there are delays for selected SOEs. The authorities also publish public sector debt data in their website, including debt of non-financial SOEs and government-guaranteed debt of Specialized Financial Institutions.
Monetary statistics: The authorities submit the Standardized Reporting Forms (SRFs) for monetary statistics on a timely basis. In January 2015, 10 FSIs for Thailand were published on the IMF's FSI portal.
Balance of payments: The authorities started publishing balance of payments statistics under BPM6 in September 2011. The historical data 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 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, in particular in areas where new concepts have been introduced by BPM6 such as in goods and services. Quarterly IIP data are disseminated since late 2014 (starting with the first quarter of 2012), in line with SDDS' recommendation. The data are collected quarterly and publicly available with a lag time of one quarter. The last observation available for quarterly IIP is Q3-2014 (at time of assessment). Data on external debt and debt service have significantly improved since the introduction of a quarterly survey of private nonbank external debt.

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 February 23, 2015

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]	Memo Items:	
						Data Quality – Methodological Soundness[7]	Data Quality – Accuracy and Reliability[8]
Exchange Rates	2/23/2015	2/23/2015	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	2/13/2015	2/23/2015	W	W	W		
Reserve/Base Money	12/2014	2/20/2015	M	M	M	O, O, LO, O	O, O, O, O, O
Broad Money	12/2014	2/20/2015	M	M	M		
Central Bank Balance Sheet	12/2014	2/20/2015	M	M	M		
Consolidated Balance Sheet of the Banking System	12/2014	2/20/2015	M	M	M		
Interest Rates[2]	2/23/2015	2/23/2015	D	D	D		
Consumer Price Index	1/2015	2/16/2015	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[3]– General Government[4]	2014	2/19/2015	A	A	A	O,LO,O,LO	LO, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	12/2014	2/19/2015	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/2014	1/2015	M	M	M		
External Current Account Balance	12/2014	2/12/2015	M	M	M	O, LO,LO,LO	LO, O, O, O, LO
Exports and Imports of Goods and Services	12/2014	2/12/2015	M	M	M		
GDP/GNP	Q4 2014	2/16/2015	Q	Q	Q	LO, LO, O, LO	O, O, LO, O, O
Gross External Debt	11/ 2014	2/12/2015	M	M	M		

[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).
[7] Reflects the assessment provided in the data ROSC (published on April 10, 2006 and based on the findings of the mission that took place during October 3–17, 2005) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[8] Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment, and revision studies.

Press Release No. 15/166
FOR IMMEDIATE RELEASE
April 9, 2015

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes 2015 Article IV Consultation with Thailand

On March 30, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Thailand.

Background

After a sharp contraction in the first quarter of 2014, Thailand's economy experienced a modest recovery in subsequent quarters, to expand by 0.7 percent in the year as a whole. Inflation decelerated toward the end of 2014 and became negative in January 2015 due to a sharp decline in oil prices. Core inflation has remained stable at near 1.7 percent in the past six months. The exchange rate stayed broadly stable against the U.S. dollar over the course of 2014, but appreciated noticeably in nominal and real effective terms. Lower oil prices and an import contraction triggered by weak domestic demand boosted the current account to 3.8 percent of GDP in 2014 from a -0.6 percent deficit the previous year.

The recovery is expected to continue in 2015 with growth projected at 3.7 percent on account of some rebound in consumption, including from lower fuel prices, and in private investment as backlogs of project approvals have been largely cleared by various government agencies. Accommodative monetary policy will also support the recovery. Nonetheless, private investment is being hampered by low capacity utilization, weak external demand, and concerns over political uncertainty. Private consumption is also weakened by high household debt and tighter credit conditions. The expansion of public investment has proven more difficult than expected. At the same time, global demand for Thailand's exports is weak. Still, the current account surplus is projected to increase further this year as oil prices are expected to be considerably lower on average than in 2014. Headline inflation is projected to remain subdued in 2015 and recover somewhat toward the end of the year.

Risks to the outlook are tilted somewhat to the downside. Domestic risks to the economy come from possible policy slippages, weaker-than-expected private demand, and political uncertainty. External risks include a surge in global financial volatility and protracted slow

[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.

growth in advanced and emerging economies. On the upside, consumption, investment and exports may experience a stronger boost from sharply lower oil prices.

The authorities have intentions to pursue a wide range of reforms to support the economy. They are already implementing a fuel price reform; have replaced the rice pledging scheme with transfers to small-scale farmers; endorsed a large public infrastructure investment program; started a review of state-owned enterprises; and made a decision to extend the Bank of Thailand's oversight to the state-owned Specialized Financial Institutions. In addition, five special economic zones have been established in border regions and the Board of Investment has announced a new investment promotion strategy aimed at enhancing Thailand's competitiveness.

Executive Board Assessment[2]

Executive Directors were encouraged by the rebound of the Thai economy after recent adverse shocks, and noted that the resilience of the economy has been underpinned by solid economic fundamentals and prudent macroeconomic management. Directors agreed, however, that the output gap will be closed only gradually and downside risks weigh on the near-term outlook. Continued fiscal and monetary support will thus be needed for the period ahead, while further structural reforms and infrastructure investment remain key to strong and inclusive growth over the longer term.

Directors concurred that stimulating the economy while introducing a multi-year policy framework to safeguard the sustainability of public finances are appropriate fiscal objectives at this time. In this context, they also welcomed the ongoing reforms to generalized subsidy programs, including the rice pledging scheme and energy pricing, and their replacement with targeted and means-tested support to vulnerable groups. Directors welcomed the authorities' plan to prepare a new fiscal responsibility law which will require the formulation of a medium-term fiscal framework, as well as their plan to carry out a strategic review of all state-owned enterprises and to formulate a multi-year public investment plan for large infrastructure projects.

Directors viewed the current monetary stance as warranted. They noted that further monetary easing could be considered if the expected recovery is delayed, with due regard for the impact of lower interest rates on financial stability. Directors welcomed the transition to a headline inflation target in the authorities' policy framework. In this context, they considered that inflation expectations remain well anchored and recent price developments do not suggest the risk of entrenched deflation.

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[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.

Directors noted that volatile capital inflows have presented challenges to macroeconomic management, and may continue to do so, in view of uncertainties in global financial markets. Directors agreed that Thailand's strong policy buffers, including ample reserves and a flexible exchange rate regime, have served the country well and have provided the tools to address potential market turbulence.

Directors welcomed the progress made in strengthening financial stability. The authorities' decision to extend the prudential oversight of the Bank of Thailand to specialized financial institutions represents an additional step in the right direction. Directors noted the importance of continued efforts in this area, including strengthening the supervision of nonbank financial institutions such as credit cooperatives.

Thailand: Selected Economic Indicators, 2010–15

	2010	2011	2012	2013	2014	2015 Proj.
Real GDP growth (percent)	7.8	0.1	6.5	2.9	0.7	3.7
Inflation						
Headline CPI (period average, percent)	3.3	3.8	3.0	2.2	1.9	0.1
Core CPI (period average, percent)	0.9	2.4	2.1	1.0	1.6	1.7
Saving and investment (percent of GDP)						
Gross domestic investment (excl. stocks)	24.7	26.3	28.5	26.7	25.9	26.9
Private	18.8	20.8	22.8	21.2	20.7	21.2
Public	5.9	5.5	5.7	5.5	5.2	5.7
Gross national saving	28.2	30.0	30.6	25.8	29.9	31.6
Private, including statistical discrepancy	24.5	26.3	27.3	20.3	26.5	27.8
Public	3.8	3.7	3.3	5.5	3.4	3.8
Foreign saving	-3.1	-2.6	0.4	0.6	-3.8	-4.4
Fiscal accounts (percent of GDP) 1/						
Central government budgetary balance	-2.6	-1.7	-2.6	-1.9	-2.5	-2.7
Revenue and grants	18.2	18.9	19.5	19.7	19.1	19.3
Expense and net acquisition of net foreign assets	20.8	20.6	22.1	21.6	21.7	22.0
General government balance 2/	-0.8	-0.6	-1.8	-0.2	-1.8	-2.0
Public sector balance 3/	-1.5	-0.7	-2.8	0.3	-1.7	-1.9
Public sector debt	42.6	41.7	45.4	45.5	45.5	47.5
Monetary accounts (end-period, percent)						
Broad money growth	10.9	15.1	10.4	7.3	4.7	...
Narrow money growth	10.9	8.6	13.0	3.9	1.3	...
Private sector credit growth	12.3	17.0	14.6	9.6	5.0	...
Balance of payments (billions of U.S. dollars)						
Current account balance	10.0	8.9	-1.5	-2.5	14.2	17.2
(Percent of GDP)	3.1	2.6	-0.4	-0.6	3.8	4.4
Exports, f.o.b.	191.6	219.1	225.9	225.4	224.8	219.9
Growth rate (in dollar terms)	27.1	14.3	3.1	-0.2	-0.3	-2.2
Imports, f.o.b.	161.9	202.1	219.9	218.7	200.2	200.3
Growth rate (in dollar terms)	37.0	24.9	8.8	-0.5	-8.5	0.1
Capital and financial account balance 4/	21.3	-7.7	6.7	-2.6	-15.4	-17.2
Overall balance	31.3	1.2	5.3	-5.0	-1.2	0.0
Gross official reserves (end-year)	191.7	206.3	205.7	190.3	180.2	180.3
(In months of following year's imports)	11.4	11.3	11.3	11.4	10.8	10.0
(In percent of short-term debt) 5/	328.1	356.7	300.4	257.9	263.7	268.9
Exchange rate (baht/U.S. dollar)	31.7	30.5	31.1	30.7	32.5	...
NEER appreciation (annual average)	4.5	-1.6	-0.5	5.5	-3.0	...
REER appreciation (annual average)	5.3	-0.8	0.5	5.9	-3.2	...
External debt						
(In percent of GDP)	31.5	30.2	35.7	36.7	37.7	37.9
(In billions of U.S. dollars)	100.6	104.3	130.7	141.9	140.9	149.2
Public sector 6/	12.7	16.2	26.2	25.2	26.2	23.7
Private sector	87.9	88.1	104.5	116.7	114.7	125.5
Debt service ratio 7/	4.7	3.5	4.2	4.0	4.4	4.3
Memorandum items:						
Nominal GDP (In billions of baht)	10,105	10,540	11,375	11,899	12,141	12,718
(In billions U.S. dollars)	318.9	345.7	366.0	387.3	373.8	393.6

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

1/ On a fiscal year basis. The fiscal year ends on September 30.
2/ Includes budgetary central government, extrabudgetary funds, and local governments.
3/ Includes general government and nonfinancial public enterprises.
4/ Includes errors and omissions.
5/ With remaining maturity of one year or less.
6/ Excludes debt of state enterprises.
7/ Percent of exports of goods and services.

Statement by Ms. Pornvipa Tangcharoenmonkong, Alternate Executive Director
March 30, 2015

1. On behalf of the Thai authorities, I would like to thank the staff for the extensive discussions during the Article IV Consultation and the comprehensive staff report. This year discussions focused on macroeconomic policies to expedite growth, measures to preserve economic and financial stability, and approaches to unlock structural bottlenecks to lift up potential growth. The authorities are in broad agreement with the thrust of staff assessment and would like to provide further details of recent macroeconomic developments and policy efforts to address key challenges.

Updates on the Thai Economy and Near-Term Outlook

2. Last year has witnessed a critical transition for Thailand. The economy had weathered through a period of turbulences on both domestic and external fronts. The economic expansion recorded only 0.7 percent growth in 2014, owing partly to domestic political situations that hampered private sector investment and consumption. External environment became less favorable for exports and the uncertainty in the global economies as well as policy responses also added to the volatility in capital movements.

3. Despite strong headwinds and disappointing growth in 2014, the authorities' latest growth projection for the Thai economy is at 3.8 percent[1] for 2015. While this projection in part reflects a low base, it is anticipated that growth will be driven by the gradual recovery of domestic demand. Given strong economic fundamentals and resilient financial system, the authorities will have policy space to provide needed tailwind for the recovery. Declining fuel prices should partly benefit domestic consumption, while the increased capital spending by government in infrastructure projects and other stimulus packages should gradually crowd in private investment. On the external front, improved prospects of advanced economies and further regional economic integration should also offer better opportunities for Thailand's export sector.

4. My authorities view that the risks to growth outlook have now shifted slightly to the downside, from the slower-than-expected domestic spending and heightened uncertainty from policy divergence among major economies. Domestic spending, especially the government investment, can also face some delay from the fiscal reform process. It is also noted that the country has been experiencing signs of deteriorating competitiveness due to changes in global trade structure, lagging technological developments and innovations, and stagnant labor productivity.

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[1] Bank of Thailand's projection as of March 2015

Monetary Policy

5. At the latest meeting of the Monetary Policy Committee (MPC) on 11 March 2015, monetary policy was eased further in order to lend additional support to the economy as the recovery has been more sluggish than anticipated. Although lower policy rate may help shore up private sector's confidence, the steadfast implementation of public investment as part of the planned fiscal stimulus packages is still deemed instrumental to jump start a sustainable growth momentum. On inflation, we see a low probability of deflationary pressure going forward as the declining headline inflation is expected to be transitory due to the lower oil and commodity prices. Core inflation remained stable, reflecting that most of the disinflationary pressure is rather supply driven.

6. We welcome the staff's position in supporting the recent change in inflation targeting framework of the Bank of Thailand (BOT) by turning from core to headline inflation at the beginning of this year with an annual average target of 2.5 ± 1.5 percent. Such a change is aimed to strengthen policy communication and enhance effectiveness of monetary policy in anchoring long term inflation expectation. The headline inflation should better reflect the cost of living and therefore can be better understood by the general public, thus enhancing the communication effectiveness and policy credibility. Furthermore, the annual average calculation should help provide sufficient flexibility to respond to volatile changes in price levels while the BOT stands ready to take appropriate actions, including proactive communication via open letter and other channels, should the deviation from target is anticipated.

7. We take note of the staff's assessment that divergent policy paths in major economies and the ensuing global financial market volatility could be the main source of risks in the near term. Against this backdrop, we remain committed to allow the currency to move flexibly to absorb the impact of external shocks, while the adequate level of international reserves will serve as additional buffer to excessive currency fluctuations. We also welcome the staff's notion that judicious currency intervention should help curb excessive volatility that could be disruptive to financial market conditions and the real sector.

Fiscal Policy

8. The Thai authorities view that accommodative fiscal policy, while committing to fiscal prudence, should be the key engine for reinvigorating economic growth in the near term and elevate the country's potential in the long run. While there are delays in government budget processes on the account of on-going reforms to enhance transparency and good governance of procurement process, the government has stepped up efforts to expedite budget disbursement and pushed forth necessary infrastructure projects in order to crowd in private investment and remove productivity constraints.

9. The Public Finance Act, a fiscal responsibility legislation, is being finalized with an aim to promote more transparent budget process and prudent medium-term fiscal framework. The formulation of fiscal policy will ultimately be guided by the principles of efficiency, effectiveness, transparency, and accountability. In this connection, the conduct of fiscal policy in the forthcoming period should ensure prudent management of public resources while effectively serving the purpose of inducing the sustained and inclusive economic growth.

10. We recognize that improving tax administration should help increase fiscal space necessary for achieving the medium-term fiscal sustainability goals and overcoming country's long-term structural challenges. In view of revenue mobilization, the authorities will press ahead with plans to improve tax compliance and public finance management, as well as to broaden revenue bases. To compensate for decrease in tax revenue partly due to reduction of personal and corporate income tax rates, the authorities consider it plausible to gradually increase VAT rate from the current 7 percent to 10 percent if economic recovery is strongly entrenched. On the expenditure side, the authorities are exploring options to reduce tax expenditures through scaling down exemptions, while alleviating the burden of most vulnerable groups with direct transfers and targeted subsidies. The authorities also take advantage of low oil prices to reform the domestic fuel pricing structure and energy subsidy programs. On this note, the authorities also appreciate the Fund's technical assistance on tax administration and trust that it will be helpful in formulating strategy to enhance fiscal management, transparency, and accountability.

Financial Sector and Financial Stability

11. We welcome the staff's acknowledgement of Thailand's financial sector soundness and the well-safeguarded financial stability. Commercial banks remain highly capitalized, liquidity is ample, and NPL ratio remains low. The higher reliance on wholesale funding of commercial banks has been mostly due to the rise in wholesale deposits from corporates that are considered more stable than those from wholesale borrowing. In addition, risks from household debt have moderated somewhat from the slowdown of credit growth in recent period. Under this circumstance, the timely implementation of Basel III and other prudential regulations in accordance with international regulatory standards also helps further reinforce financial stability. Nonetheless, my authorities remain vigilant and continue to pursue effort to enhance financial surveillance mechanism. Among others are the regular joint meetings between the Monetary Policy Committee and Financial Institutions Policy Committee and the formation of internal committees for financial stability.

12. The expansion of the BOT's mandate to supervise Specialized Financial Institutions (SFIs) should help prevent potential risks emerging from greater inter-linkages between commercial banks and non-bank financial institutions. In doing so, it is

important to strike a right balance between allowing the SFIs to serve their legislative mandate, while staying commercially viable under more stringent regulatory standards. In this regard, the Fund technical assistance on SFIs reform provides valuable inputs for the authorities to contemplate appropriate SFIs governance and regulatory reform agenda.

13. We take note of staff's concern over the rapid expansion of saving cooperatives' share in financial system that might add risks to financial vulnerability. Nonetheless, loans of saving cooperatives have relatively been restrictive in nature as credit would be mostly extended to shareholders and the loan installments are tied to monthly salary. The current NPL ratio stands at a very low level (less than 0.5% of total loans in 2013). They are also exploring ways to strengthen their operational and supervisory framework towards international standards.

14. The recent success of ASEAN nations in reaching agreement on Qualified ASEAN Bank is a key milestone for advancing financial integration to support the broader agenda of ASEAN Economic Community. This will gradually liberalize financial services as well as facilitate greater regional trade and investment, thus mutually benefit consumers and better mobilize regional resources to finance economic activities. Moreover, the achievement under the BOT's second phase of Financial Sector Master Plan (2010-2014) has helped enhance the efficiency and soundness of Thai banking system in terms of preparing them for greater competition, developing financial architecture conducive to growth, and strengthening supervisory capacity. Meanwhile, the third phase of Financial Sector Master Plan (2015-2019) also aims to further promote connectivity and financial inclusion, enter the new era of digital banking, as well as preserve financial system stability.

Structural Reforms

15. We are in agreement with the staff that implementing much-needed structural reforms in a well prioritized manner is crucial for removing supply-side bottlenecks and enhancing the potential growth. In fact, the current government has spearheaded the reform plan not only to prepare the country for the long-term challenges but also to improve good governance of public sector entities.

16. On the large-scale investment projects, the authorities have laid out multi-year plans to upgrade infrastructure and quality of logistics services to facilitate economic growth in the long run. Better transportation networks will go a long way in promoting intra-regional trade and connectivity. While pioneered by the government, these projects are expected to significantly induce private sector to become a main driving force for next phases of domestic investment in the period ahead.

17. The reform of state-owned enterprises (SOEs) also ranks high on policy priorities. The State Enterprise Policy Commission has been appointed to provide policy guidance and monitor the ongoing SOEs reform agenda. It also has mandate to make necessary

decisions to strengthen SOEs' financial positions to limit future fiscal burdens and restructure the organization as deemed appropriate. The key objective is to enhance efficiency and high degree of transparency of SOEs' operations with improved corporate governance to prevent political interference. To this end, the State Enterprise Policy Commission recently approved in principle the establishment of a holding company to be an independent regulator to oversee listed SOEs on the Stock Exchange of Thailand such as the Thai Airways International Plc. and the Airports of Thailand Plc.

18. Recognizing the wind of change in global trade pattern, Thailand is gearing towards a technological upgrade to high-value added production. The Board of Investment has launched new 7-year investment strategies with a focus on promoting high value investments and those with a positive impact on society and the environment. These include high-tech and creative industries, service industries that support the development of a digital economy, and industries that utilize local resources. In parallel, the government also adopts measures to support financing to small and medium enterprises (SMEs) through the SFIs, together with promoting the coordination among entrepreneurs, academia, and financial institutions.

19. One of the key structural challenges is labor supply, which has started to decline due to the trend of aging population. Research shows that increasing labor supply by extending retirement age and reliance on foreign labor is neither sufficient nor sustainable. The government, working in close collaborations with private sector, continues its effort on development of skills in the labor force that match the need of industry. The alignment of hiring needs, education in relevant skills, and the right incentive structure is the most important requirement to unlock Thailand's productivity limit.

Final Remarks

20. Despite economic headwinds, Thailand's strong fundamentals, political clarity, and unique cultural identity have helped the country to navigate through difficult times and resuscitate confidence from both domestic and international stakeholders. Going forward, preserving the macroeconomic and financial stability amidst global uncertainty remains top priorities. On the back of ample space for short-term policy mix and various structural changes on supply-side underway, combined with close cooperation between public and private sector, promising opportunities remain for Thailand to achieve sustainable long-term growth.