INTERNATIONAL MONETARY FUND

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THAILAND

June 2016

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THAILAND

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with Thailand, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 23, 2016 consideration of the staff report that concluded the Article IV consultation with Thailand.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 23, 2016, following discussions that ended on March 18, 2016, with the officials of Thailand on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 4, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Thailand.

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

Selected Issues

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 16/264
FOR IMMEDIATE RELEASE
June 7, 2016

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

IMF Executive Board Concludes 2016 Article IV Consultation with Thailand

On May 23, 2016, the Executive Board of the International Monetary Fund (IMF) Concluded the Article IV Consultation[1] with Thailand.

The Thai economy recovered in 2015 after a slowdown induced by political uncertainty. Output grew by 2.8 percent in 2015 supported by accommodative monetary policy and a boost in public spending. The current account surplus rose to 8 percent of GDP as a result of improving terms of trade, contracting imports associated with tepid domestic demand, and soaring tourism. Headline inflation moved into negative territory, and, at -0.9 percent, significantly undershoot the Bank of Thailand's new inflation target of 2.5±1.5 percent. Lower inflation mostly reflected the fall in energy prices, but core inflation and inflation expectations also declined in 2015. Financial markets weathered well repeated bouts of global volatility and the financial system remained robust.

The recovery is expected to continue, but at a modest pace and subject to downside risks. Growth is projected to improve to 3 percent in 2016 and 3.2 percent in 2017, still below most other ASEAN economies and Thailand's historical record. Headline inflation is expected to recover as the effects of lower oil prices gradually abate, but will likely undershoot the central bank's target again this year, as inflationary pressures continue to be depressed by sluggish demand. Headwinds may arise from further weakness in the international environment as well as from political uncertainty and structural bottlenecks that weigh on potential growth.

Strong fundamentals enhance Thailand's resilience in the face of external and internal challenges. High international reserves, a sizable current account surplus, and relatively limited foreign debt helped cushion shocks from the weak and volatile global environment. Moderate public debt, a wide investor base, a well-capitalized banking sector, and strong policymaking

[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.

institutions provide additional layers of protection. Moreover, policy space can be used to maneuver if downside risks were to materialize.

Executive Board Assessment[2]

Executive Directors recognized the resilience of the Thai economy in the face of external and internal challenges and the strength of its policy making institutions. Directors viewed Thailand's external position as strong, underpinned by high international reserves and low foreign debt. The current account surplus is expected to narrow over time as domestic demand strengthens and terms-of-trade shocks reverse. Directors noted, however, that the ongoing recovery is modest and subject to downside risks while core inflation remains low due to weak demand. Against this backdrop, Directors encouraged the authorities to secure a strong and lasting recovery through an expansionary policy mix, steps to safeguard financial stability and structural reforms to boost growth potential.

Directors welcomed the expansionary fiscal stance which should be placed within a Medium Term Fiscal Framework (MTFF). They encouraged the authorities to rapidly implement their investment plan with due attention to governance and transparency. Directors also stressed that short-term stimulus measures to support farm income should make way for social safety nets that are better aligned with structural challenges. They underscored that the MTFF should aim to increase tax revenues over the medium term and prepare for the fiscal implications of rapid population aging. Directors commended the high priority attached to enacting the fiscal responsibility law and the ongoing review of the health care system to address sustainability, adequacy, fairness, and efficiency.

Directors noted that the current accommodative monetary policy stance is appropriate. Going forward, while there is room for further easing, this should balance support for the economy against financial stability concerns and the need to preserve policy space. Directors commended the high standard of transparency achieved by Thailand's monetary policy framework and suggested that communicating a determination to steer inflation toward the medium-term target would enhance the effectiveness of monetary policy transmission. Directors recommended maintaining exchange rate flexibility as the first line of defense against external shocks.

Directors supported tighter macroprudential policies to maintain financial stability in a low interest rate environment. They also supported efforts to strengthen the supervision of specialized financial institutions, foster coordination among regulators, upgrade the macroprudential policy framework, and improve crisis prevention and resolution mechanisms. Directors emphasized close monitoring of potential systemic risks from interconnected financial conglomerates and high household debt.

Directors called for concerted action to lift productivity and potential growth. They underscored the need to promote structural transformation, improve the quality of education and vocational

[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.

training, and mitigate the impact of population aging by reforming pensions. Enhancing public infrastructure investment could help crowd in private investment and boost economic potential, while advancing trade integration could catalyze structural reforms and enhance competitiveness. Directors welcomed the authorities' plan to assess the merits of joining the Trans-Pacific Partnership Agreement.

Thailand: Selected Economic Indicators, 2011–16

	2011	2012	2013	2014	Est. 2015	Proj. 2016
Real GDP growth (percent) 1/	0.8	7.2	2.7	0.8	2.8	3.0
Consumption	2.1	6.7	1.4	0.9	2.1	2.4
Gross fixed investment	4.9	10.7	-1.0	-2.4	4.7	5.6
Inflation						
Headline CPI (end period, percent)	3.5	3.6	1.7	0.6	-0.9	1.6
Headline CPI (period average, percent)	3.8	3.0	2.2	1.9	-0.9	0.2
Core CPI (end period, percent)	2.7	1.8	0.9	1.7	0.7	0.9
Core CPI (period average, percent)	2.4	2.1	1.0	1.6	1.1	0.7
Saving and investment (percent of GDP)						
Gross domestic investment (excl. stocks)	25.9	27.0	25.4	24.8	24.9	25.3
Private	20.1	21.1	19.7	19.6	18.5	18.7
Public	5.7	5.9	5.7	5.2	6.4	6.6
Gross national saving	29.2	27.7	26.3	27.9	32.1	33.3
Private, including statistical discrepancy	23.9	23.1	20.0	22.3	25.6	26.9
Public	5.3	4.6	6.3	5.6	6.5	6.5
Foreign saving	-2.4	0.4	1.2	-3.8	-8.0	-7.8
Fiscal accounts (percent of GDP) 2/						
Central government budgetary balance	-1.6	-2.3	-1.8	-2.3	-1.7	-2.4
Revenue and grants	17.7	18.0	18.5	17.7	18.5	18.1
Expense and net acquisition of non-financial assets	19.3	20.3	20.3	20.0	20.2	20.5
Net acquisition of non-financial assets	1.4	1.6	1.8	1.3	1.8	1.9
General government balance 3/	0.0	-0.9	0.4	-0.8	0.3	-0.4
Non-financial public enterprise balance	-0.1	-0.9	0.5	0.8	0.3	0.1
Public sector balance 4/	-0.1	-1.8	0.8	0.0	0.5	-0.3
Public sector debt 4/	39.1	41.9	42.2	43.6	43.1	43.7
Monetary accounts (end-period, percent)						
Broad money growth	15.1	10.4	7.3	4.7	4.4	4.9
Narrow money growth	8.6	13.0	3.9	1.3	5.7	5.4
Credit to the private sector by depository corporations	17.0	14.6	9.6	5.1	4.9	4.9
Balance of payments (billions of U.S. dollars)						
Current account balance	8.9	-1.5	-5.2	15.4	31.6	32.0
(Percent of GDP)	2.4	-0.4	-1.2	3.8	8.0	7.8
Exports, f.o.b.	219.1	225.7	225.4	224.8	212.1	204.8
Growth rate (in dollar terms)	14.3	3.0	-0.1	-0.3	-5.6	-3.5
Growth rate (volume terms)	8.3	2.4	0.3	0.7	-3.4	-2.4
Imports, f.o.b.	202.1	219.1	218.7	200.2	177.5	172.8
Growth rate (in dollar terms)	24.9	8.4	-0.1	-8.5	-11.3	-2.7
Growth rate (volume terms)	13.4	6.7	2.0	-6.8	-0.6	0.1
Capital and financial account balance 5/	-7.7	6.8	0.1	-16.6	-25.7	-32.0
Overall balance	1.2	5.3	-5.0	-1.2	5.9	0.0
Gross official reserves (end-year)	206.3	205.7	190.2	180.2	168.2	168.2
(Months of following year's imports)	11.3	11.3	11.4	12.2	11.7	10.9
(In percent of short-term debt) 6/	370.4	312.2	270.1	280.1	305.4	268.0
Forward position of BOT (end year)	-31.2	-24.1	-23.0	-23.1	-11.7	-11.7
Exchange rate (baht/U.S. dollar)	30.5	31.1	30.7	32.5	36.0	...
NEER appreciation (annual average)	-1.6	-0.5	5.5	-3.0	4.4	...
REER appreciation (annual average)	-0.8	0.5	5.9	-3.2	2.5	...
External debt						
(In percent of GDP)	28.2	32.9	33.8	34.7	32.7	32.3
(In billions of U.S. dollars)	104.3	130.7	141.9	140.1	129.5	132.5
Public sector 7/	16.2	26.2	25.2	25.3	20.6	21.2
Private sector	88.1	104.5	116.7	114.9	108.9	111.3
Medium- and long-term	42.3	50.5	56.1	59.6	58.0	59.4
Short-term (including portfolio flows)	45.8	54.0	60.6	55.2	50.8	52.0
Debt service ratio 8/	3.5	4.2	4.0	4.9	6.1	5.1
Memorandum items:						
Nominal GDP (In billions of baht)	11,300	12,349	12,901	13,132	13,537	14,072
(In billions U.S. dollars)	370.6	397.3	419.9	404.3	395.3	409.7

Sources: Data provided by the Thai authorities; CEIC Data Co. Ltd.; and IMF staff estimates and projections.
1/ This series reflects the new GDP data based on chain volume measure methodology, which were introduced by the Thai authorities in May 2015.
2/ On a fiscal year basis. The fiscal year ends on September 30.
3/ Includes budgetary central government, extrabudgetary funds, and local governments.
4/ Includes general government and nonfinancial public enterprises. Public sector debt includes guaranteed debt of financial public enterprises as well.
5/ Includes errors and omissions.
6/ With remaining maturity of one year or less.
7/ Excludes debt of state enterprises.
8/ Percent of exports of goods and services.

INTERNATIONAL MONETARY FUND

THAILAND

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

May 4, 2016

KEY ISSUES

The Thai economy is recovering, but the outlook is subdued and subject to downside risks. GDP growth is projected to pickup up slightly to 3.0 percent in 2016 and 3.2 percent in 2017, below most other ASEAN economies and Thailand's own historical record. Weak domestic and external demand, coupled with volatile global financial conditions, will remain headwinds, while structural bottlenecks weigh on potential growth. Inflation is expected to remain low in the foreseeable future.

Strong fundamentals provide room for maneuver to lift economic prospects in both the near and the long run. Staff advocated a three-pronged approach to anchor a long-lasting recovery, including: implementing an expansionary macroeconomic policy mix; safeguarding financial stability; and boosting potential growth.

- *The expansionary fiscal stance is welcome and should be placed within a medium-term fiscal framework (MTFF)*. The government's investment plans should be implemented without delay, with due attention to good governance and transparency. Short-term stimulus measures should give way to social safety nets better aligned with structural challenges. The MTFF should underpin a strategy to increase tax revenues over time and prepare for the fiscal costs of population aging.
- *There is scope for further monetary easing*. The lingering negative output gap, negative headline inflation through Q1 2016, falling inflation expectations, and downside risks warrant additional monetary accommodation. Exchange rate flexibility should remain the first line of defense against external shocks, while judicious intervention can be used to mitigate excessive volatility.
- *Tighter macroprudential policies would safeguard financial stability*. Ongoing efforts to improve the supervision of Specialized Financial Institutions (SFIs), foster coordination among financial sector regulators, upgrade the macroprudential toolkit, and improve crisis prevention and resolution would further strengthen the financial stability framework. The BOT should also establish a contingency plan for a tail event of household defaults, deleveraging, and output contraction.
- *Escaping the middle-income trap requires concerted action on several fronts*, including improving education quality and vocational training, augmenting labor supply by raising the effective retirement age and facilitating migration, promoting structural transformation, and advancing trade integration. Enhancing public investment execution and management would also help crowd in private investment and boost potential growth above the current estimate of 3 percent.

Approved By
Hoe Ee Khor and Catherine Pattillo

Discussions took place in Bangkok during March 3–18, 2016. The staff comprised Ms. Corbacho (head), Messrs. Klyuev, Yoneyama, Yoon (all APD), and Mr. Kashiwase (OAP). Mr. Khor (APD) participated in policy discussions. Ms. Tangcharoenmonkong (OED) accompanied the mission. Messrs. Garcia Morales and Dodzin, Ms. Dao (all APD), and Mr. Zhang (RES) provided support from HQ. Mr. Landicho (APD) coordinated the production of the report.

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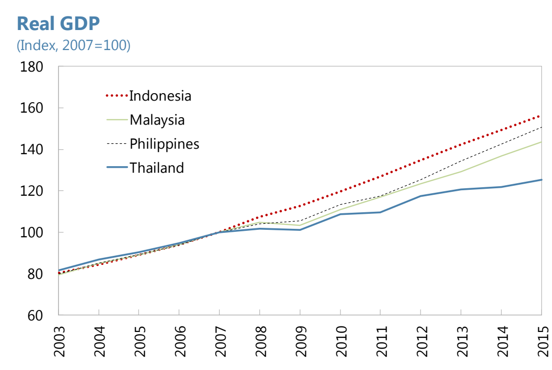
CONTEXT

1. Thailand remains resilient in the face of external and internal challenges. A flexible exchange rate, high international reserves, and relatively low foreign debt provide buffers against external shocks. Moderate public debt, a wide investor base, well-capitalized commercial banks, and strong policymaking institutions are additional layers of protection. As a result, Thailand weathered relatively well repeated episodes of global financial volatility. Moreover, strong fundamentals provide policy space to maneuver if downside risks materialize.

2. However, political uncertainty and structural bottlenecks cloud long-term prospects. Once one of the most dynamic Asian economies, Thailand has trailed regional peers for almost a decade. Political uncertainty has undermined policy planning and implementation, while polarization casts a shadow over the transition to civilian rule. Long-term prospects are also weighed down by structural bottlenecks, including rapid population aging, relatively low education quality and skill sets, and overdue structural transformation. On a positive note, poverty and inequality have consistently declined since the mid-2000s.



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

3. Against a subdued outlook and downside risks, discussions focused on strategies to anchor a long-lasting recovery and lift growth potential. Economic policies were broadly in line with Fund advice in 2015, but macroeconomic stimulus and structural reforms were less ambitious than recommended by staff (Appendix 1). In this consultation, staff advocated a three-pronged approach to: (i) deploy an expansionary macroeconomic policy mix that aligns short- and long-term goals; (ii) safeguard financial stability; and (iii) enhance potential growth.

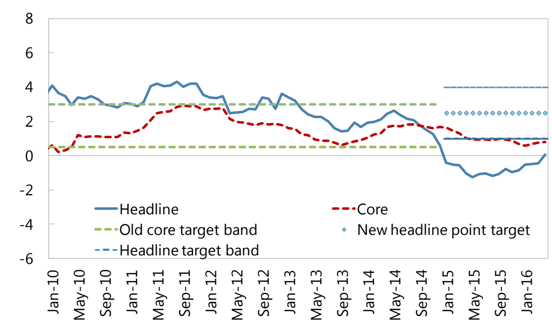
RECENT DEVELOPMENTS

4. The economy recovered in 2015 after a slowdown induced by political uncertainty. Output grew by 2.8 percent—close to its current estimated potential growth rate but still below most other ASEAN economies and Thailand's past record. Growth accelerated in the second half of the year, on the strength of government spending, a pickup in private consumption, and soaring tourism. Net exports made a modest positive contribution to growth, while private investment declined for the third year in a row.

5. Public investment supported economic activity, particularly through community-based infrastructure projects. Notwithstanding higher investment, the cyclically-adjusted public sector primary balance improved from 0.2 to 0.8 percent of GDP in FY2014/15, helped by fuel subsidy reform and the abolition of the rice-pledging scheme. Public sector debt stayed stable at about 43 percent of GDP.

6. **Monetary policy was eased in the face of below-target inflation.** Headline inflation was negative during 2015, undershooting the new inflation target (year-average 2.5±1.5 percent) by 3.4 percentage points. Negative headline inflation was primarily driven by lower energy prices, although core inflation also drifted down to 0.7 percent in December 2015. Inflationary pressures remained low in early 2016. The Bank of Thailand (BOT) cut the policy rate by 50 basis points in the spring of 2015, citing the need to foster the recovery and maintain well-anchored inflation expectations. It has kept the policy rate at 1.5 percent since then to preserve room for maneuver amid global financial volatility.

Headline and Core CPI Inflation
(In percent, year-on-year)



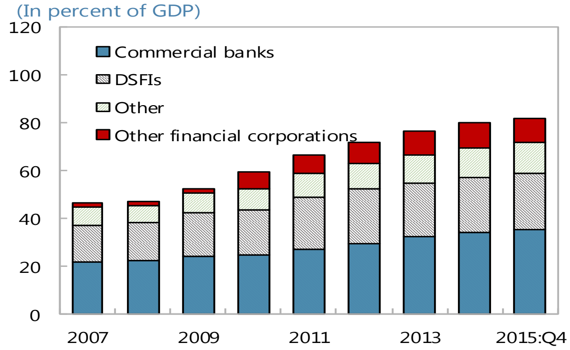
Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

7. **The credit cycle moderated, but household debt reached a historic high.** Credit demand from Small and Medium-Sized Enterprises (SMEs) and households picked up at end-2015, but depository corporations tightened credit standards given concerns over credit quality (except for large firms). As a result, overall credit growth by depository corporations slowed to 4.9 percent (y/y) in December 2015. Non-depository institutions also tightened credit standards for households, but increased credit to nonfinancial corporations mainly through bond and equity finance. Amid weak income growth, the household debt-to-GDP ratio reached 82 percent of GDP in the fourth quarter of 2015, roughly double its level a decade ago. In turn, corporate debt has been broadly stable yet high at 81.1 percent of GDP in the third quarter of 2015.

Thailand: Total Household and Corporate Debt, 2007–15

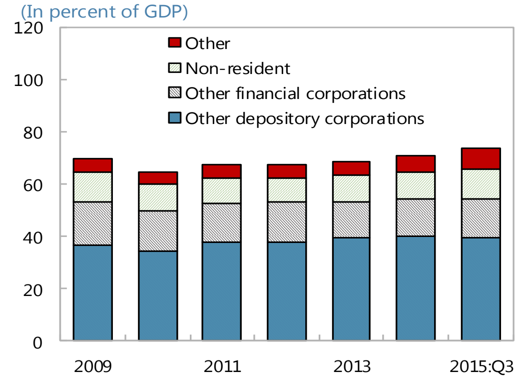
Household debt rose markedly in recent years, while corporate debt remained broadly stable as a percent of GDP.

Household Debt
(In percent of GDP)



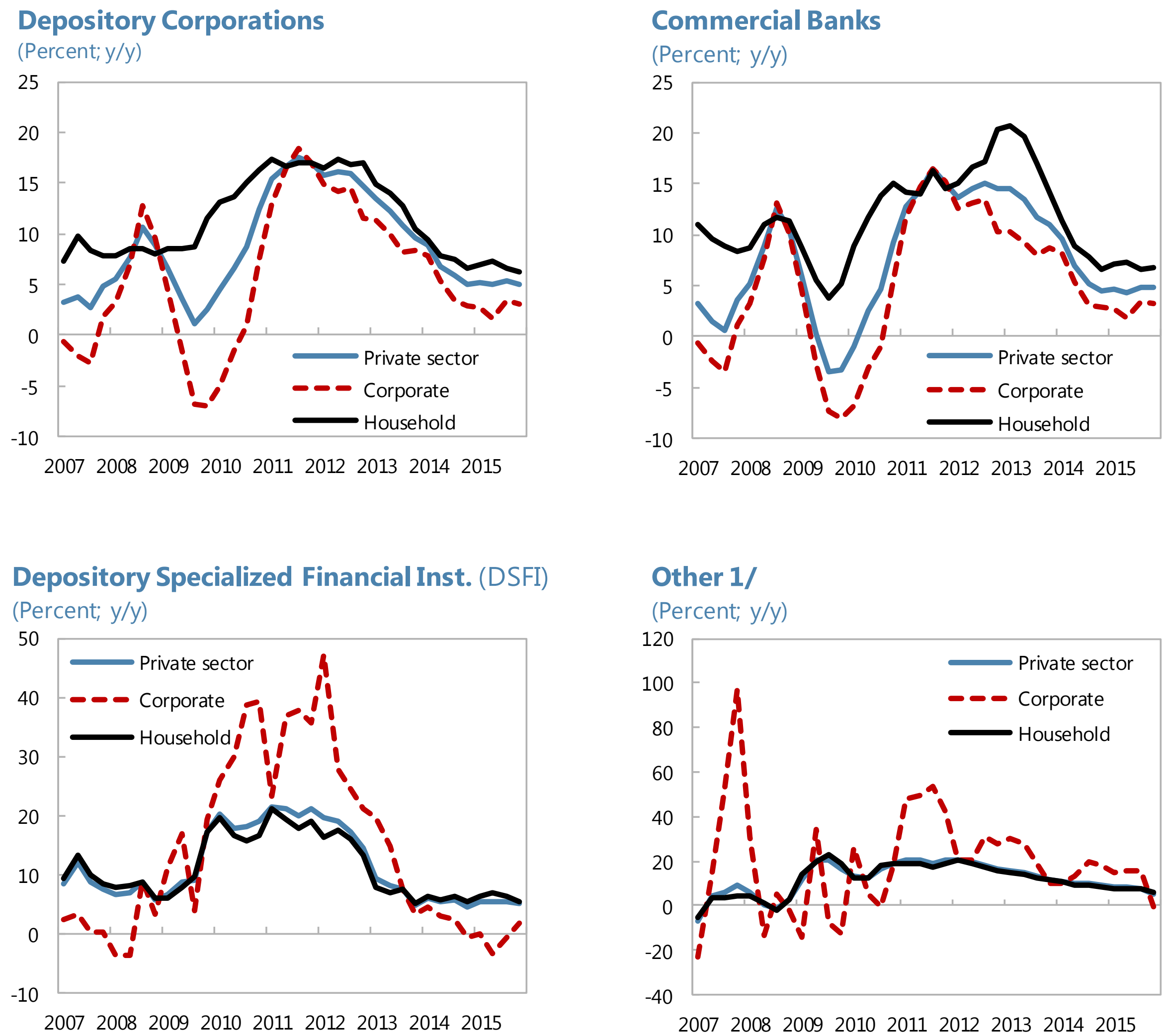
Sources: Bank of Thailand, Datastream; and IMF staff calculations

Thailand: Corporate Debt
(In percent of GDP)



Thailand: Credit Growth to the Private Sector by Depository Corporations, 2007–15

Credit growth by depository corporations has been moderating since 2011. Credit to nonfinancial corporations generally declined faster than credit to households.



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

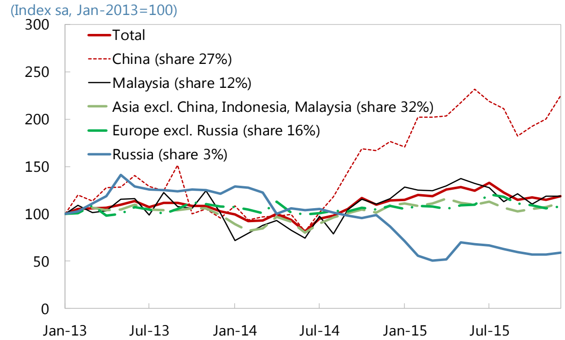
[1] Includes Cooperatives and other depository financial corporations.

8. A strong external position helped cushion repeated episodes of global financial volatility.

- In 2015, the current account surplus climbed to 8 percent of GDP, thanks to improving terms-of-trade, recovering tourism, and contracting imports. In U.S. dollars, goods exports and imports declined by 5.6 percent and 11.3 percent, respectively.

- The capital and financial account registered a deficit of 4.6 percent of GDP in 2015. Portfolio outflows persisted driven by shifts in global risk appetite. The equity market sustained larger outflows than the bond market, in line with regional developments. FDI inflows remained subdued against investors' wait-and-see attitude given political uncertainty and changes to investment promotion regimes. At the same time, residents' outward investment continued aided by the authorities' policies to liberalize outflows and diversify investment opportunities. Capital inflows resumed in early 2016, and reserves increased by US$16 billion in Jan-Mar, more than compensating the US$12 billion loss in 2015.

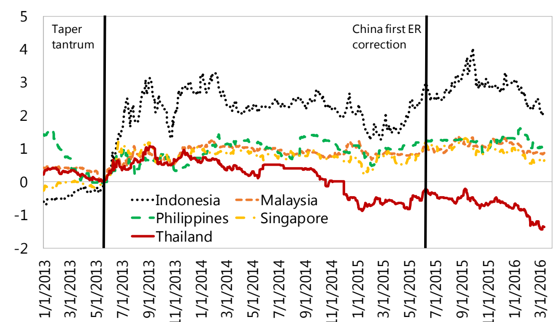
Tourist Arrivals
(Index sa, Jan-2013=100)



Sources: Haver Data Analytics; and IMF staff calculations.

- Thai asset markets were generally less affected by global turbulence than regional peers. In 2015, the baht depreciated by 9 percent against the U.S. dollar, but appreciated slightly in real effective terms. Stock prices declined by 14 percent in 2015, among the worst regional performers, but recuperated much of the lost ground by March 2016. Government bond yields were broadly stable throughout 2015 and trended down in the first quarter of 2016.

Selected Asian Countries: 10Y Government Bond Yields
(In percent, May 22 2013 = 0)



Sources: Bloomberg LP; and IMF staff calculations.

OUTLOOK AND RISKS

9. The modest recovery is expected to continue in 2016 and the medium term. A slight improvement in confidence and lower energy prices foreshadow a pickup in private consumption, though high debt and low agricultural prices will continue to adversely impact rural households. Public investment would remain a key driver, rising over the next few years and crowding in private investment. As a result, GDP growth is projected to rise to 3 percent in 2016 and 3.2 percent in 2017 and then decline toward its 3 percent potential rate over the medium term as the fiscal impulse fades and population aging reduces labor input. The output gap would close gradually by end-2018. Headline inflation is projected to turn positive in 2016, but would take time to converge to the mid-point of the target band. With household and corporate debt at relatively high levels, credit expansion would remain subdued and stay broadly in line with nominal GDP growth, as it did in previous recoveries under political uncertainty. The current account surplus is projected to narrow over the medium term, as positive terms-of-trade shocks partially reverse and imports strengthen on account of higher investment. Tourism would remain a bright spot.

10. Risks to the outlook are tilted to the downside, though strong fundamentals enhance Thailand's resilience (Appendix 2). Rebalancing in China may result in a faster slowdown or larger spillovers. A bout of global financial volatility may accelerate capital outflows and tighten financial conditions. On the domestic front, slower-than-expected execution of infrastructure projects would reduce domestic demand. Further delays in general elections could exacerbate political tensions, denting confidence and investment. Deflation could become entrenched, resulting in higher real interest rates and rising real debt burden. Debt overhang in the household sector could create a stronger-than-expected headwind to consumption and, in an adverse scenario, affect financial institutions' balance sheets. If downside risks materialize, Thailand's strong fundamentals provide policy space to maneuver.

Thailand: Staff's Macroeconomic Framework, 2013–21

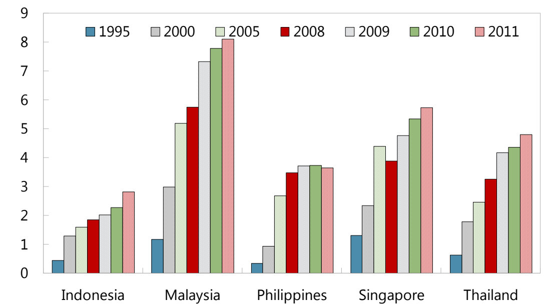
				Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Real GDP growth (percent)	2.7	0.8	2.8	3.0	3.2	3.1	3.1	3.1	3.0
Contribution to growth									
Domestic private demand	0.6	0.3	1.1	1.3	1.7	1.7	1.8	1.7	1.6
Public investment	0.0	-0.4	1.6	0.5	0.6	0.4	0.1	0.0	0.0
Net exports	0.8	3.6	0.3	-0.9	-0.7	-0.6	-0.5	-0.5	-0.5
Output gap (percent of potential output)	-0.1	-2.1	-1.8	-1.4	-0.8	-0.2	0.0	0.0	0.0
Headline CPI inflation (period average, percent)	2.2	1.9	-0.9	0.2	2.0	1.8	2.1	2.3	2.5
Headline CPI inflation (end of period, percent)	1.7	0.6	-0.9	1.6	1.8	2.0	2.2	2.4	2.5
Core inflation (period average, percent)	1.0	1.6	1.1	0.7	1.1	1.6	2.0	2.4	2.5
Core inflation (end of period, percent)	0.9	1.7	0.7	0.9	1.3	1.8	2.2	2.5	2.5
Public sector balance (percent of GDP, fiscal year basis)	0.8	0.0	0.5	-0.3	-0.7	-0.8	-0.7	-0.2	0.0
Total public sector debt (end-period)	42.2	43.6	43.1	43.7	44.5	45.3	45.9	45.9	45.6
Current account balance (percent of GDP)	-1.2	3.8	8.0	7.8	5.9	4.2	2.9	2.1	1.5
Terms of trade (percent change)	1.7	0.8	9.5	1.7	-2.0	-1.2	-1.3	-0.8	-0.7
External debt (percent of GDP)	33.8	34.7	32.7	32.3	31.8	31.6	30.9	30.1	29.3
Credit to the private sector by depository corporations (end of period, percent)	9.6	5.1	4.9	4.9	5.3	5.3	5.3	5.4	5.5

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

Thailand: Spillovers from China

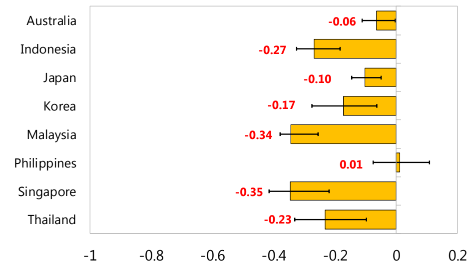
Thailand's trade exposure to China has increased nearly five-fold since the mid-1990s. Staff estimates that a 1 percent shock to China's GDP could reduce Thailand's growth by a ¼ percentage point—in the mid- to upper-range among Asian economies (Selected Issues Paper, Chapter 1).

Value-Added Embedded in China's Domestic Demand
(In percent of GDP)



Sources: OECD, TiVA database; and IMF staff estimates.

Average GDP Respones over the First Year Following a Negative GDP Shock in China



Sources: Cashin, Mohaddes, and Raissi (IMF Working Paper 16/63); and IMF staff estimates.
Note: Shows the percent change in GDP of each country associated with 1 percent permanent decline in China's GDP, together with the 16th and 84th percentile error bands.

11. The authorities broadly shared staff's assessment of the outlook and risks. They concurred that the recovery would be gradual, supported mainly by public spending and tourism. The authorities were slightly more optimistic on short-term prospects and expected core inflation to pick up somewhat faster than in staff's baseline scenario. They also assessed that potential growth could be higher than estimated by staff. In their view, the most significant downside risks stemmed from the external environment, in particular from weak foreign demand, China's economic transition, shifts in global trade, and the slump in commodity prices.

POLICIES FOR A LONG-LASTING RECOVERY

A. Implementing High Quality Fiscal Stimulus

12. The fiscal stance is expected to turn moderately expansionary in coming years. The central government's FY2015/16 budget foresees a deficit of 3 percent of GDP if fully executed, with infrastructure rising to 20 percent of total expenditure. The authorities are also implementing short-term quasi-fiscal measures to support farmers and SMEs, and a multi-year transport infrastructure plan worth 13 percent of GDP to be carried out primarily by state-owned enterprises (SOEs) (Box 1). Staff's baseline scenario assumes a 60 percent execution of the infrastructure plan, in line with historical record. This translates to annual fiscal stimulus by the consolidated public sector of ½ percent of GDP on average between FY2014/15 and FY2017/18.

Thailand: Fiscal Developments, 2012/13-20/21 1/
(In percent of fiscal year GDP, unless otherwise stated)

				Projections					
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
General government 2/									
Revenue	22.3	21.4	22.6	22.3	22.1	22.2	22.3	22.3	22.4
Tax revenue	18.8	17.3	17.9	17.9	17.9	18.0	18.1	18.1	18.2
Non-tax revenue	3.6	4.1	4.7	4.4	4.2	4.2	4.2	4.2	4.2
Expenditure	22.0	22.2	22.3	22.7	22.6	22.7	22.8	22.8	22.9
Net acquisition of non-financial assets	3.4	2.8	3.5	3.6	3.6	3.6	3.6	3.6	3.6
Net lending/borrowing	0.4	-0.8	0.3	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5
Cyclically-adjusted primary balance	1.0	0.3	1.2	0.5	0.4	0.3	0.2	0.2	0.2
Memorandum items:									
Budgetary central government net lending/borrowing	-1.8	-2.3	-1.7	-2.4	-2.4	-2.5	-2.5	-2.5	-2.5
Central government debt-to-GDP ratio	29.4	31.6	31.0	32.2	33.1	34.0	34.8	35.6	36.2
Public sector									
Public sector investment	5.8	5.3	6.0	6.7	7.1	7.4	7.3	7.1	7.1
Overall balance	0.8	0.0	0.5	-0.3	-0.7	-0.8	-0.7	-0.2	0.0
Cyclically-adjusted primary balance	0.3	0.2	0.8	0.4	-0.1	-0.4	-0.4	-0.1	-0.1
Debt-to-GDP ratio	42.2	43.6	43.1	43.7	44.5	45.3	45.9	45.9	45.6

Sources: Thai authorities and IMF staff projections.

1/ Fiscal year runs from October to September. For example, FY2015/16 starts in October 2015 and ends in September 2016.

2/ General government comprises budgetary central government, extrabudgetary and social security funds and local authorities.

13. Staff supported the expansionary fiscal stance, in particular through infrastructure investment, which is consistent with debt sustainability. Upgrading infrastructure would provide multi-year stimulus to domestic demand, crowd in private investment, and help close the lingering negative output gap. It would also help narrow the current account gap and enhance potential growth.[1] On short-term stimulus, staff acknowledged the need for temporary relief to farmers affected by low commodity prices and drought conditions. However, staff noted these measures may exacerbate contingent liabilities from SFIs and provide incentives to remain in the large, low-productivity agricultural sector. Going forward, staff recommended developing social safety nets better aligned with structural challenges, including on-budget cash transfers for poor households and skill-upgrading programs to facilitate entry into higher productivity sectors. The authorities should also disclose the cost of quasi-fiscal measures and ensure timely compensation to SFIs.

14. The success of the investment program will depend on its effective management and implementation. Staff welcomed the authorities' plan to restructure transport SOEs and encouraged a review of tariff setting and compensation agreements of public sector obligations to ensure financial sustainability, contain contingent liabilities, and increase transparency. Staff also

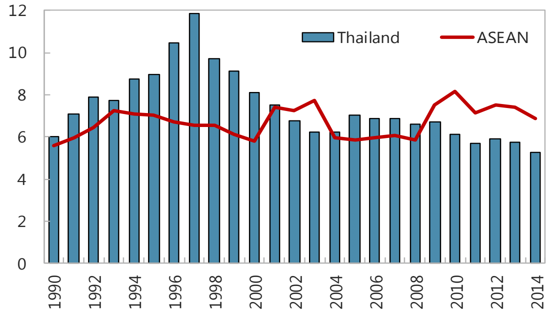
[1] The investment plan would be consistent with debt sustainability even assuming full execution and no payoff in growth. Considering a fiscal multiplier of 0.9, estimated for Thailand integrating the two-way linkages between fiscal policy and economic activity, public debt would peak at 49 percent of GDP in 2019, still below the government's ceiling of 60 percent of GDP (Appendix 3). If domestic demand were to recover much faster than in the baseline scenario, tax reform and public expenditure prioritization should create space for the infrastructure plan.

highlighted the need to formulate a comprehensive national investment plan, expand the budget coverage, enhance the transparency of investment execution, and improve project selection.

Thailand: Public Investment Trends and Processes

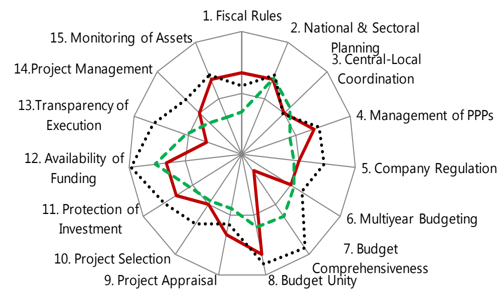
Investment in Thailand has lagged regional levels, allowing peers to catch up in public capital stock and competitiveness. Thailand scores relatively well on investment processes, though there is scope to strengthen planning and budgeting, expand budget coverage, and enhance transparency of execution. (IMF, "Public Investment Management Assessment," forthcoming).

Public Investment
(In percent of GDP)



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

Strength of Public Investment Management by Institution
(PIMA Scores, highest =10)



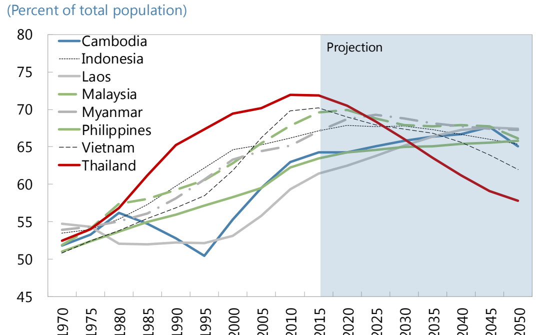
Source: IMF staff calculations.

15. An MTFF would further strengthen policy formulation and transparency. Staff advised that the fiscal responsibility law focus on procedural rules and mandate the formulation of an MTFF, comprising a fiscal policy statement with multi-year macro-fiscal forecasts; a fiscal risk statement; and a debt sustainability analysis. The MTFF should specify indicative rolling ceilings for the deficit ratio consistent with the debt ceiling of 60 percent of GDP endorsed by the Cabinet, which continues to be appropriate.

16. The MTFF should underpin a strategy to build fiscal buffers over time and prepare for the fiscal implications of the aging population. Staff welcomed the recent introduction of the inheritance tax and the forthcoming review of the tax system, including property taxes and the personal income tax. Staff recommended a gradual return of the VAT rate to 10 percent, from the current 7 percent, once growth is on sound footing and the output gap closes, while mitigating the impact on vulnerable groups. A single-rate structure should be maintained to preserve good policy design and ease of compliance.

17. A reform of social security should strengthen long-term sustainability, equity, and efficiency. Thailand has made considerable strides in expanding the social safety net, with universal health coverage since 2002. However, the decline in working-age population will have implications for social security and potential growth that

Working Age Population
(Percent of total population)



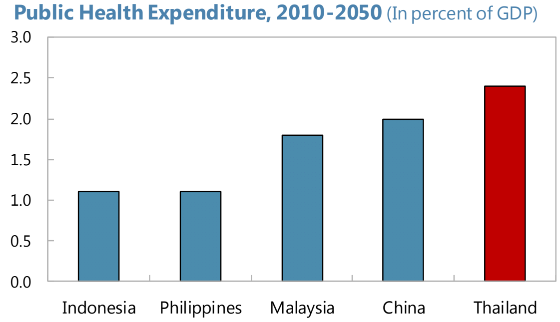
Sources: UN; and IMF staff calculations.

require immediate attention. Inequity in benefits is also exacerbated by widespread informality, accounting for over half of employment. In this context, staff advised a comprehensive review of the fragmented health and pension schemes (Selected Issues Paper, Chapter 2). Parametric reforms may be needed with due attention to equity, sustainability, and efficiency.

Selected Asian Countries: Public Health and Pension Expenditures, 2010–50

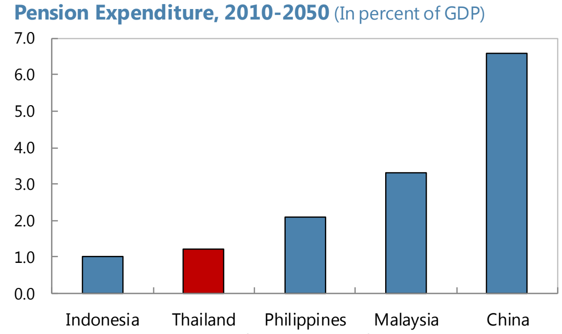
Over the coming decades, Thailand faces important pressures from public health and pension expenditures stemming from the rapid aging of its population.

Selected Asian Countries: Projected Increase in Public Health Expenditure, 2010-2050 (In percent of GDP)



Source: IMF (2010) *Macro-fiscal Implications of Health Care Reforms in Advanced and Emerging Economies.*

Selected Asian Countries: Projected Increase in Public Pension Expenditure, 2010-2050 (In percent of GDP)



Source: IMF (2012) *The Challenge of Public Pension Reforms in Advanced and Emerging Market Economies.*

Thailand: Options for Reforms in the Public Health and Pension Systems[1]

	Health	Pension
Overall review	Undertake a comprehensive review of the fragmented schemes (major schemes include those for civil servants, pensioners, and their dependents; formal private sector employees; and others including informal workers such as farmers). Formulate a long-term cost projection across the schemes.	Undertake a comprehensive review of the fragmented schemes (major schemes include those for civil servants, formal private sector employees, and informal workers such as farmers). Formulate long-term cost projections across all schemes.
Institutional setup	Establish a central unit within the Ministry of Finance (MOF) to monitor public health expenditures across all schemes.	Establish a central unit within MOF to monitor public pension expenditures across all schemes.
Efficiency	Enhance coordination across the different schemes, e.g. collective purchase of medicines and medical devices. Minimize the fee-for-service payment that tends to be prone to overutilization. Increase the use of the capitation payment and close-ended budget.	Enhance coordination across the different schemes.
Long-term sustainability	Review contributions with due consideration to social equity (under the private sector scheme, the ceiling on assessed contribution has been kept at B15,000/month since 1991 while the minimum wage has increased from B100/day to B300/day). Consider alternative revenue sources, including an increase of VAT, which is less distortionary and more growth friendly.	Extend pensionable age and review pension benefits/contributions with due consideration to social equity. Review parameters so that pensions adequately respond to macroeconomic and demographic changes. Consider alternative revenue sources, including an increase of VAT, which is less distortionary and more growth friendly.

[1]These options are not meant to be comprehensive and should be revisited once an overall review of the whole systems is completed.

18. The authorities generally concurred with staff's recommendations.

- They emphasized that public spending would play a crucial role in supporting growth, shoring up confidence, and crowding in private investment. They stressed their commitment to execute the infrastructure plan, while noting challenges arising from the complexities of the mega projects. They stated that the 12th National Economic and Social Development Plan (NESDP, 2017–21) would contain a comprehensive investment plan and agreed that SOE reform should strengthen governance and investment management. On short-term stimulus measures, the authorities clarified that technical assistance on alternative crops was provided in parallel with the stimulus loan program to encourage innovation and structural transformation.

- The authorities also reiterated the high priority attached to enacting the fiscal responsibility law, currently under consideration of the Council of State. They agreed on the need to increase tax revenues over time, with their priorities set on broadening the tax base by streamlining tax expenditures and enhancing collection efficiency through a national e-payment system. On social security, the authorities highlighted that the ongoing review of the health system addressed sustainability, adequacy, fairness and efficiency considerations. They also noted that the National Savings Fund, established in 2015 as a voluntary saving scheme for informal workers, would help support retirees.

B. Easing Monetary Policy

19. Staff argued there is scope for further monetary easing. In staff's view, the lingering negative output gap, negative headline inflation through Q1 2016, low core inflation, falling inflation expectations, and downside risks warranted additional monetary accommodation. Without further easing, inflation is expected to remain below target for several years. Tighter macroprudential policies can safeguard financial stability in a low interest-rate environment, particularly in the highly indebted household sector (see below).

20. As policy rates approach the zero lower bound, anchoring expectations through clear and credible communication is critical. Protracted slides in oil prices or sizable negative demand shocks could entrench deflationary pressures and de-anchor inflation expectations, depressing demand by raising real interest rates and increasing the real debt burden (Appendix 4). In such a scenario, policy actions supported by clear communication should decisively shape expectations of low policy rates for an appropriately long period of time, to help strengthen the response of lending rates and the exchange rate and improve monetary policy transmission.

21. Thailand's monetary policy framework has achieved a high standard of transparency. Staff welcomed the recent adoption of an explicit medium-term inflation target and suggested that it feature more prominently in BOT messages. Staff also noted that conveying forward-looking monetary policy decisions would be facilitated by targeting monthly year-on-year (not year-average) inflation, in line with global practice.

22. Exchange rate flexibility should remain the first line of defense against external shocks. Amid uncertain global conditions, the authorities should give priority to maintaining exchange rate flexibility, supported by judicious intervention to mitigate excessive volatility.

23. The authorities assessed monetary policy as sufficiently accommodative. In their view, fiscal stimulus in the pipeline would be more effective in supporting the economy than an interest rate cut. The authorities also stated the advantages of preserving policy space in light of uncertain external conditions, as well as concerns about triggering excessive search for yield behavior, which could lead to the buildup of risks to financial stability if interest rates dropped too low. They considered that the current policy framework and communication strategy had been successful in anchoring inflation expectations and projected that inflation would pick up once the base effect of past oil price declines faded away.

C. Safeguarding Financial Sector Stability

24. The Financial Soundness Indicator map suggests a medium rating on financial sector vulnerability, on account of the rapid credit cycle and the buildup of household debt. Staff welcomed the ongoing moderation in credit growth, but highlighted that the continued rise in household debt required vigilance, particularly against weak income prospects (Appendix 5). Corporate balance sheets remain sound overall, despite lower profitability in the SME, natural resource, and manufacturing sectors given developments in commodity markets and global trade.

Thailand: Financial Soundness Indicator Map 1/

	2010:Q4	2011:Q4	2012:Q4	2013:Q4	2014:Q4	Latest
Overall Rating of Other Depository Corporations 1/	L	M	M	M	M	M
Credit cycle	L	H	M	H	M	M
Change in credit / GDP ratio (pp, annual)	-0.2	10.9	3.1	7.7	3.6	4.4
Growth of credit / GDP (%, annual)	-0.2	11.4	2.9	7.0	3.1	3.7
Credit-to-GDP gap (st. dev)	0.4	2.3	-1.3	-0.3	-0.8	-1.1
Balance Sheet Soundness	L	L	L	L	L	L
Balance Sheet Structural Risk	L	L	L	L	L	L
Deposit-to-loan ratio 2/	100.0	92.8	103.7	102.1	104.0	102.5
FX liabilities % (of total liabilities)	1.1	1.7	1.3	1.6	1.5	1.8
FX loans % (of total loans)	3.4	4.6	4.6	5.6	5.5	5.8
Balance Sheet Buffers	L	L	L	L	L	L
Leverage	L	L	L	L	L	L
Leverage ratio (%)	11.5	10.6	11.4	11.1	11.7	12.3
Profitability	L	L	L	L	L	L
ROA	1.6	1.6	1.6	1.8	1.7	1.4
ROE	14.1	14.4	14.9	15.9	14.7	11.3
Asset quality	L	L	L	L	L	M
NPL ratio	3.9	2.9	2.4	2.3	2.3	2.7
NPL ratio change (%, annual)	-25.5	-24.6	-17.1	-5.2	0.1	16.4

1/ The latest data is based on 2015Q4 data, except the credit cycle ratios that are based on 2015Q3 data.
Due to data availability, credit cycle analysis is based on Other Depository Corporations (ODCs), while balance sheet soundness analysis is based on commercial banks that hold about 70 percent of assets in ODCs.
2/ Deposits and loans exclude interbank data and are based on information from commercial banks.

25. Commercial banks seem well positioned to face the turning of the credit cycle, but SFIs and credit cooperatives are more exposed to strained credit segments. Among commercial banks, foreign exchange liabilities are contained and risks of currency mismatches are relatively low. Buffers are also strong on average, with high capital, liquidity, and profitability ratios, notwithstanding an uptick in NPLs and leverage ratios from a low base (Selected Issues Paper, Chapter 3). On SFIs, staff welcomed the recently completed onsite inspections by the BOT, which revealed relatively strong capital adequacy and provisioning (except for two smaller institutions). At the same time, average NPLs are higher than for commercial banks at 5.9 percent, and as high as 9.2 percent for corporate loans. Staff recognized efforts by SFIs and credit cooperatives to extend loan maturities for households under pressure and prevent a buildup in NPLs, but cautioned against evergreening of loans. Staff also emphasized the importance of closely monitoring payment delinquency and implementing complete stress tests to assess any need for higher buffers.

26. Tighter macroprudential policies would safeguard financial stability in a low interest-rate environment. At the moment, overall financial stability risks appear contained. However, active search for yield by domestic and foreign investors may drive financial investments to the real estate sector and to less-regulated and increasingly interconnected nonbank institutions. In addition, some developers have issued nonrated bonds, fueling housing supply. The authorities should stand ready to tighten macroprudential policies to address risks in specific sectors. In particular, lower loan-to-value (LTV) and debt-to-income (DTI) ratios and stricter mortgage lending standards, such as for multiple investment properties, could help contain the still rapid growth in housing loans and in land and condominium prices.[2] Staff also cautioned that systemic risks from interconnectivity and the operations of financial conglomerates should be monitored closely, particularly against the increased supply of nonrated products to high net worth investors by securities companies.

27. Staff recommended several measures to develop the financial stability framework:

- *Strengthening supervision and oversight*, including by completing the transfer of SFIs to the prudential supervision of the BOT and fostering effective coordination between the BOT and other regulators.

- *Upgrading the macroprudential policy framework*. There is considerable scope to deepen systemic risk analysis. Priorities include tracking the strength of the credit cycle, leverage ratios and unhedged exposures in specific sectors, and systemic risks from interconnectivity. The macroprudential toolkit can be expanded to include counter-cyclical prudential requirements, special weights on riskier loans, and capital surcharges for systemic institutions. The recently established Financial Stability Unit in the BOT is a stepping stone to a stronger institutional setup and should be followed by pending legal and administrative changes.

[2] The BOT has successfully used macroprudential tools in the past, including ceilings on LTV ratios on residential properties and varying risk weights on high value loans (B. Nijathaworn, "Macroprudential Policies and Capital Flows: Managing under the new Globalization," 2010).

- *Improving crisis prevention and resolution* by granting the BOT resolution authority over SFIs and developing contingency plans for bank resolution and systemic crises. Ongoing efforts to clearly define the roles and responsibilities of the BOT and the Ministry of Finance are welcome.

- *Addressing risks from high household indebtedness*, with the BOT establishing a contingency plan for a tail event comprising self-reinforcing cycles of household defaults, deleveraging, and output contraction. If needed, voluntary out-of-court or government-sponsored debt restructuring programs could help restore borrowers' ability to service their debt.

28. The authorities emphasized that Thailand's overall financial system remained robust. They noted that the onsite inspections had found that most SFIs were financially sound, while the transfer of SFI prudential supervision to the BOT, to be completed by end-2016, would strengthen the regulatory and supervisory framework. They acknowledged that additional work was needed to fill regulatory gaps in the still small cooperatives' sector and noted ongoing close cooperation with cooperatives' regulators. The authorities agreed on the need to remain vigilant and preempt a further buildup in household debt, especially among lower income households, though they saw limited risks to financial stability at the current juncture. They noted the merits of upgrading the macroprudential policy framework by enhancing data quality and risk monitoring tools.

D. Advancing Trade Integration

29. Staff assessed Thailand's external position as stronger than levels consistent with medium-term fundamentals and desired policies. Based on the External Balance Assessment (EBA) model, and taking into account Thailand-specific factors, staff estimated that the current account balance in 2015 was about 1.5 to 3.5 percent of GDP higher and the REER was 2.5 to 6 percent weaker than warranted by medium-term fundamentals and desired policy settings. International reserves exceeded the range of Fund's composite adequacy metrics and stood at 180 percent of the metric unadjusted for capital controls at end-2015. Developments in early 2016 are unlikely to change the assessment (Appendix 6). The current account gap is expected to narrow over the medium term, as policy stimulus is deployed, political uncertainty dissipates, and domestic demand recovers. External debt is projected to remain relatively low under various shocks (Appendix 7).

30. Weak goods exports and deteriorating competitiveness are a concern. Goods exports have fallen across all destinations, except to CLMV countries, and across most products, except for automobiles. The decline can be attributed to weak demand abroad, low commodity prices, and a slide in competitiveness.[3] Trade with ASEAN-5 countries declined more than trade with China, whose rebalancing toward services boosted tourism. As in other countries, Thailand experienced a significant drop in the income elasticity of trade in recent years (Box 2).

[3] Thailand's rankings in the World Bank's *Doing Business* and the World Economic Forum's *Global Competitiveness* indexes slipped in 2015.

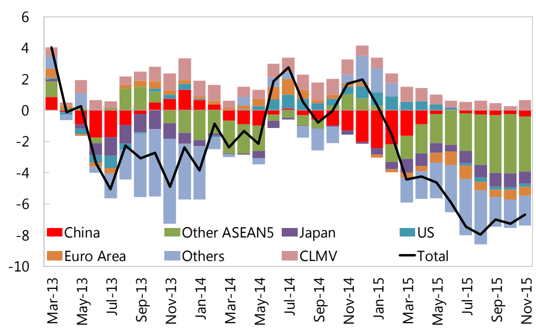
31. A clear strategy for trade integration remains an important priority. Thailand would benefit from active participation in global and regional integration initiatives given its high openness and advanced regulatory framework. It should take advantage of opportunities within the ASEAN Economic Community (AEC) and review the benefits of joining the Trans-Pacific Partnership (TPP), which would include expanding access to major export markets, developing service sectors, and catalyzing structural reforms.

32. The authorities concurred on the strength of Thailand's external sector. In their view, the sharp decline in oil prices explained a large part of the unexpected rise in the current account surplus. They also projected the current account surplus to decline over the medium term, driven by a pickup in domestic demand supported by expansionary policies and the partial reversal of shocks to terms of trade. The authorities also agreed on the potential benefits from further trade integration and are assessing the pros and cons of joining the TPP.

Thailand: Export Values by Destination and Sector, 2013–2015

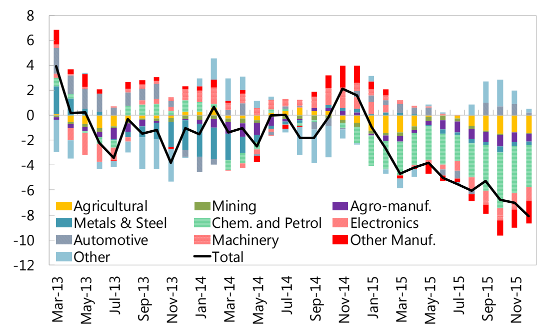
Goods exports from Thailand have fallen across most destinations and industries over the last few years.

Thailand: Export Values Growth Contribution
(In percent, 3-mma year-on-year growth)



Sources: IMF, *Direction of Trade Statistics*; and IMF Staff estimates.

Thailand: Export Values Growth Contribution
(In percent, 3-mma year-on-year growth)



Sources: IMF, *Direction of Trade Statistics*; and IMF Staff estimates.

E. Boosting Potential Growth

33. Thailand is a middle-income country facing numerous structural challenges. It is an aging society with relatively low educational attainment and an oversized agricultural sector. Its industry has been losing competitiveness, with some products becoming obsolete. R&D investment and innovation are low.

34. Escaping the middle-income trap will require concerted action on several fronts. Enhancing potential growth calls for investing in infrastructure and human capital, addressing the rapid population aging, and facilitating structural transformation (Box 3). Achieving the potential growth target of 5 percent set in the 12th NESDP would require ambitious structural reforms to lift Total Factor Productivity (TFP) growth to 3.5 percent (from 1.8 percent in staff's baseline).

- *Infrastructure*. Improving investment execution and management would crowd in private investment and boost capital accumulation and productivity. Structural fiscal reforms should build fiscal space over time.

- *Human capital*. Higher quality of education, greater focus on Science, Technology, Engineering, and Math subjects, and better alignment of vocational training with employers' needs would help raise labor productivity.

- *Population aging*. Thailand's rapid population aging is depressing the growth in the labor force and in potential output. The effective retirement age needs to be better aligned with life expectancy. In addition, a more open policy toward foreign workers would help alleviate labor shortages in skilled and unskilled occupations.

- *Structural transformation*.

  - The government seeks to encourage higher-value-added activities via revised Board of Investment incentives and to take advantage of Thailand's geographic location via Special Economic Zones in neighboring countries with lower labor costs. Investment incentives need careful coordination and clear communication to enhance their cost-effectiveness. Moreover, appropriate design, evaluation and disclosure are essential for their success.

  - With agricultural income under pressure from low prices and drought conditions, the government's initiatives to facilitate transition to higher-yield crops and to agri-business, while providing interim support to farmers, are welcome. This agenda could be expanded to provide education, information, and incentives for rural workers to shift to other sectors, where labor shortages have been cited as an obstacle to growth, and to take steps to raise agricultural productivity.

Most of these measures—e.g., public investment, greater competition in the service sector, incentives to hire agricultural workers in modern sectors—would also stimulate domestic demand and thus are particularly beneficial in the current conjuncture.

35. The authorities agreed that structural reforms were critical for Thailand to live up to its potential. They broadly shared staff's diagnosis and emphasized their multi-faceted strategy to upgrade the economy and boost productivity. They noted programs underway to enhance competitiveness, including incentives for super-clusters, high value-added activities, and R&D investment. On immigration, the authorities were of the view that Thailand was sufficiently open to foreign workers.

STAFF APPRAISAL

36. Thailand remains resilient in the face of external and internal challenges, but the ongoing recovery is modest and subject to downside risks. Headwinds arise from the weak and volatile global environment as well as from political uncertainty and structural bottlenecks. Core inflation will continue to be depressed by tepid demand. Headline inflation is expected to recover somewhat along with oil prices but will likely undershoot the BOT's target again this year.

37. The expansionary fiscal stance is welcome and should be placed within an MTFF. The government's investment plan should be implemented without delay, with due attention to good governance and transparency. Short-term stimulus measures should give way to social safety nets that are better aligned with structural challenges. Embedding the expansionary fiscal plans in an MTFF would strengthen policy formulation and transparency. The MTFF should underpin a strategy to increase tax revenues over time and prepare for the fiscal implications of the aging population. Social security reform should aim to strengthen equity, sustainability, and efficiency.

38. There is room for further monetary easing. With output below potential, headline inflation in negative territory through Q1 2016, and low core inflation, there is scope for further monetary easing. Its effectiveness could be enhanced by communicating the BOT's determination to fight off deflationary pressures and steer inflation toward the medium-term target.

39. Tighter macroprudential policies can help maintain financial stability in a low-interest-rate environment. The authorities should stand ready to tighten macroprudential policies to curb lending to highly indebted households and certain segments of the real estate sector. Systemic risks from interconnectivity and the operations of financial conglomerates should also be monitored closely. Ongoing efforts to improve supervision of SFIs, foster coordination among regulators, upgrade the macroprudential policy framework, and improve crisis prevention and resolution would further strengthen the financial stability framework.

40. Thailand's external position is strong, supported by high foreign reserves, low foreign debt, and an elevated current account surplus. Thanks to its strong external position, the baht appreciated modestly in real effective terms in 2015 despite persistent capital outflows. The large current account surplus is expected to narrow over time as domestic demand strengthens and shocks to terms-of-trade partially reverse. Thailand's gross reserves exceed the Fund's adequacy metrics and there is no need to build up reserves for precautionary purposes. In response to external shocks, the exchange rate should continue to move flexibly and serve as the first line of defense.

41. Escaping the middle-income trap requires concerted action to lift productivity and potential growth. The adverse impact of aging on potential growth and the fiscal position can be mitigated by reforming pensions, improving productivity, and facilitating migration. Improving the quality of education and aligning it with the needs of the modern economy would help raise labor productivity. Infrastructure investment would help crowd in private investment and increase capital accumulation. Periodic evaluation, careful coordination, and clear communication may enhance the cost-effectiveness of investment incentives. Further trade integration could boost competitiveness and catalyze structural reforms.

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

Box 1. Thailand: Stimulus Measures and the Multi-Year Transport Infrastructure Plan

Short-term fiscal stimulus. Several measures have been announced since September 2015. Focusing on vulnerable segments (farmers and SMEs), these measures aim to support the recovery in the short run. They comprise mainly quasi-fiscal measures (subsidized loans by public and private banks), complemented by some expenditure and tax initiatives. The stimulus measures have helped boost private sector confidence.

Thailand: Major Short-term Fiscal Stimulus Measures Announced since September 2015

	Expenditure Measures	Quasi-fiscal Measures	Tax Measures
Measures for farmers			
Community-based infrastructure projects (B 36 billion in total across more than 7,000 villages)	X		
Acceleration of ongoing small-scale infrastructure projects (B 40 billion)	X		
Subsidized loans to Village Funds through public banks (B 60 billion)		X	
Grassroots Economic Empowerment infrastructure projects (B 35 billion)	X		
Measures for SMEs			
Subsidized loans through public and private banks (B 150 billion)		X	
Credit guarantee for SMEs through a public agency (B 100 billion)[1]		X	
Lower corporate income tax rates for SMEs with proper accounting practices (from 15 and 20 percent to 10 percent) in 2015-2016			X
5-year tax exemption for start-up SMEs (established by December 2016)			X
Venture capital fund for SMEs funded by public and publicly-owned banks (B 6 billion)		X	
Measures for the property market			
Lower housing transfer/mortgage fees (from 2 and 1 percent respectively to 0.01 percent) (effective until April 2016)			X
Income tax deduction (20 percent of the house price in total over 5 years) for first-time home buyers who purchase before the end of 2016 (priced below B 3 million)			X
Subsidized loans for low-income house buyers through a public bank (B 10 billion)		X	
Subsidized loans for low-income housing projects (developers and low-income buyers) (B 70 billion)		X	
Measures to boost consumption			
Income tax deduction on purchases of select goods and services made between December 25 and 31, 2015 (B 4 billion)			X
Income tax deduction on expenses on hotel and travel between January and December 2016			X
Income tax deduction on expenses at restaurants, hotels, and tour packages during the Songkran holiday season (April 9-17)			X

Source: Data provided by Thai authorities.

[1]The public agency will absorb the first 15 percent of NPLs and share the losses of the second 15 percent of NPLs with the lending bank.

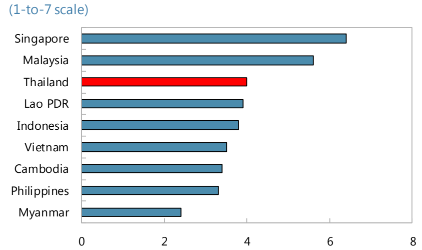
Multi-year transport infrastructure development plan (2015–2022). Thailand needs to upgrade its infrastructure to keep up with regional competition, lift potential growth, and avoid the middle income trap. Thailand ranks third among ASEAN countries in terms of its overall infrastructure quality; however, its comparative advantage is being lost as other countries are catching up. Thailand's weakest point is the railroad subsector, while electricity supply and air connectivity are relatively strong. Against this backdrop, the authorities have given priority to transport infrastructure projects worth 13 percent of GDP. These include, in the near term, motorways and projects of mass rapid transportation in Bangkok, and, in the medium term, more complex inter-city rail projects with longer preparation time. Financing would be a mix of government budget (5 percent), borrowing by SOEs with government guarantees (75 percent), and private investment (20 percent).

Thailand: Transport Infrastructure Development Plan (2015–22)

Projects	Amount: In billions of baht	Amount: In percent of GDP
Inter-city 1-meter gauge double track rail	118	0.9%
Inter-city standard gauge double track rail	1,066	8.0%
Mass rapid transportation in Bangkok	396	3.0%
Airport network development	52	0.4%
Motorways	160	1.2%
Port development	4	0.0%
Total	1,796	13.4%

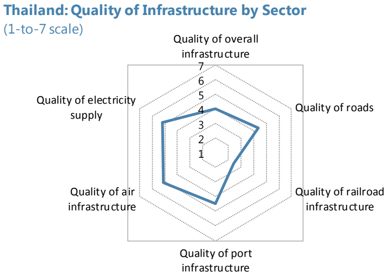
Source: Data provided by the Thai authorities.

Selected ASEAN Countries: Quality of Overall Infrastructure
(1-to-7 scale)



Source: World Economic Forum's *The Global Competitiveness Report 2015-2016.*

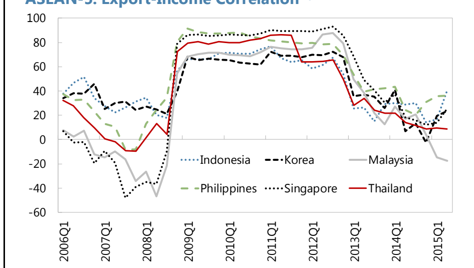
Thailand: Quality of Infrastructure by Sector
(1-to-7 scale)



Source: World Economic Forum's *The Global Competitiveness Report 2015-2016.*

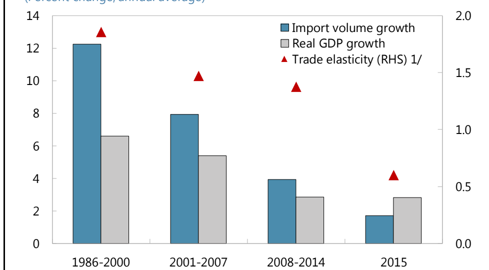
Box 2. TPP—What Does it Mean for Thailand?

Thailand's trade has slowed down significantly in recent years. Trade peaked in 2012, with exports and imports reaching 57 percent and 55 percent of GDP, respectively, benefiting from integration in global value chains and strong FDI inflows. Since 2012, Thailand has experienced a continuous contraction in trade, including in 2015. On the export side, industrial exports, which account for 80 percent of the total, declined by 5.5 percent, while rice and rubber exports declined by 15 percent. On the import side, oil and non-oil products declined across the board. As in other countries, Thailand's growth has become less trade-intensive since the Global Financial Crisis.



ASEAN-5: Export-Income Correlation 1/

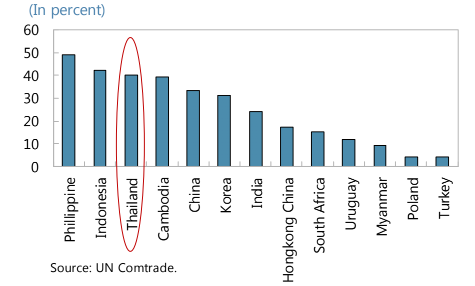
Source: IMF staff calculations.
1/ 16-quarter rolling-window correlations between real export growth and trade-weighted trading partners' real GDP growth, controlling for the real effective exchange rate.



Thailand: Income Elasticity of Imports
(Percent change, annual average)

Source: IMF's World Economic Outlook.
1/ Ratio of real import growth to real GDP growth

The TPP is likely to change the global trade landscape. The TPP is a far-reaching agreement covering about 40 percent of the world GDP. It encompasses not only tariff reductions for goods trade but also lower barriers to investment and services trade. Moreover, it covers other non-tariff trade-related issues such as intellectual property, government procurement, e-commerce, environmental protection, and labor standards, transcending the scope of most existing FTAs among Asian countries. Some changes in regional production networks are also expected from its rule of origin cumulation provision, which—in certain sectors such as textiles—give strong incentives to developing cross-border value chains within TPP countries. Meanwhile, in other sectors, including automobiles, TPP rules of origin are more liberal and should continue to allow participation of nonmembers.



Export Share to TPP Countries, 2014
(In percent)

Source: UN Comtrade.

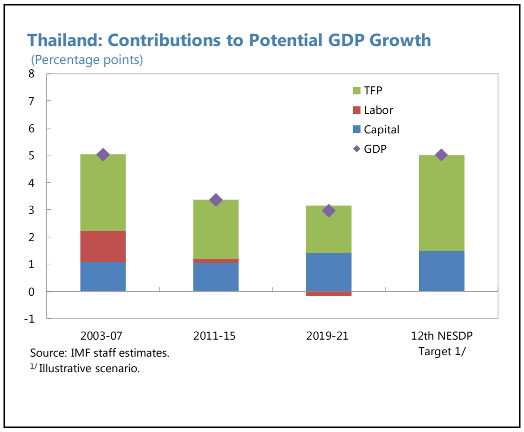
The TPP could have important implications for Thailand. The 12 TPP countries account for roughly 40 percent of Thailand's total exports and 45 percent of FDI inflows, though Thailand has FTAs with most TPP countries except for the United States, Canada, and Mexico. Thailand would face greater competition in the U.S. market, which accounts for 10 percent of total exports, with major exports such as garments, agricultural goods and automobiles currently subject to tariffs ranging from 3 to 22 percent. Competition from TPP signatories (in particular, Malaysia and Vietnam) will likely increase, notably in commodities (rice, rubber and wood) and manufacturing products. Investment flows could also be diverted away from Thailand toward TPP members seeking greater access to the United States and other TPP markets. In this regard, U.S. investment, which accounts for 8 percent of FDI inflows into Thailand, and Japanese and Korean investment in the manufacturing industry could be at risk. According to Petri and Plummer (2016),[1] Thailand would be one of the most negatively impacted countries in terms of income and export losses, given its large share of exports destined to TPP countries, strong competition from TPP members, and high tariffs on main exports.

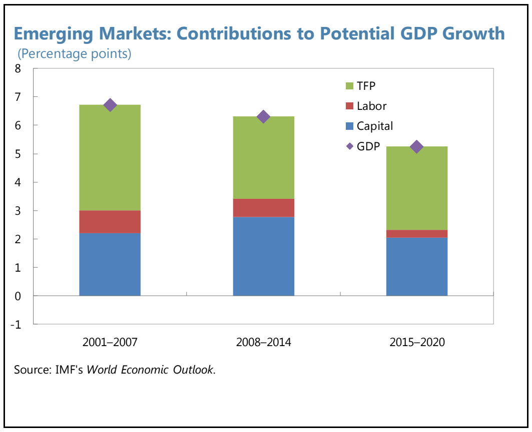
Thailand should carefully assess the potential benefits from joining the TPP. The TPP could help offset Thailand's recent sluggish trade performance and deteriorating competitiveness. Specifically, Thailand's automobile industry is among potential winners, as it exports nearly 60 percent of its overall production as a regional base for the world's top carmakers. Other beneficiaries may include garment and textile industries, where TPP member countries are currently among Thailand's largest destinations and immediate tariff reductions are implemented under the TPP. More than just boosting trade and investment, the TPP could catalyze momentum for structural reforms and industrial transformation. Implications for the Regional Comprehensive Economic Partnership (RCEP), the AEC, and other existing and ongoing trade agreements also need to be thought through to maximize synergies and minimize overlap.

[1] P. Petri and M. Plummer, "The Economic Effects of the Trans-Pacific Partnership: New Estimates" Working Paper (Washington: Peterson Institute for International Economics, 2016).

Box 3. Thailand: Lifting Potential Growth

Thailand's potential growth slowed from 5 percent in the mid-2000s to 3 percent in the last five years. The slowdown was much more pronounced in Thailand than in other emerging markets, driven by a sharp fall in TFP growth and lower employment growth. Low TFP growth in Thailand reflects a slow reallocation of labor from low-productivity agriculture to more productive sectors and a decline in FDI in manufacturing.[1] In turn, the growth of the working-age population (15–64) declined from 1 percent in 2003-07 to less than 0.4 percent in 2011–15.





Staff estimates potential growth of 3 percent in absolute and per capita terms over the medium-term—a pace clearly insufficient to pull Thailand out of the middle-income trap. Over 2019–21, labor input is forecast to decline in line with the working age population (UN, 2015, World Population Prospects).[2] Capital input is forecast to increase in line with staff's baseline scenario, with private investment following on the coattails of the partially implemented government's infrastructure plan. A slight pickup in TFP growth is also envisaged.

How can the growth in the standard of living be accelerated? Efforts to increase the participation rate of older workers (in particular, increasing the mandatory retirement age) and to facilitate migration of workers from neighboring countries could stem the decline in labor supply, at least in the medium to long term. Investment growth could be higher if public investment execution is improved. Gradually increasing the VAT rate to its statutory rate, broadening the tax base, and strengthening tax administration should create fiscal room for additional public investment. These plans and improvements in the business climate could crowd in private investment. With constant (rather than declining) labor input over 2019–21 and fixed investment growth of 5.5 percent per year (the forecast for 2018, rather than the drop to 4.6 percent in staff's baseline), factor inputs would contribute 1.5 percentage points to growth (from 1.2 percentage points in the baseline). To increase potential growth to 4 percent (from 3 percent in the baseline), TFP growth would need to accelerate to 2.5 percent (from 1.8 percent in the baseline), supported by structural reforms. Such an increase is within reach, allowing a slow yet steady convergence to per capita income levels in advanced economies. Further lifting potential growth to 5 percent, the target in the 12th NESDP, would require a very substantial acceleration in TFP growth to 3.5 percent and an urgent push to ambitious structural reforms.

The following steps could significantly increase TFP:[3]

- Improving the quality and relevance of education and vocational training;
- Facilitating the hiring of skilled foreign workers;
- Improving public investment management processes;
- Providing incentives, information and training to facilitate transition into higher-productivity occupations;
- Increasing agricultural productivity, including by scaling up average farm size;[4]
- Increasing competition, particularly in the service sector; and
- Advancing trade integration.

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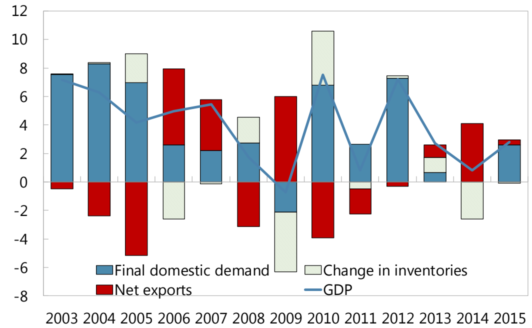
[1] V. Klyuev, "Structural Transformation—How Does Thailand Compare?" IMF Working Paper 15/51 (Washington: International Monetary Fund, 2015).
[2] United Nations, "World Population Prospects" (New York, 2015)
[3] These country-specific priorities are aligned with broad advice and estimates from IMF, "Structural Reforms and Macroeconomic Performance: Initial Considerations for the Fund," 2015.
[4] Research shows that economy-wide TFP increases by 20 percent in 8 years following significant agricultural reform. (E. Dabla-Norris and others, "Anchoring Growth: The Importance of Productivity-Enhancing Reforms in Emerging Market and Developing Economies," IMF Staff Discussion Note 13/08 (Washington: International Monetary Fund, 2015).

Figure 1. Thailand: Real Sector Developments

Growth recovered in 2015 led by domestic demand.

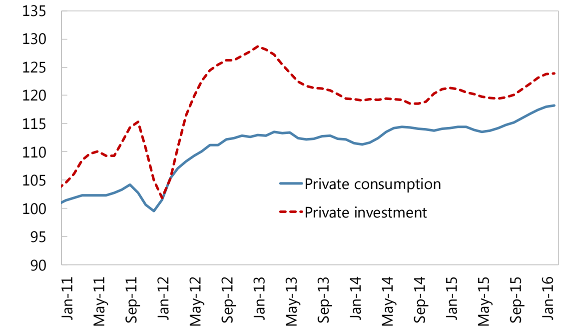
Growth Decomposition
(In percent)



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

Private demand picked up in the second half of 2015.

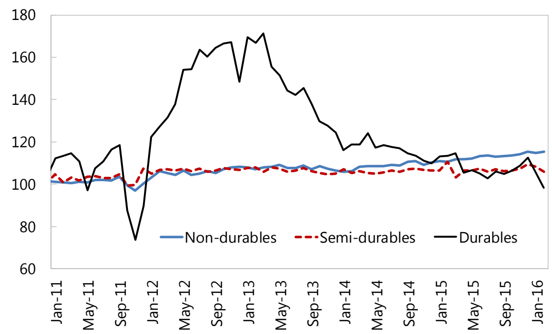
Private Investment and Consumption
(Index, 2010=100, seasonally adjusted, 3-month moving average)



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

Stimulus measures near the end of 2015 induced a slight rebound in durables consumption…

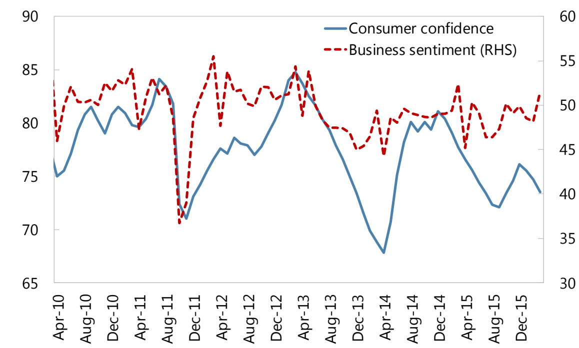
Private Consumption
(Index, 2010=100, seasonally adjusted)



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

…and in private sector confidence.

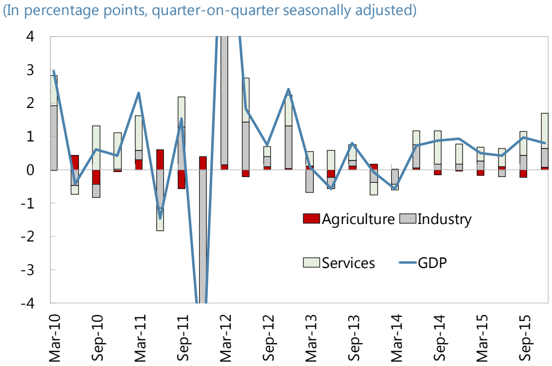
Consumer Confidence and Business Sentiment Index



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

On the supply side, services are leading the recovery.

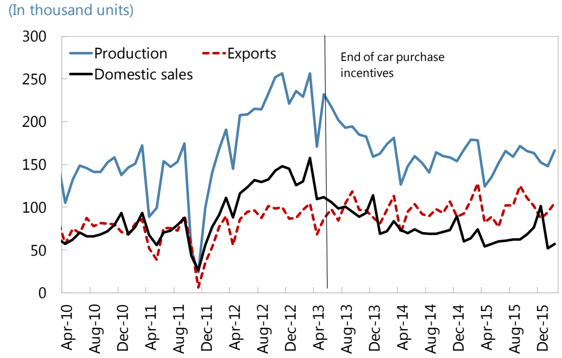
Growth Contributions by Industry
(In percentage points, quarter-on-quarter seasonally adjusted)



Sources: Haver Data Analytics; and IMF staff calculations.

Car production stagnated as lower exports offset a spike in domestic sales.

Car Production and Sales
(In thousand units)



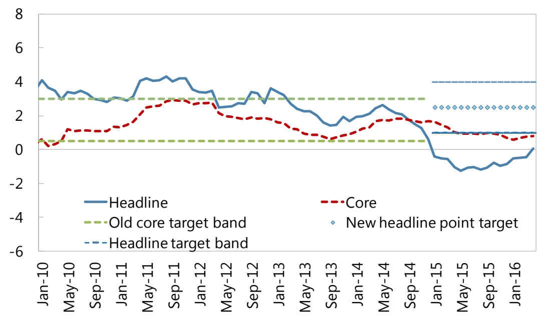
Source: CEIC Data Co. Ltd.

Figure 2. Thailand: Inflation and Capacity Indicators

Headline inflation was negative through Q1 2016, and even core is below the new inflation-targeting band.

Headline and Core CPI Inflation

(In percent, year-on-year)

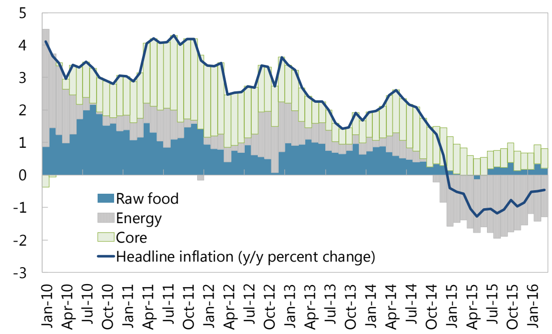


Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

Energy prices have been the main contributor to the fall in the CPI.

Contributions to Headline Inflation

(In percentage points)

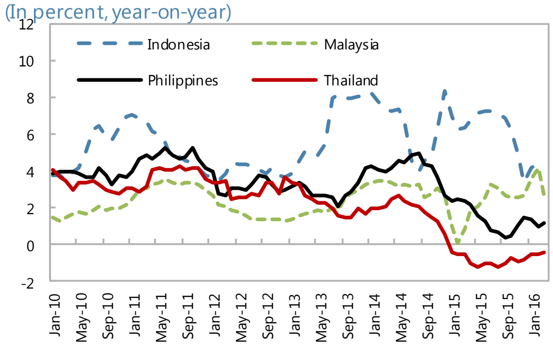


Sources: Haver Data Analytics; and IMF staff calculations.

Inflation is lower than elsewhere in the region.

Inflation

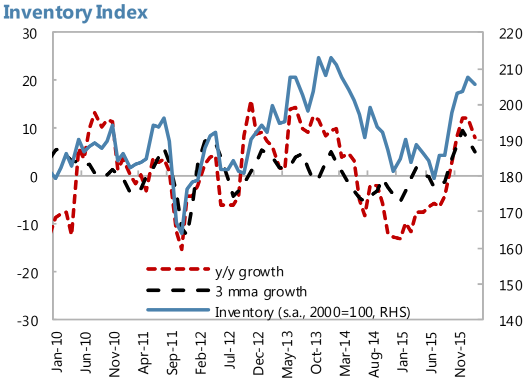
(In percent, year-on-year)



Sources: Country authorities; and IMF stafff calculations.

Inventories have started to recover.

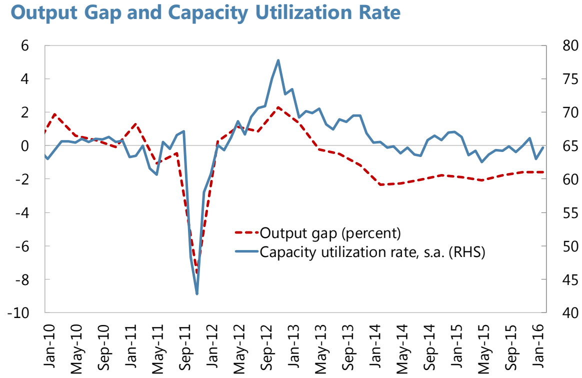
Inventory Index



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

Spare capacity remains…

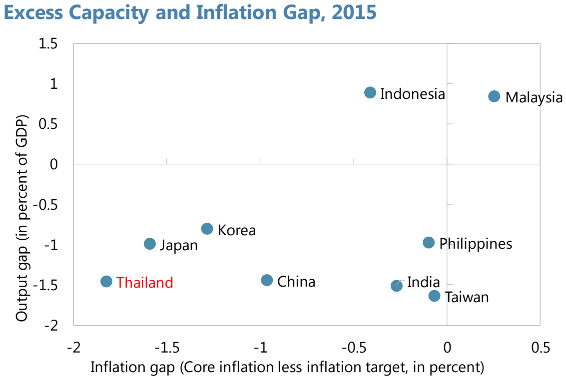
Output Gap and Capacity Utilization Rate



Sources: Haver Data Analytics; and IMF staff calculations.

…with bigger slack than in most other regional economies.

Excess Capacity and Inflation Gap, 2015

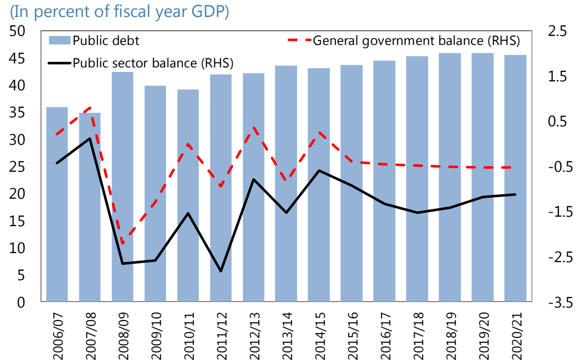


Sources: Haver Analytics; World Economic Outlook; and IMF staff calculations.

Figure 3. Thailand: Public Finances

The fiscal balance strengthened recently, but is projected to weaken as infrastructure investment accelerates.

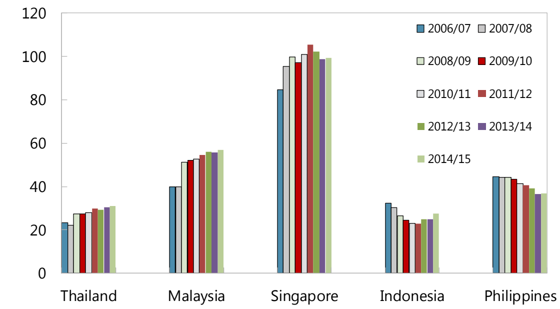
General Government and Public Sector Balance and Public Debt
(In percent of fiscal year GDP)



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

The pace of increase in general government debt has slowed down.

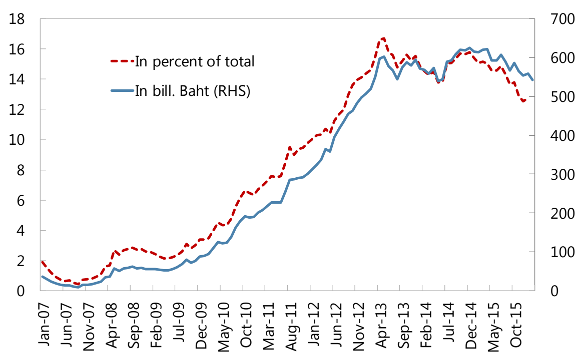
ASEAN–5: General Government Gross Debt
(In percent of GDP, fiscal year basis)



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

Nonresident holdings of baht-denominated public debt has somewhat declined since January 2015.

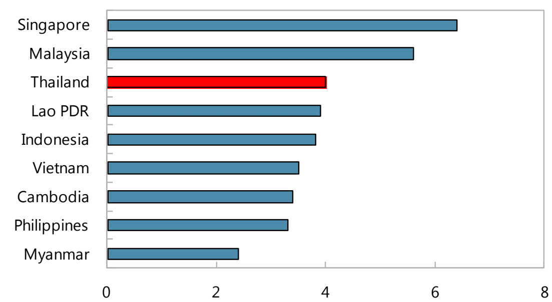
Public Debt Held by Non-residents



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

Thailand needs to upgrade its infrastructure.

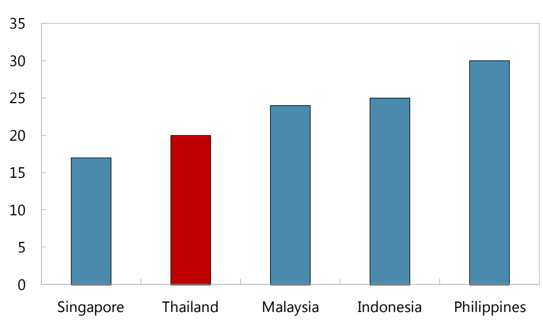
Selected ASEAN Countries: Quality of Overall Infrastructure
(1-to-7 scale)



Source: World Economic Forum's *The Global Competitiveness Report 2015-2016.*

Corporate income tax rates were cut to enhance competitiveness and growth…

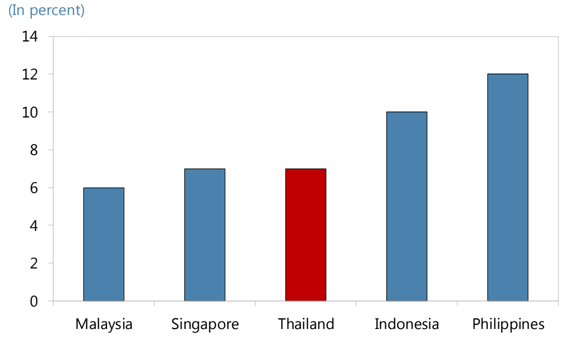
Corporate Income Tax Rates, 2016
(In percent)



Source: National authorities.

…while the VAT rate is in the lower range in the region.

Value Added Tax Rates, 2016
(In percent)

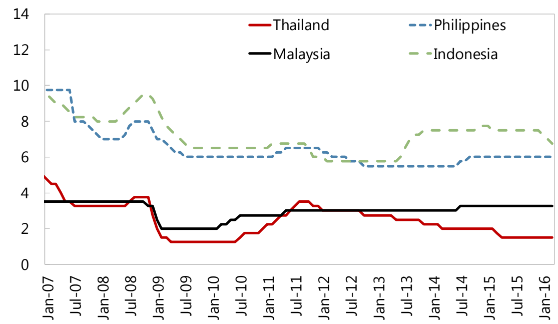


Source: National authorities.

Figure 4. Thailand: Monetary Policy Instruments

The policy rate has been on hold since April 2015.

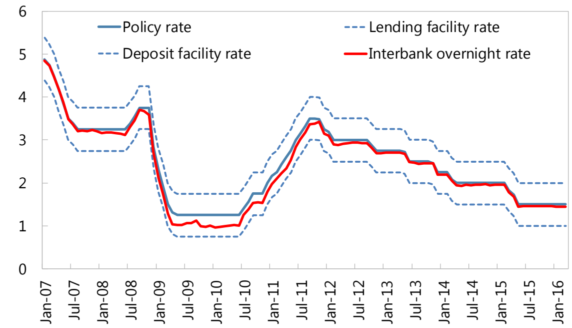
ASEAN-4: Policy Rates
(In percent, end of period)



Source: Haver Data Analytics.

Money market rates have steered close to the policy rate.

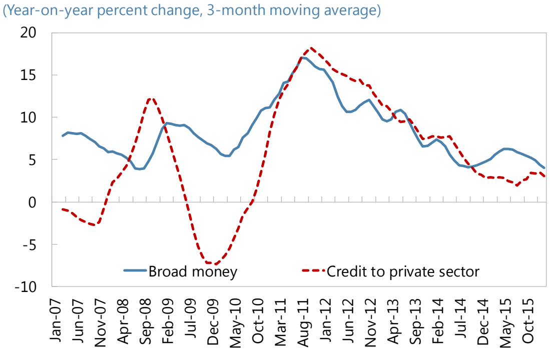
Interest Rates
(In percent)



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

Money supply and credit growth have slowed significantly.

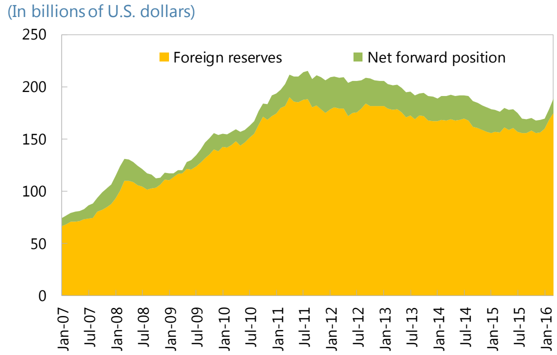
Money Supply
(Year-on-year percent change, 3-month moving average)



Source: Haver Data Analytics; and IMF staff calculations.

International reserves remain ample...

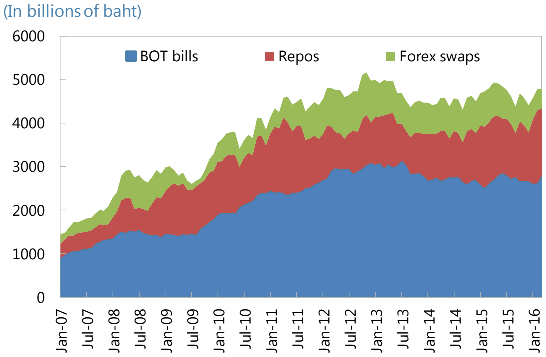
Bank of Thailand's International Reserves
(In billions of U.S. dollars)



Source: Haver Data Analytics.

...and the BOT continues to mop up liquidity.

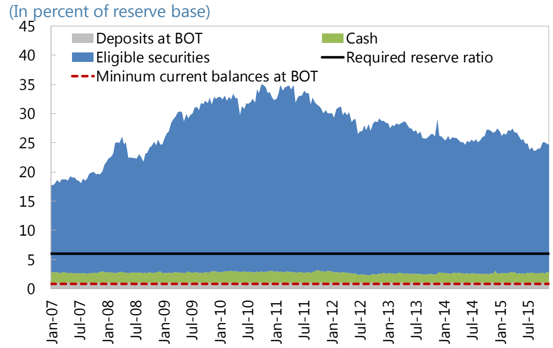
Bank of Thailand's Sterilization Instruments
(In billions of baht)



Source: Bank of Thailand.

Commercial banks are liquid, with large holdings of repo-eligible securities, but excess liquidity has come down.

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

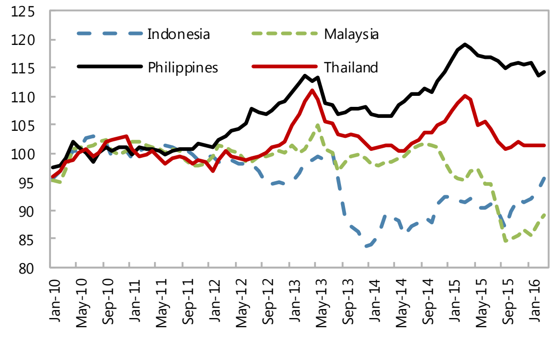


Sources: Bank of Thailand; and IMF staff calculations.

Figure 5. Thailand: External Sector

The REER has gradually appreciated, with periodic interruptions amid global and domestic volatility.

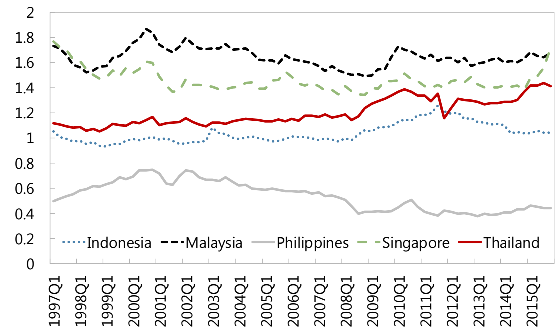
Real Effective Exchange Rate
(2010=100)



Sources: APDCORE; and IMF stafff calculations.

Thailand's export share in global markets has stagnated since early this decade.

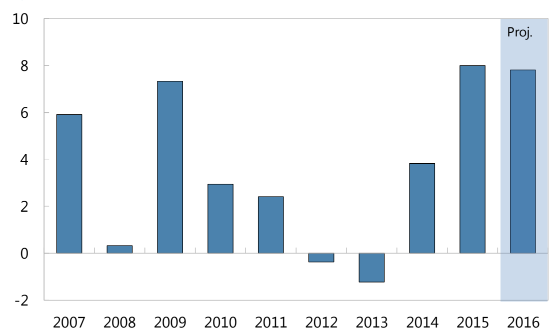
Export Market Share in ASEAN-5
(In percent of global exports, seasonally adjusted)



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

Thailand's current account surplus has been rising given weak trade and low oil prices.

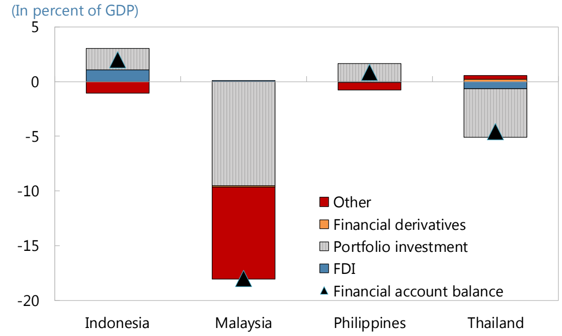
Current Account Balance
(In percent of GDP)



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

The financial account balance turned negative amid portfolio outflows and subdued FDI inflows to Thailand.

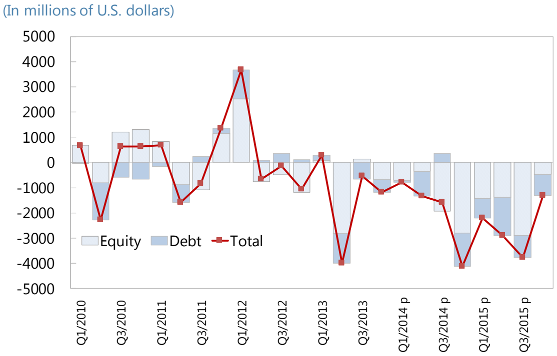
Financial Account Balance in ASEAN-4, 2015
(In percent of GDP)



Sources: World Economic Outlook; and IMF staff calculations.

Portfolio outflows persisted over the course of 2015, following regional patterns.

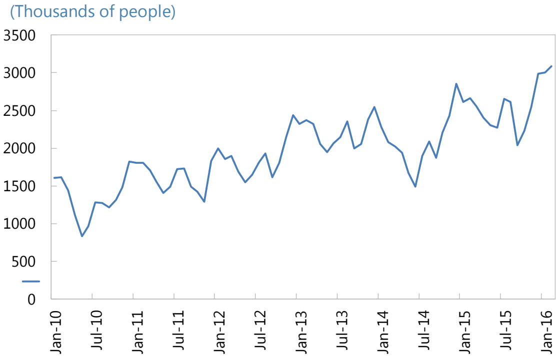
Equity and Bonds Net Flows
(In millions of U.S. dollars)



Source: Bank of Thailand.

Tourist arrivals are recovering after a sharp dip during the political unrest in 2014.

Tourist Arrivals
(Thousands of people)



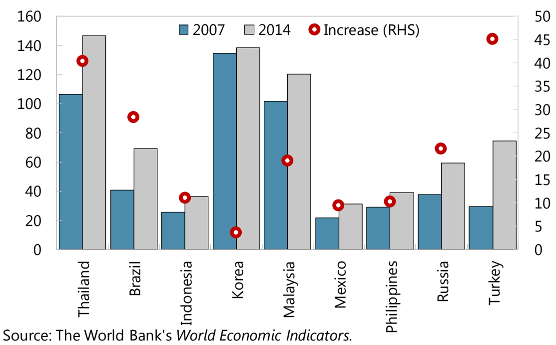
Sources: CEIC Data Co Ltd.; and IMF staff calculations.

Figure 6. Thailand: Financial Sector Developments

Private sector credit in Thailand has risen sharply since the Global Financial Crisis…

Domestic Credit to Private Sector 1/

(In percent of GDP)

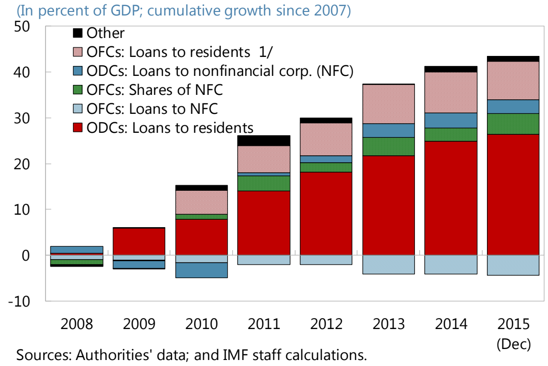


Source: The World Bank's *World Economic Indicators.*
1/ Based on data from the financial sector.

…driven mostly by household loans from both depository (ODCs) and financial corporations (OFCs).

Domestic Credit to Private Sector

(In percent of GDP; cumulative growth since 2007)

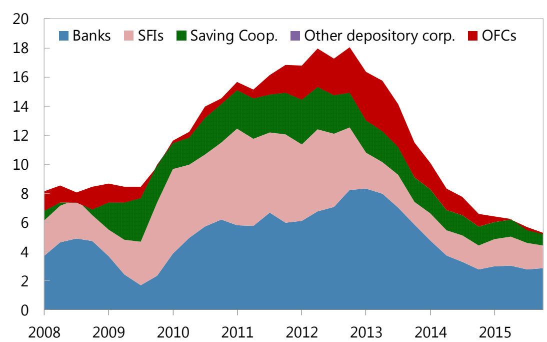


Sources: Authorities' data; and IMF staff calculations.
1/ There is a break in the series in December 2010.

The growth in credit to households has been moderating…

Growth in Credit to Households by Origination

(In percent; year-on-year)

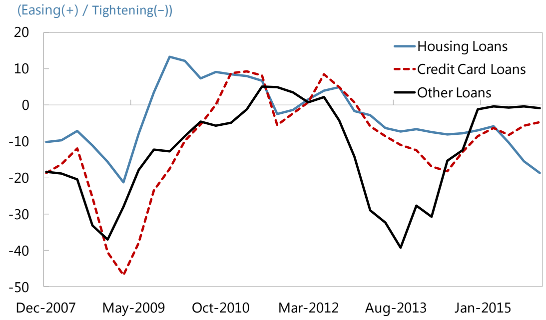


Sources: Authorities' data; and IMF staff calculations.

…as financial institutions have tightened credit standards.

Credit Standards: Consumer Loans

(Easing(+) / Tightening(−))

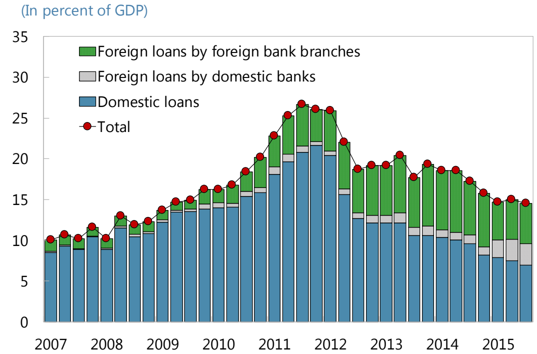


Sources: BOT's Survey on Credit Conditions

Overall borrowing by commercial banks has been declining, but with greater reliance on foreign loans.

Loans to Commercial Banks

(In percent of GDP)

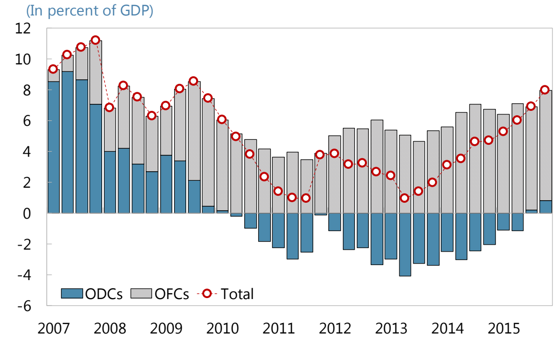


Sources: CEIC Data Co. Ltd.; and IMF staff calculations.

Still, the net foreign asset position of the whole financial system is strong.

Net Foreign Assets of ODCs and OFCs 1/

(In percent of GDP)

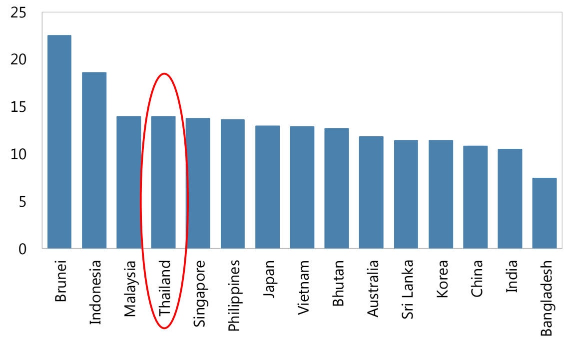


Sources: Authorities' data; and IMF staff calculations.
1/ Include other depository corporations (ODCs) and other financial corporations

Figure 7. Thailand: Financial Soundness Indicators of Commercial Banks

Thai commercial banks' capital buffers are strong…

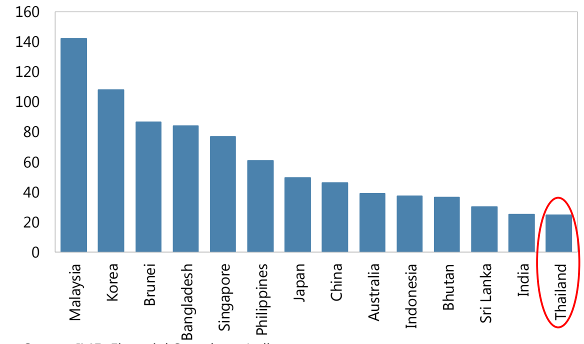
Regulatory Tier 1 Capital to Risk-Weighted Assets
(In percent)



Source: IMF, *Financial Soundness Indicators*.

…but liquid assets can be raised to mitigate liquidity risks on the liability side.

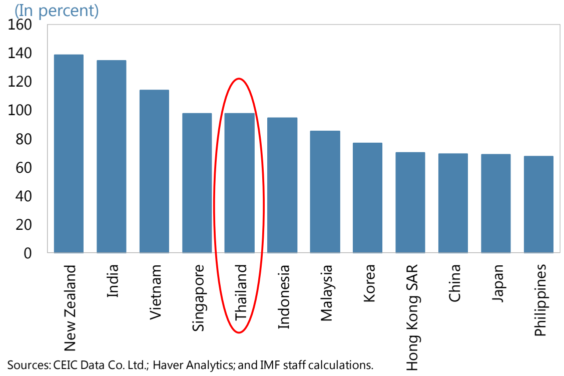
Liquid Assets to Short-Term Liabilities
(In percent)



Source: IMF, *Financial Soundness Indicators*.

Thailand's loan-to-deposit ratio is the highest among ASEAN–5.

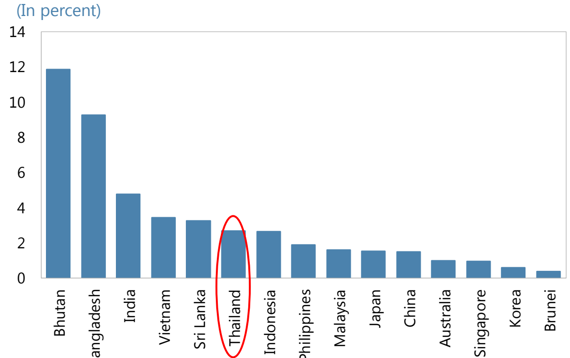
Loans to Deposits
(In percent)



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

…while nonperforming loan ratios are still contained.

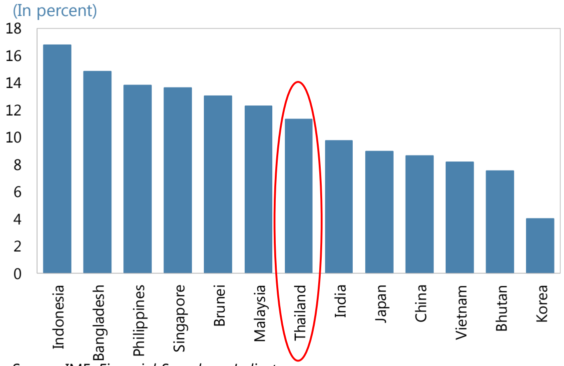
Nonperforming Loans to Total Gross Loans
(In percent)



Source: IMF, *Financial Soundness Indicators*.

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

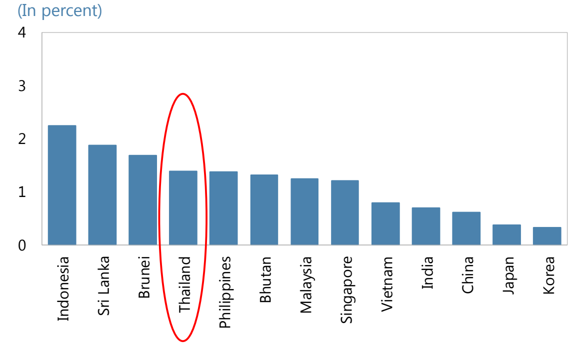
Return on Equity
(In percent)



Source: IMF, *Financial Soundness Indicators*.

…as well as by return on assets.

Return on Assets
(In percent)

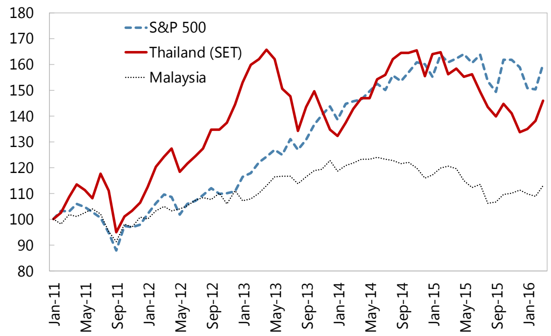


Source: IMF, *Financial Soundness Indicators*.

Figure 8. Thailand: Asset Prices and Household Debt

The Thai stock market lost its momentum in mid-2015, declining faster than other regional markets.

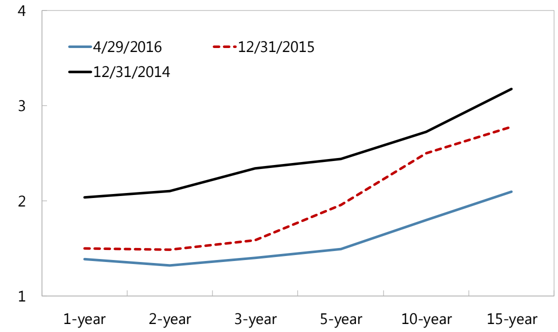
Stock Market Index
(January 2011=100)



Source: Bloomberg Data LP.

The BOT cut its policy rate twice in 2015, and yields of short-term government bonds declined.

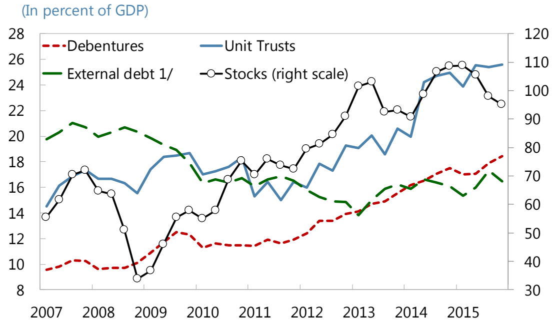
Government Bond Yields
(In percent)



Source: Bloomberg LP.

Low borrowing costs continue to fuel issuance of debt instruments and stocks…

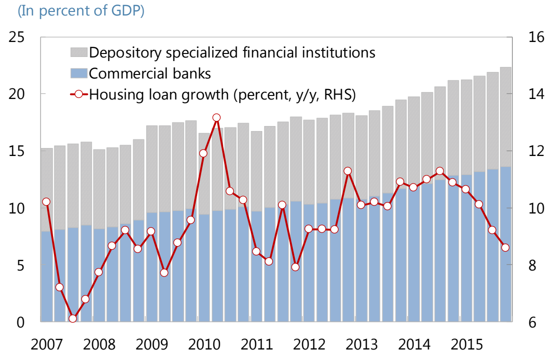
Private Securities and External Debt Outstanding
(In percent of GDP)



Sources: DataStream; IMF staff calculations.
1/ Outstanding of external debt held by non-financial corporations.

…and raised demand for mortgages, which continue to grow rapidly.

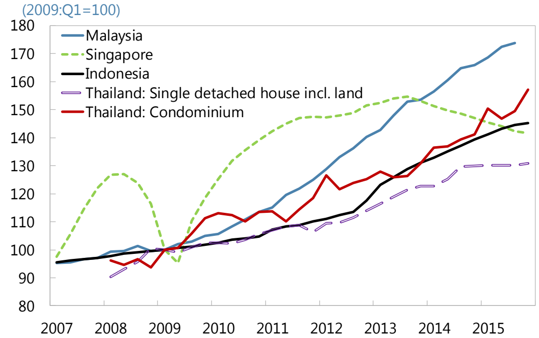
Housing Loans to Households
(In percent of GDP)



Sources: Authorities' data; and IMF staff calculations.

Condominium prices in Thailand have been outpacing prices for single-detached homes.

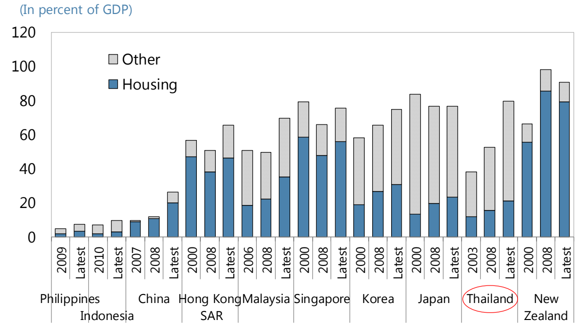
House Price Index 1/
(2009:Q1=100)



Sources: Datastream; and IMF staff calculations.
1/ House price indices for Thailand start in 2008Q1.

Rising home equity could further promote demand for loans by the highly-indebted household sector.

Asia: Household Debt
(In percent of GDP)

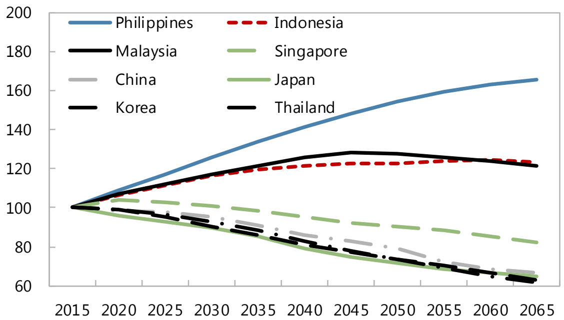


Source: CEIC Co. Ltd.; Haver Analytics; WEO; OECD; National Authorities; and staff calculations.
Earliest available data is Indonesia (March 2010), Malaysia (March 2006), Philippines (March 2009), Singapore (March 2004), Thailand (March 2003), China (March 2007).

Figure 9. Thailand: Structural Challenges

Thailand's working age population is projected to decline.

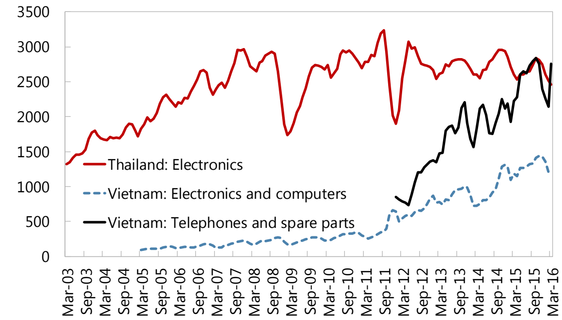
Selected Asian Countries: Working Age (15-64) Population
(Index, 2015=100)



Source: United Nations.

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

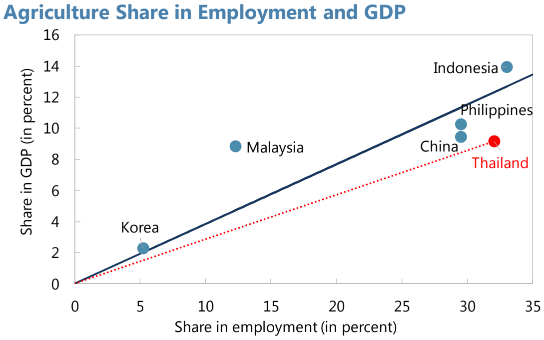
Exports
(In millions of U.S. dollars, 3mma)



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

A large share of Thailand's labor force is employed in low-productivity agriculture.

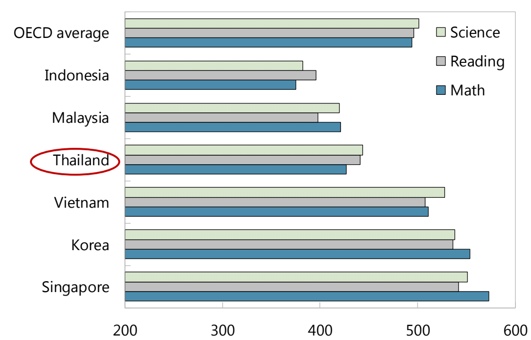
Agriculture Share in Employment and GDP



Sources: Haver Analytics; and IMF staff calculations.
The slope of the blue line equals average labor productivity in agriculture relative to the total economy in China, Indonesia, Korea, and the Philippines. The slope of the red line equals relative agricultural productivity in Thailand.

Quality of education lags behind that in many other Asian countries.

PISA Scores
(Mean score)



Source: OECD's *Programme for International Student Assessment,* 2012.

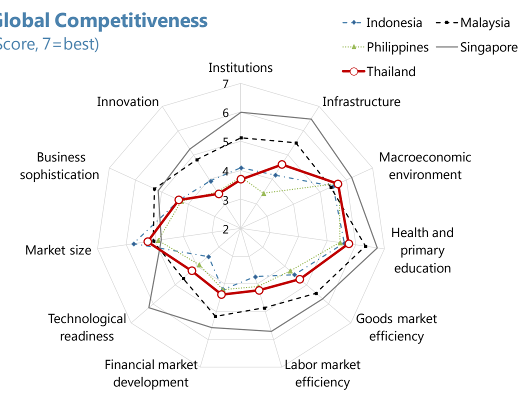
Thailand has a favorable regulatory environment...

Ease of Doing Business
(Score, 100=best)

Source: World Bank, *Doing Business 2016.*

...but ranks lower than higher-income ASEAN countries on most structural indicators.

Global Competitiveness
(Score, 7=best)



Source: World Economic Forum, *Global Competitiveness Report 2015-16.*

Table 1. Thailand: Selected Economic Indicators, 2011–16

Main exports (percent of total 2014): machinery (43), food (13)
GDP per capita (2014): US$5,889
Unemployment rate (2014): 0.8 percent
Poverty headcount ratio at national poverty line (2012): 12.6 percent
Net FDI (2014): US$-0.56 billion
Population (2014): 65.1 million

	2011	2012	2013	2014	Est. 2015	Proj. 2016
Real GDP growth (percent) 1/	0.8	7.2	2.7	0.8	2.8	3.0
Consumption	2.1	6.7	1.4	0.9	2.1	2.4
Gross fixed investment	4.9	10.7	-1.0	-2.4	4.7	5.6
Inflation						
Headline CPI (end period, percent)	3.5	3.6	1.7	0.6	-0.9	1.6
Headline CPI (period average, percent)	3.8	3.0	2.2	1.9	-0.9	0.2
Core CPI (end period, percent)	2.7	1.8	0.9	1.7	0.7	0.9
Core CPI (period average, percent)	2.4	2.1	1.0	1.6	1.1	0.7
Saving and investment (percent of GDP)						
Gross domestic investment (excl. stocks)	25.9	27.0	25.4	24.8	24.9	25.3
Private	20.1	21.1	19.7	19.6	18.5	18.7
Public	5.7	5.9	5.7	5.2	6.4	6.6
Gross national saving	29.2	27.7	26.3	27.9	32.1	33.3
Private, including statistical discrepancy	23.9	23.1	20.0	22.3	25.6	26.9
Public	5.3	4.6	6.3	5.6	6.5	6.5
Foreign saving	-2.4	0.4	1.2	-3.8	-8.0	-7.8
Fiscal accounts (percent of GDP) 2/						
Central government budgetary balance	-1.6	-2.3	-1.8	-2.3	-1.7	-2.4
Revenue and grants	17.7	18.0	18.5	17.7	18.5	18.1
Expense and net acquisition of non-financial assets	19.3	20.3	20.3	20.0	20.2	20.5
Net acquisition of non-financial assets	1.4	1.6	1.8	1.3	1.8	1.9
General government balance 3/	0.0	-0.9	0.4	-0.8	0.3	-0.4
Non-financial public enterprise balance	-0.1	-0.9	0.5	0.8	0.3	0.1
Public sector balance 4/	-0.1	-1.8	0.8	0.0	0.5	-0.3
Public sector debt 4/	39.1	41.9	42.2	43.6	43.1	43.7
Monetary accounts (end-period, percent)						
Broad money growth	15.1	10.4	7.3	4.7	4.4	4.9
Narrow money growth	8.6	13.0	3.9	1.3	5.7	5.4
Credit to the private sector by depository corporations	17.0	14.6	9.6	5.1	4.9	4.9
Balance of payments (billions of U.S. dollars)						
Current account balance	8.9	-1.5	-5.2	15.4	31.6	32.0
(Percent of GDP)	2.4	-0.4	-1.2	3.8	8.0	7.8
Exports, f.o.b.	219.1	225.7	225.4	224.8	212.1	204.8
Growth rate (in dollar terms)	14.3	3.0	-0.1	-0.3	-5.6	-3.5
Growth rate (volume terms)	8.3	2.4	0.3	0.7	-3.4	-2.4
Imports, f.o.b.	202.1	219.1	218.7	200.2	177.5	172.8
Growth rate (in dollar terms)	24.9	8.4	-0.1	-8.5	-11.3	-2.7
Growth rate (volume terms)	13.4	6.7	2.0	-6.8	-0.6	0.1
Capital and financial account balance 5/	-7.7	6.8	0.1	-16.6	-25.7	-32.0
Overall balance	1.2	5.3	-5.0	-1.2	5.9	0.0
Gross official reserves (end-year)	206.3	205.7	190.2	180.2	168.2	168.2
(Months of following year's imports)	11.3	11.3	11.4	12.2	11.7	10.9
(In percent of short-term debt) 6/	370.4	312.2	270.1	280.1	305.4	268.0
Forward position of BOT (end year)	-31.2	-24.1	-23.0	-23.1	-11.7	-11.7
Exchange rate (baht/U.S. dollar)	30.5	31.1	30.7	32.5	36.0	...
NEER appreciation (annual average)	-1.6	-0.5	5.5	-3.0	4.4	...
REER appreciation (annual average)	-0.8	0.5	5.9	-3.2	2.5	...
External debt						
(In percent of GDP)	28.2	32.9	33.8	34.7	32.7	32.3
(In billions of U.S. dollars)	104.3	130.7	141.9	140.1	129.5	132.5
Public sector 7/	16.2	26.2	25.2	25.3	20.6	21.2
Private sector	88.1	104.5	116.7	114.9	108.9	111.3
Medium- and long-term	42.3	50.5	56.1	59.6	58.0	59.4
Short-term (including portfolio flows)	45.8	54.0	60.6	55.2	50.8	52.0
Debt service ratio 8/	3.5	4.2	4.0	4.9	6.1	5.1
Memorandum items:						
Nominal GDP (In billions of baht)	11,300	12,349	12,901	13,132	13,537	14,072
(In billions U.S. dollars)	370.6	397.3	419.9	404.3	395.3	409.7

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

1/ This series reflects the new GDP data based on chain volume measure methodology, which were introduced by the Thai authorities in May 2015.
2/ On a fiscal year basis. The fiscal year ends on September 30.
3/ Includes budgetary central government, extrabudgetary funds, and local governments.
4/ Includes general government and nonfinancial public enterprises. Public sector debt includes guaranteed debt of financial public enterprises as well.
5/ Includes errors and omissions.
6/ With remaining maturity of one year or less.
7/ Excludes debt of state enterprises.
8/ Percent of exports of goods and services.

Table 2. Thailand: Macroeconomic Framework, 2010–21

						Prel.	Projections					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Real GDP growth (percent)	7.5	0.8	7.2	2.7	0.8	2.8	3.0	3.2	3.1	3.1	3.1	3.0
Consumption	6.0	2.1	6.7	1.4	0.9	2.1	2.4	3.4	3.4	3.4	3.3	3.2
Gross fixed investment	11.6	4.9	10.7	-1.0	-2.4	4.7	5.6	6.3	5.4	4.6	4.6	4.6
Headline CPI inflation (period average, percent)	3.3	3.8	3.0	2.2	1.9	-0.9	0.2	2.0	1.8	2.1	2.3	2.5
Core CPI inflation (period average, percent)	0.9	2.4	2.1	1.0	1.6	1.1	0.7	1.1	1.6	2.0	2.4	2.5
Saving and investment (percent of GDP)												
Gross domestic investment (excluding stocks)	24.0	25.9	27.0	25.4	24.8	24.9	25.3	26.3	27.0	27.5	28.0	28.5
Private	17.9	20.1	21.1	19.7	19.6	18.5	18.7	19.2	19.8	20.4	21.1	21.7
Public	6.1	5.7	5.9	5.7	5.2	6.4	6.6	7.0	7.2	7.1	7.0	6.8
Gross national saving	28.3	29.2	27.7	26.3	27.9	32.1	33.3	32.4	31.5	30.8	30.5	30.3
Private, including statistical discrepancy	24.1	23.9	23.1	20.0	22.3	25.6	26.9	25.9	24.9	24.1	23.6	23.2
Public	4.2	5.3	4.6	6.3	5.6	6.5	6.5	6.5	6.6	6.7	6.9	7.1
Foreign saving (- = current account surplus)	-2.9	-2.4	0.4	1.2	-3.8	-8.0	-7.8	-5.9	-4.2	-2.9	-2.1	-1.5
Fiscal accounts (percent of GDP, fiscal year basis)												
Central government budgetary balance	-2.9	-1.6	-2.3	-1.8	-2.3	-1.7	-2.4	-2.4	-2.5	-2.5	-2.5	-2.5
General government balance	-1.3	0.0	-0.9	0.4	-0.8	0.3	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5
Revenue and grants	20.7	21.1	21.3	22.3	21.4	22.6	22.3	22.1	22.2	22.3	22.3	22.4
Expense and net acquisition of nonfinancial assets	22.0	21.1	22.3	22.0	22.2	22.3	22.7	22.6	22.7	22.8	22.8	22.9
Public sector balance	-2.6	-0.1	-1.8	0.8	0.0	0.5	-0.3	-0.7	-0.8	-0.7	-0.2	0.0
Total public sector debt (end-period)	39.9	39.1	41.9	42.2	43.6	43.1	43.7	44.5	45.3	45.9	45.9	45.6
Monetary accounts (end period, percent)												
Broad money	10.9	15.1	10.4	7.3	4.7	4.4	4.9	5.3	5.3	5.3	5.4	5.5
Narrow money	10.9	8.6	13.0	3.9	1.3	5.7	5.4	5.3	5.3	5.3	5.4	5.5
Credit to the private sector by depository corporations	12.3	17.0	14.6	9.6	5.1	4.9	4.9	5.3	5.3	5.3	5.4	5.5
Balance of payments (billions of U.S. dollars)												
Exports, f.o.b.	191.6	219.1	225.7	225.4	224.8	212.1	204.8	211.5	219.0	227.7	237.4	247.6
(Volume growth)	16.4	8.3	2.5	0.2	0.7	-3.4	-2.4	1.4	1.9	2.4	2.7	2.9
Imports, f.o.b.	161.9	202.1	219.1	218.7	200.2	177.5	172.8	185.9	198.3	211.7	225.5	239.7
(Volume growth)	26.7	13.8	6.7	2.0	-6.8	-0.6	0.1	3.6	3.7	3.9	4.0	4.2
Trade balance	29.8	17.0	6.7	6.7	24.6	34.6	32.0	25.6	20.8	15.9	11.8	7.9
Services, income, and transfers	-19.7	-8.1	-8.2	-11.8	-9.2	-3.0	0.0	-0.5	-2.1	-2.3	-1.5	-0.3
Current account balance	10.0	8.9	-1.5	-5.2	15.4	31.6	32.0	25.1	18.7	13.6	10.3	7.6
(Percent of GDP)	2.9	2.4	-0.4	-1.2	3.8	8.0	7.8	5.9	4.2	2.9	2.1	1.5
Financial account balance 1/	21.3	-7.7	6.8	0.1	-16.6	-25.7	-32.0	-25.1	-18.7	-13.6	-10.3	-7.6
Overall balance	31.3	1.2	5.3	-5.0	-1.2	5.9	0.0	0.0	0.0	0.0	0.0	0.0
Gross official reserves (including net forward position, US$ billions)	191.7	206.3	205.7	190.2	180.2	168.2	168.2	168.2	168.2	168.2	168.2	168.2
(Months of following year's imports of goods)	11.4	11.3	11.3	11.4	12.2	11.7	10.9	10.2	9.5	8.9	8.4	7.9
(In percent of short-term debt) 2/	340	370	312	270	280	305	268	304	296	288	281	274
External debt												
External debt (billions of US$)	100.6	104.3	130.7	141.9	140.1	129.5	132.5	136.2	139.9	143.0	146.0	149.2
External debt (percent of GDP)	29.5	28.2	32.9	33.8	34.7	32.7	32.3	31.8	31.6	30.9	30.1	29.3
Debt-service ratio (percent of exports of goods and nonfactor services)	4.7	3.5	4.2	4.0	4.9	6.1	5.1	5.4	5.5	5.7	5.6	5.4

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, 2012–21 1/
(In billions of U.S. dollars, unless otherwise specified)

				Projections						
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Trade balance (In percent of GDP)	1.7	1.6	6.1	8.8	7.8	6.0	4.7	3.4	2.4	1.5
Current account balance	-1.5	-5.2	15.4	31.6	32.0	25.1	18.7	13.6	10.3	7.6
(In percent of GDP)	-0.4	-1.2	3.8	8.0	7.8	5.9	4.2	2.9	2.1	1.5
Trade balance	6.7	6.7	24.6	34.6	32.0	25.6	20.8	15.9	11.8	7.9
Exports, f.o.b.	225.7	225.4	224.8	212.1	204.8	211.5	219.0	227.7	237.4	247.6
(In percent of GDP)	56.8	53.7	55.6	53.7	50.0	49.3	49.5	49.2	49.0	48.6
Imports, f.o.b.	219.1	218.7	200.2	177.5	172.8	185.9	198.3	211.7	225.5	239.7
(In percent of GDP)	55.1	52.1	49.5	44.9	42.2	43.4	44.8	45.8	46.5	47.0
Of which: oil and oil products	47.4	52.0	47.5	29.7	22.6	28.0	32.0	35.9	39.2	42.1
Services+Income	-8.2	-11.8	-9.2	-3.0	0.0	-0.5	-2.1	-2.3	-1.5	-0.3
Services	-3.4	3.7	2.1	10.1	11.4	12.1	12.8	13.2	13.9	14.6
Of which: tourism receipts	33.9	41.8	38.4	44.6	46.4	48.9	51.1	53.8	56.9	60.0
Income and transfers	-4.8	-15.6	-11.3	-13.1	-11.5	-12.6	-14.9	-15.6	-15.4	-14.9
Capital and financial account balance	13.0	-2.2	-16.4	-18.1	-32.0	-25.1	-18.7	-13.6	-10.3	-7.6
Foreign direct investment, net	-1.4	3.8	-0.6	-2.5	0.8	1.4	1.6	2.2	3.0	3.3
in percent of GDP	-0.3	0.9	-0.1	-0.6	0.2	0.3	0.4	0.5	0.6	0.7
Abroad	-14.3	-12.1	-4.3	-10.6	-10.8	-11.0	-11.2	-11.5	-11.7	-11.9
In reporting economy	12.9	15.9	3.7	8.0	11.6	12.4	12.8	13.6	14.7	15.2
Portfolio investment, net	3.4	-4.8	-12.1	-17.7	-15.9	-14.0	-11.5	-10.4	-9.5	-9.3
Financial derivatives, net	0.5	-0.3	0.4	0.9	0.2	0.3	0.3	0.4	0.4	0.3
Other investment, net	10.2	-1.2	-4.3	1.2	-17.3	-13.0	-9.2	-5.9	-4.3	-2.0
Errors and omissions	-6.3	2.3	-0.2	-7.6	0.0	0.0	0.0	0.0	0.0	0.0
(In percent of GDP)	-1.6	0.6	-0.1	-1.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	5.3	-5.0	-1.2	5.9	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:	211.6	200.7	189.0	186.1	168.2	168.2	168.2	168.2	168.2	168.2
Changes in official reserves (increase -)	-5.3	5.0	1.2	-5.9	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Net use of Fund resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross official reserves (incl. net forward position)	205.7	190.2	180.2	168.2	168.2	168.2	168.2	168.2	168.2	168.2
(In months of following year's imports)	11.3	11.4	12.2	11.7	10.9	10.2	9.5	8.9	8.4	7.9
(In percent of short-term debt) 2/	312	270	280	305	268	304	296	288	281	274
(In percent of ARA metrics)	267	245	227	211						
(In percent of GDP)	52	45	45	43	41	39	38	36	35	33
Forward/swap position of BOT	-24.1	-23.0	-23.1	-11.7						
Export growth (In percent)	3.0	-0.1	-0.3	-5.6	-3.5	3.3	3.6	3.9	4.3	4.3
Export volume growth (In percent)	2.5	0.2	0.7	-3.4	-2.4	1.4	1.9	2.4	2.7	2.9
Export unit value growth (In percent)	0.6	-0.5	-1.0	-2.3	-3.5	0.7	0.5	0.7	0.6	0.4
Import growth (In percent)	8.4	-0.1	-8.5	-11.3	-2.7	7.6	6.7	6.8	6.5	6.3
Import volume growth (In percent)	6.7	2.0	-6.8	-0.6	0.1	3.6	3.7	3.9	4.0	4.2
Import unit value growth (In percent)	1.6	-2.1	-1.8	-10.8	-10.2	4.6	2.4	2.2	1.5	1.0
External debt/GDP	32.9	33.8	34.7	32.7	32.3	31.8	31.6	30.9	30.1	29.3
(In billions of U.S. dollars)	130.7	141.9	140.1	129.4	132.5	136.2	139.9	143.0	146.0	149.2
Debt service ratio (In percent) 3/	4.2	4.0	4.9	6.1	5.1	5.4	5.5	5.7	5.6	5.4
GDP (In billions of U.S. dollars)	397.3	419.9	404.3	395.3	409.7	428.8	442.8	462.8	484.6	509.6

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, 2008–15
(In billions of baht, unless otherwise stated)

	December							
	2008	2009	2010	2011	2012	2013	2014	2015
Central bank survey								
Net foreign assets	3,872	4,525	5,082	5,441	5,359	5,444	5,262	5,762
Net domestic assets	-2,833	-3,422	-3,839	-4,075	-3,861	-3,863	-3,595	-4,052
Reserve money - Monetary base (M0)	1,040	1,103	1,243	1,365	1,498	1,581	1,667	1,710
Depository corporations survey								
Net foreign assets	4,132	4,570	4,884	5,426	4,943	5,007	4,991	5,873
Net domestic assets	5,812	6,047	6,895	8,134	10,024	11,055	11,818	11,678
Domestic credit	9,568	10,014	11,015	12,779	14,719	15,889	16,778	17,558
Net credit to central government	204	292	155	201	352	235	399	420
Credit to local government	5	6	18	18	22	25	22	19
Credit to nonfinancial public enterprises	325	366	372	392	354	334	322	291
Credit to financial corporations	520	625	668	699	846	892	903	955
Total credit to private sector	8,514	8,726	9,801	11,469	13,145	14,403	15,132	15,873
Credit to other nonfinancial corporations	4,136	3,847	4,132	4,837	5,393	5,838	6,006	6,187
Credit to other resident sector	4,378	4,879	5,669	6,632	7,752	8,565	9,126	9,686
Other items (net)	-3,756	-3,967	-4,120	-4,645	-4,695	-4,834	-4,960	-5,880
Broad money	9,944	10,617	11,779	13,560	14,967	16,062	16,809	17,551
Narrow money	1,041	1,175	1,302	1,414	1,598	1,661	1,682	1,778
Currency in circulation	752	844	937	1,036	1,136	1,189	1,200	1,251
Deposits at depository corporations	289	331	365	378	462	472	482	527
Quasi-money	8,903	9,442	10,476	12,146	13,369	14,401	15,127	15,773
Memorandum items:								
Broad money growth (y/y percent change)	9.2	6.8	10.9	15.1	10.4	7.3	4.7	4.4
Narrow money growth (y/y percent change)	4.1	12.8	10.9	8.6	13.0	3.9	1.3	5.7
Credit to private sector growth by depository corporations (y/y percent change)	8.8	2.5	12.3	17.0	14.6	9.6	5.1	4.9
Contribution to broad money growth								
Net foreign assets (in percent)	5.9	4.4	3.0	4.6	-3.6	0.4	-0.1	5.3
Net domestic assets (in percent)	3.3	2.4	8.0	10.5	13.9	6.9	4.8	-0.8
Domestic credit (in percent)	7.5	4.5	9.4	15.0	14.3	7.8	5.5	4.6

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

Table 5. Thailand: Medium-Term Fiscal Scenario, 2011/12–2020/21 1/

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

					Projections					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
A. Central government										
Revenue (budgetary)	18.0	18.5	17.7	18.5	18.1	18.1	18.2	18.2	18.3	18.3
Tax revenue	15.9	16.6	15.4	15.8	15.8	15.8	15.9	16.0	16.0	16.1
Taxes on income and profits	7.3	7.4	6.8	7.0	7.0	7.0	7.0	7.1	7.1	7.2
Taxes on goods and services	7.4	8.2	7.7	7.9	8.0	8.0	8.0	8.0	8.0	8.0
Taxes on international trade	1.0	0.9	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.8
Taxes not elsewhere classified	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	2.1	1.9	2.2	2.6	2.2	2.2	2.2	2.2	2.2	2.2
Total expenditure (budgetary)	20.3	20.3	20.0	20.2	20.5	20.6	20.7	20.7	20.8	20.8
Expense	18.8	18.5	18.7	18.4	18.5	18.6	18.7	18.8	18.8	18.9
Compensation of employees	5.8	5.5	5.5	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Purchase/use of goods and services	3.6	3.5	3.7	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Interest	1.2	1.1	1.1	1.0	1.0	1.0	1.1	1.1	1.1	1.1
Social benefits	1.7	1.6	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Expense not elsewhere classified	6.6	6.8	6.7	6.4	6.6	6.6	6.7	6.7	6.8	6.8
Net acquisition of nonfinancial assets	1.6	1.8	1.3	1.8	1.9	1.9	2.0	2.0	1.9	1.9
Net lending/borrowing (budgetary)	-2.3	-1.8	-2.3	-1.7	-2.4	-2.4	-2.5	-2.5	-2.5	-2.5
Extrabudgetary balance	0.3	1.0	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Social security balance	0.8	0.9	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Net lending/borrowing (consolidated)	-1.2	0.1	-1.0	0.0	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7
B. Local authorities										
Revenue	4.2	4.2	4.2	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Total expenditure	3.9	3.9	4.1	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Net lending/borrowing	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
C. General government										
Revenue	21.3	22.3	21.4	22.6	22.3	22.1	22.2	22.3	22.3	22.4
Tax revenue	17.7	18.8	17.3	17.9	17.9	17.9	18.0	18.1	18.1	18.2
Taxes on income and profits	7.3	7.4	6.8	7.0	7.0	7.0	7.0	7.1	7.1	7.2
Taxes on goods and services	8.8	10.0	9.2	9.5	9.7	9.7	9.7	9.7	9.7	9.7
Taxes on international trade	1.0	0.9	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.8
Taxes not elsewhere classified	0.5	0.6	0.5	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Social contributions	0.7	0.8	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Other revenue	2.9	2.7	2.9	3.5	3.2	3.0	3.0	3.0	3.0	3.0
Total expenditure	22.3	22.0	22.2	22.3	22.7	22.6	22.7	22.8	22.8	22.9
Expense	19.1	18.6	19.4	18.8	19.1	19.0	19.1	19.1	19.2	19.3
Compensation of employees	6.7	6.6	6.5	6.4	6.4	6.4	6.4	6.4	6.4	6.4
Purchase/use of goods and services	6.0	5.9	6.2	6.4	6.5	6.5	6.5	6.5	6.5	6.5
Interest	1.2	1.1	1.1	1.0	1.0	1.0	1.1	1.1	1.1	1.1
Social benefits	2.1	2.1	2.1	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Expense not elsewhere classified	3.0	2.9	3.3	2.7	3.0	2.8	2.9	2.9	3.0	3.0
Net acquisition of nonfinancial assets	3.2	3.4	2.8	3.5	3.6	3.6	3.6	3.6	3.6	3.6
General Government net lending/borrowing	-0.9	0.4	-0.8	0.3	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5
General Government cyclically adjusted primary balance	0.2	1.0	0.3	1.2	0.5	0.4	0.3	0.2	0.2	0.2
Memorandum items:										
Central government net lending/borrowing (budgetary)	-2.3	-1.8	-2.3	-1.7	-2.4	-2.4	-2.5	-2.5	-2.5	-2.5
Central government net lending/borrowing (consolidated)	-1.2	0.1	-1.0	0.0	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7
Local authorities net lending/borrowing	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
General government net lending/borrowing	-0.9	0.4	-0.8	0.3	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5
General government cyclically adjusted primary balance	0.2	1.0	0.3	1.2	0.5	0.4	0.3	0.2	0.2	0.2
Public enterprise balance 2/	-0.9	0.5	0.8	0.3	0.1	-0.2	-0.3	-0.1	0.3	0.5
Public sector balance	-1.8	0.8	0.0	0.5	-0.3	-0.7	-0.8	-0.7	-0.2	0.0
Public sector debt 3/	41.9	42.2	43.6	43.1	43.7	44.5	45.3	45.9	45.9	45.6
Central government 4/	29.9	29.4	30.4	31.0	32.2	33.1	34.0	34.8	35.6	36.2
Non-financial public enterprises	9.0	8.7	8.3	7.9	7.6	7.4	7.4	7.2	6.5	5.7
Specialized Financial Institutions guaranteed debt and autonomous agency debt	3.0	4.2	4.9	4.2	4.0	3.9	3.9	3.8	3.8	3.7
Public sector consumption 5/	21.0	20.9	21.2	21.1	21.2	21.3	21.4	21.4	21.5	21.6
Public sector investment 6/	5.8	5.8	5.3	6.0	6.7	7.1	7.4	7.3	7.1	7.1
General government	3.8	3.9	3.6	4.3	4.4	4.5	4.5	4.6	4.6	4.7
Public enterprises	2.0	1.9	1.7	1.7	2.3	2.7	2.8	2.7	2.5	2.4

Source: IMF Staff estimates and projections.

1/ Fiscal year runs from October 1 to September 30.
2/ Based on non-financial sector GFS data.
3/ Does not include debt by local authorities.
4/ Includes government debt to fiscalize FIDF loss, which is repaid with contributions from financial institutions, FIDF assets, and others.
5/ Budgetary central government and local authorities.
6/ Based on national accounts.

Table 6. Thailand: Commercial Banks' Financial Soundness Indicators, 2009–15 1/

	2009	2010	2011	2012	2013	2014	2015
			(In percent)				
Capital adequacy							
Regulatory capital to risk-weighted assets	15.8	16.1	14.8	16.2	15.5	16.5	17.1
Regulatory Tier 1 capital to risk-weighted assets	11.7	11.9	11.0	11.0	11.9	13.0	13.9
Asset quality							
Nonperforming loans net of provisions to capital	19.5	13.8	10.6	7.4	7.7	7.8	8.0
Nonperforming loans to total gross loans	5.2	3.9	2.9	2.4	2.3	2.3	2.7
Earnings and profitability							
Return on assets	1.3	1.6	1.6	1.6	1.8	1.7	1.4
Return on equity	12.1	14.1	14.4	14.9	15.9	14.7	11.3
Liquidity							
Liquid assets to total assets (liquid asset ratio)	20.8	18.3	17.4	19.0	17.7	19.4	17.9
Liquid assets to short term liabilities	26.9	24.9	22.5	25.9	24.0	26.7	24.6
Loan-deposit ratio 2/	94.4	100.0	107.8	96.4	97.9	96.1	97.6

Source: IMF, *Financial Soundness Indicators* database.

1/ Unless otherwise stated, the Financial Soundness Indicators cover commercial banks registered in Thailand.

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

Appendix I. Thailand—Staff Policy Advice from the 2015 Article IV Consultation

Staff Advice	Policy Actions
Allow exchange rate flexibility to be the first line of defense against external shocks, with judicious intervention to avoid excessive volatility and overshooting.	The BOT has adhered to its policy of intervening in foreign exchange markets only to prevent excessive volatility.
Consider further monetary easing if fiscal stimulus is weaker than expected and the economy remains sluggish.	The BOT cut the policy rate by 50 basis points in the spring of 2015.
Set indicative inflation targets beyond a one-year horizon.	The BOT announced a medium-term inflation target.
Continue strengthening the regulatory and supervisory framework, following the transfer of SFIs prudential supervision to the BOT.	The BOT has conducted onsite examinations of all SFIs. Revamping their prudential regulation and resolution framework is moving forward, in consultation with the Ministry of Finance.
Strengthen the oversight of the fast-growing credit cooperative sector.	The BOT is helping strengthen the supervision of credit cooperatives, including through technical assistance to the Ministry of Agriculture.
Support economic recovery with expansionary fiscal policy while framing it in a medium-term framework.	A series of fiscal stimulus measures have been rolled out while expediting the disbursement of local infrastructure projects. The fiscal responsibility law was approved by the Cabinet and submitted to the Council of State.
Undertake an evaluation of the public investment process, including projects implemented by SOEs.	At the request of the authorities, the Fund provided TA in early 2016 on public investment, covering both the government and SOEs. A comprehensive public investment plan is being prepared for the 12th development plan.
Consider a gradual rise of the VAT rate to 10 percent, from the current 7 percent, once the recovery is firmly entrenched.	Priority is given to broadening the tax base while enhancing tax collection, in the context of a modest economic recovery.
Augment labor supply by increasing mandatory retirement age in the civil service and regularizing migration from neighboring countries.	The retirement age is being increased in selected professions, while broad policies are under review.

Appendix II. Thailand—Risk Assessment Matrix

Nature/Source of Threat	Likelihood	Impact	Policies to Minimize Impact
External Risks			
Tighter or more volatile global financial conditions	*M*	***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 growing linkages between cross-border financial flows and domestic credit conditions.	Allow exchange rate flexibility to be the first line of defense, with judicious currency intervention to avoid excessive volatility. Provide liquidity to ensure orderly markets. If financial volatility and capital outflows affect the real economy and constrain monetary stimulus, redouble efforts to accelerate public investment execution to bolster domestic demand.
Significant slowdown in China and/or other major emerging economies	*M*	***H:*** Given Thailand's integration in regional supply chains and high exports, a slowdown in major Asian economies would have a severe effect on the country. Likely terms-of-trade improvement—given Thailand's large net imports of oil—would provide some cushion.	Re-invigorate exports by actively participating in regional and global trade integration initiatives, strongly engaging with fast-growing regional markets such as CLMV countries, and enhance competitiveness through structural reforms and infrastructure investment.
Structurally weak growth in key advanced economies	*H*	***M:*** With the EU, Japan, and the United States each accounting for about 10 percent of Thailand's exports, a deterioration in the advanced countries' economic outlook would depress demand for Thailand's products.	Structural reforms and infrastructure development would raise returns to private investment and strengthen domestic-demand-led growth. Greater orientation toward CLMV could buttress exports.
Domestic Risks			
Delays in infrastructure project implementation	*M*	***M:*** Lower-than-projected public investment would reduce domestic demand in the cyclically weak economy and would reduce Thailand's productive potential in the longer term. It may also weaken confidence in the government's ability to manage the economy, denting private investment and FDI inflows.	Lower the policy rate to offset weaker fiscal stimulus. On the fiscal side, employ alternative quick-disbursing yet well-targeted measures, focusing on vulnerable groups with high marginal propensity to consume and small shovel-ready investment projects.
Deflation becoming entrenched	*M*	***M:*** After more than a year of negative CPI and falling core inflation, with weak domestic demand and low commodity prices, inflation expectations may shift down as BOT repeatedly misses the inflation target. Resulting higher real interest rates and rising real debt burden would further depress domestic demand.	Lower the policy rate. Signal the intention to keep it low for long and emphasize the commitment to the inflation target to re-anchor expectations. Use macroprudential policy if necessary to address vulnerabilities exacerbated by low interest rates.
Household debt overhang boiling over	*M*	***M:*** Highly leveraged households may hold back spending or banks may tighten credit supply, which would dampen consumption. Furthermore, the debt-servicing capacity of households could be constrained in a vicious cycle of deleveraging and low growth or if the interest rate cycle turns.	Use available room for additional fiscal and monetary stimulus. Explore options for household debt restructuring.
Exacerbation of drought conditions	*M*	***M:*** Disruptions to agricultural production and, potentially, tourism and industrial activities would affect output and exports. In addition, water shortage and rationing may intensify rural-urban tensions.	Provide income support to affected households while assisting them with farming alternate products. At the same time, transition from agricultural occupations into industry and services should be encouraged and supported.
Renewed political instability	*M*	***H:*** Consumer and business confidence would be damaged, dampening private investment and FDI inflows. Public investment plans would be put on hold again. Supply-side disruptions and international sanctions are possible. Capital outflows would put pressure on credit and asset markets.	Allow automatic stabilizers to work. Provide adequate liquidity to banks to minimize disruptions in the financial system. Let the exchange rate be the first line of defense in case of capital outflows, but use judicious intervention to avoid excessive volatility.

"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. Thailand—Public Debt Sustainability Analysis

1. Background. The debt sustainability analysis (DSA) framework for market access countries 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) stochastic debt projections taking into account past macrofiscal volatility; and (v) a summary of risks in a heat map.

2. Macroeconomic assumptions. Real growth is projected to average slightly above 3 percent in the medium term, supported in part by public infrastructure investment.

3. Fiscal assumptions. In staff's baseline projections, the public sector primary deficit would worsen from 1.3 to 1.8 percent of GDP between 2016 and 2018 and then improve to 0.8 percent of GDP in 2021.[1] Regarding the transport sector multi-year infrastructure development plan, staff assumes an implementation rate of 60 percent.

4. Data coverage. The coverage of public debt in Thailand is fairly comprehensive, including central government debt, nonfinancial SOEs debt, and SFI debt guaranteed by the government. Local authorities' debt (under 1 percent of GDP) is excluded from public debt statistics and this DSA.

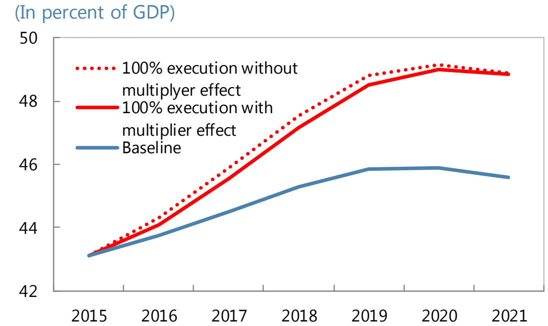
5. Realism of baseline assumptions.

- The median forecast error for real GDP growth during 2007–2015 is -2.3 percent of GDP and may look relatively large at first glance. However, over this period, Thailand went through a series of unexpected shocks that had a significant impact on growth, such as the Global Financial Crisis, the flood in 2011, and political uncertainty.
- Forecast errors for the primary balance and inflation are comparable to other countries.

6. The DSA framework suggests that Thailand's public debt would remain sustainable in the medium term under various shocks. However, vigilance is needed to ensure that risks stemming from financial sector contingent liabilities are contained.

- Under the baseline, the debt-to-GDP ratio is projected to hover around 45-46 percent, which is below the government's ceiling of 60 percent and far below the benchmark of 70 percent for market access countries. The full execution of the transport sector infrastructure plan (instead of 60 percent under the baseline) would result in a slightly

Thailand: Public Debt
(In percent of GDP)



Source: IMF staff estimates.

[1] Excludes balances of local authorities, extrabudgetary funds and social security that are all running surpluses.

higher debt trajectory: the peak debt-to-GDP ratio would increase by 3 percent to reach 49 percent of GDP by 2019,[2] still below the government's ceiling of 60 percent. This contrasts with the historical scenario under which the debt-to-GDP ratio declines steadily to 41 percent by 2021 on the back of sustained fiscal surpluses and higher growth.

- The fan chart, which incorporates feedback effects among 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 would 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, the growth shock has the largest impact on debt ratios. In such scenario, real GDP growth falls by one 10-year historical standard deviation (3 percent) for two consecutive years from 2017, resulting in a deterioration of the primary balance. This leads to a higher interest rate and lower inflation (0.25 percentage point per 1 percent of GDP worsening of the deficit). The debt-to-GDP ratio reaches 50 percent in 2018, still below the government's ceiling (60 percent) and the framework's benchmark (70 percent).

- Shocks to financial sector contingent liabilities 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 13 percent of GDP. If the shock is augmented to include SFIs, the government spending increase jumps to 17 percent of GDP. These shocks are combined with an increase in the interest rate (0.25 percentage points per 1 percent of GDP worsening of the deficit) and a one standard-deviation shock to growth. Under the scenario that involves commercial banks only, the debt-to-GDP ratio reaches 62 percent in 2019. Under an augmented shock scenario that involves SFIs in addition to commercial banks, the debt-to-GDP ratio reaches 67 percent. While these scenarios may entail low probability, they underscore the importance of properly managing the regulatory frameworks and risks of financial institutions, including SFIs.

7. Heat map.

- The heat map suggests moderate risk on the external financing requirement (defined as the current account balance plus amortization of short-term external debt at remaining maturity) and on the share of public debt held by nonresidents (including official lenders such as the World Bank). At 9 percent, the external financing requirement exceeds the lower threshold of early warning benchmarks (5 percent), but large official foreign reserves of over 40 percent of GDP provide comfortable buffers.

[2] Staff assumes a nominal fiscal multiplier of 0.9, estimated for Thailand taking into account the two-way interactions between fiscal policy and economic activity. For details on the methodology, see S. Dodzin and X. Ba, "Estimating Fiscal Multipliers using a Simplified General Equilibrium Model" (forthcoming).

- The share of public debt held by nonresidents is 16 percent of the total, slightly exceeding the lower threshold of early warning benchmarks (15 percent). A well functioning domestic bond market underpinned by a wide base of investors provides some comfort in this regard. Thailand's government bond yield has been relatively stable, despite volatile global financial markets and political uncertainty. Furthermore, Thailand's public debt-to-GDP ratio is projected to hover around 45 percent of GDP, which is below the government's ceiling of 60 percent and far below the benchmark of 70 percent in the framework.

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

(in percent of GDP unless otherwise indicated)

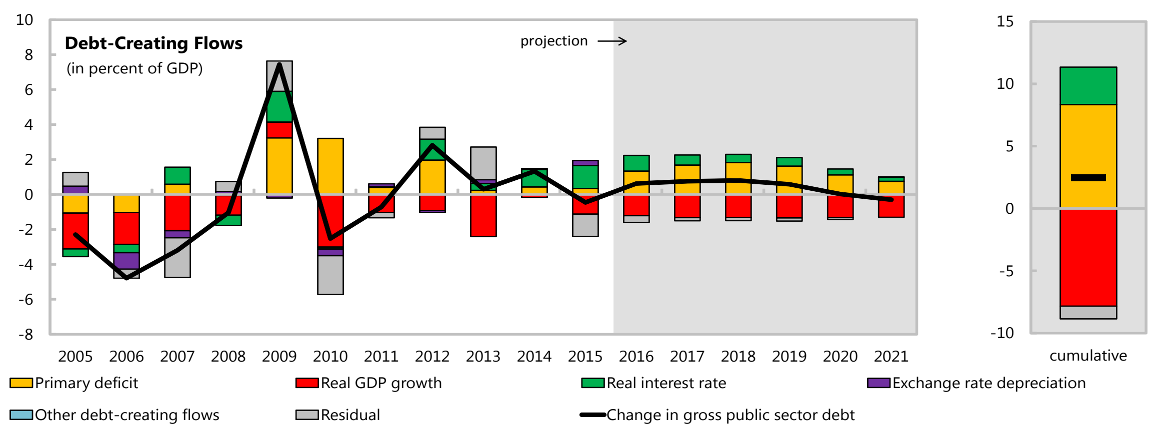
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	40.0	43.6	43.1	43.7	44.5	45.3	45.9	45.9	45.6
Public gross financing needs	7.8	7.3	6.9	7.8	8.3	8.6	8.4	7.8	7.3
Real GDP growth (in percent)	3.9	0.4	2.6	2.9	3.2	3.1	3.1	3.1	3.0
Inflation (GDP deflator, in percent)	3.4	1.2	0.1	0.9	1.7	2.0	2.0	2.3	2.5
Nominal GDP growth (in percent)	7.5	1.6	2.7	3.8	4.9	5.1	5.1	5.4	5.6
Effective interest rate (in percent) [3/]	4.4	3.6	3.2	3.1	3.1	3.1	3.1	3.1	3.1

As of March 7, 2015		
Sovereign Spreads		
Spread (bp) 2/		8
CDS (bp)		143
Ratings	Foreign	Local
Moody's	Baa1	Baa1
S&Ps	BBB+	A-
Fitch	BBB+	A-

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [8/]
Change in gross public sector debt	-0.4	1.3	-0.5	0.6	0.8	0.8	0.6	0.0	-0.3	2.5	
Identified debt-creating flows	-0.5	1.3	0.8	0.9	0.9	1.0	0.8	0.1	-0.3	3.4	
Primary deficit	0.8	0.4	0.3	1.3	1.7	1.8	1.6	1.1	0.8	8.3	-1.1
Primary (noninterst) revenue and grants	19.2	20.5	20.7	19.8	19.9	20.1	20.3	20.5	20.9	121.4	
Primary (noninterest) expenditure	20.0	20.9	21.0	21.1	21.6	21.9	21.9	21.6	21.6	129.8	
Automatic debt dynamics [4/]	-1.3	0.8	0.5	-0.4	-0.7	-0.8	-0.8	-1.0	-1.1	-4.9	
Interest rate/growth differential [5/]	-1.2	0.8	0.2	-0.3	-0.8	-0.8	-0.9	-1.0	-1.1	-4.8	
Of which: real interest rate	0.3	1.0	1.3	0.9	0.6	0.5	0.5	0.3	0.2	3.0	
Of which: real GDP growth	-1.5	-0.2	-1.1	-1.2	-1.3	-1.3	-1.3	-1.3	-1.3	-7.8	
Exchange rate depreciation [6/]	-0.1	0.0	0.3	...	...	...	...	...	...	...	
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/]	0.0	0.1	-1.3	-0.4	-0.2	-0.2	-0.2	-0.1	0.0	-1.0	



Source: IMF staff.

1/ Fiscal year basis. For example, 2016 starts from October 2015 and ends in September 2016. 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.

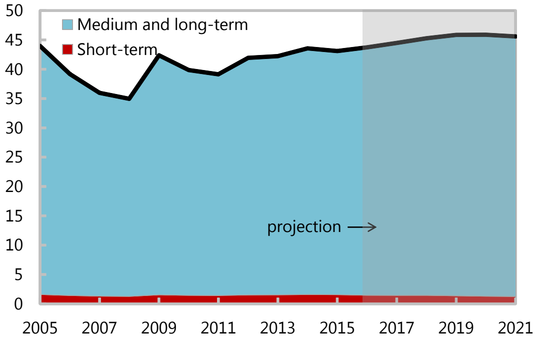
8/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Thailand Public Sector DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

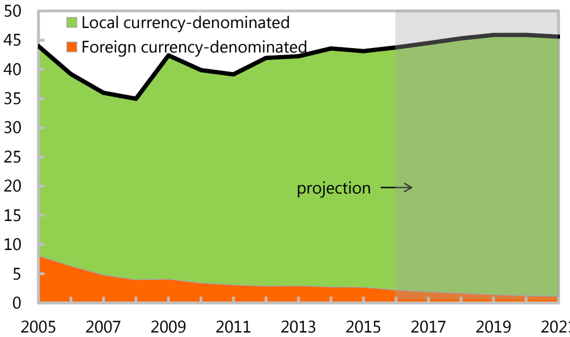
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

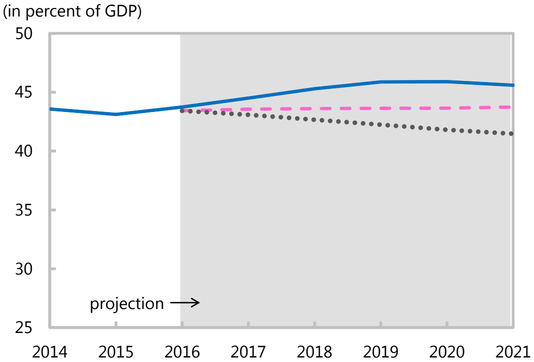


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

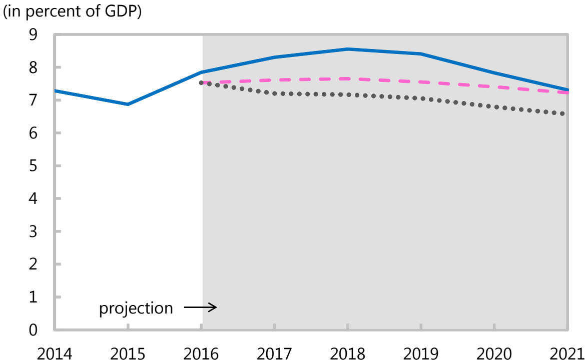
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions 1/

(in percent)

Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	2.9	3.2	3.1	3.1	3.1	3.0
Inflation	0.9	1.7	2.0	2.0	2.3	2.5
Primary Balance	-1.3	-1.7	-1.8	-1.6	-1.1	-0.8
Effective interest rate	3.1	3.1	3.1	3.1	3.1	3.1
Constant Primary Balance Scenario						
Real GDP growth	2.9	3.2	3.1	3.1	3.1	3.0
Inflation	0.9	1.7	2.0	2.0	2.3	2.5
Primary Balance	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Effective interest rate	3.1	2.4	2.5	2.4	2.4	2.5

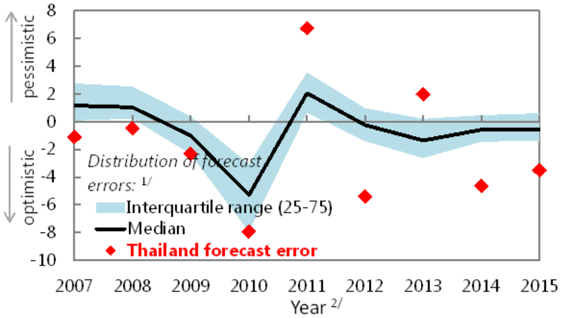
Historial Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	2.9	3.4	3.4	3.4	3.4	3.4
Inflation	0.9	1.7	2.0	2.0	2.3	2.5
Primary Balance	-1.3	-0.9	-0.9	-0.9	-0.9	-0.9
Effective interest rate	3.1	2.4	2.5	2.5	2.6	2.6

Source: IMF staff.
1/ Fiscal year basis.

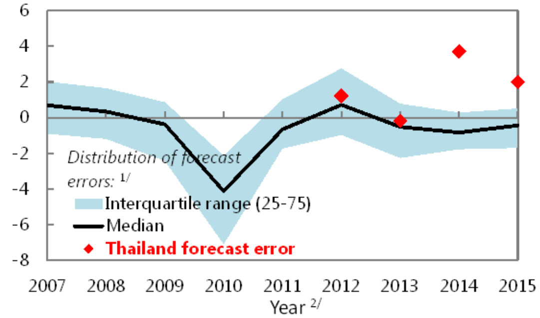
Thailand Public Sector DSA - Realism of Baseline Assumptions

Forecast Track Record, versus all countries

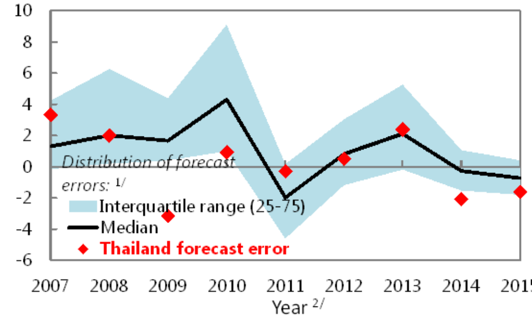
Real GDP Growth
(in percent, actual-projection)
Thailand median forecast error, 2007-2015: -2.30
Has a percentile rank of: 4%



Primary Balance
(in percent of GDP, actual-projection)
Thailand median forecast error, 2007-2015: 1.61
Has a percentile rank of: 89%

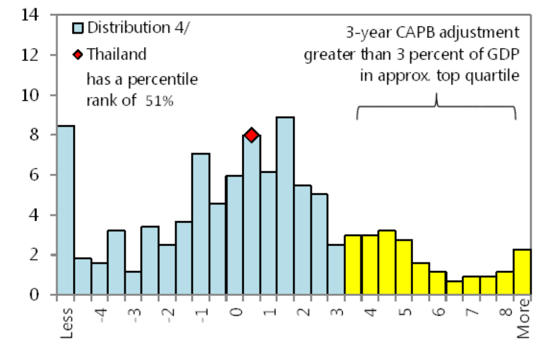


Inflation (Deflator)
(in percent, actual-projection)
Thailand median forecast error, 2007-2015: 0.50
Has a percentile rank of: 38%

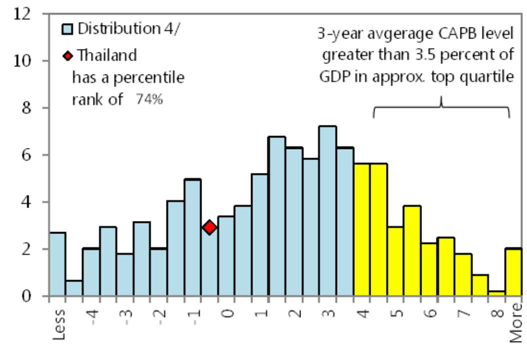


Assessing the Realism of Projected Fiscal Adjustment

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

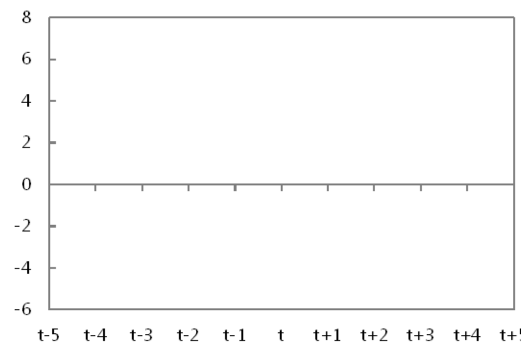


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

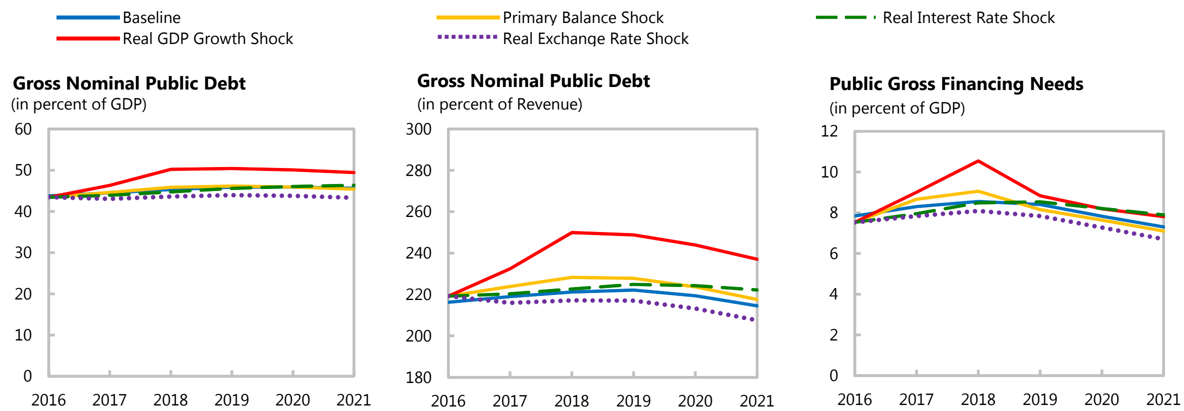
Real GDP growth
(in percent)



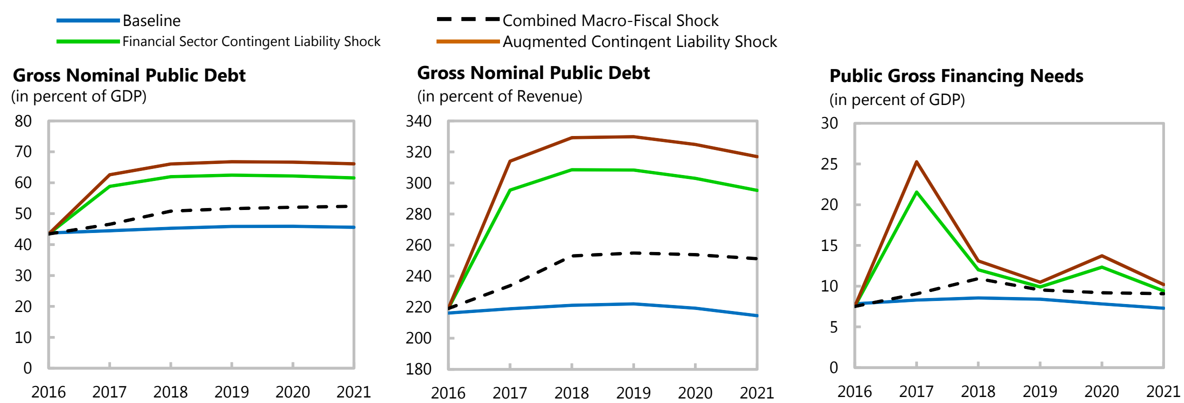
Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Thailand.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with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

Thailand Public Sector DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	2.9	3.2	3.1	3.1	3.1	3.0
Inflation	0.9	1.7	2.0	2.0	2.3	2.5
Primary balance	-1.3	-2.4	-2.5	-1.6	-1.1	-0.8
Effective interest rate	3.1	2.4	2.5	2.5	2.5	2.6
Real Interest Rate Shock						
Real GDP growth	2.9	3.2	3.1	3.1	3.1	3.0
Inflation	0.9	1.7	2.0	2.0	2.3	2.5
Primary balance	-1.3	-1.7	-1.8	-1.6	-1.1	-0.8
Effective interest rate	3.1	2.4	3.2	3.7	4.2	4.5
Combined Shock						
Real GDP growth	2.9	0.2	0.1	3.1	3.1	3.0
Inflation	0.9	0.9	1.2	2.0	2.3	2.5
Primary balance	-1.3	-2.5	-3.5	-1.6	-1.1	-0.8
Effective interest rate	3.1	2.5	3.3	3.9	4.3	4.6
Financial Sector Contingent Liability Shock						
Real GDP growth	2.9	0.2	0.1	3.1	3.1	3.0
Inflation	0.9	0.9	1.2	2.0	2.3	2.5
Primary balance	-1.3	-14.9	-1.8	-1.6	-1.1	-0.8
Effective interest rate	3.1	2.8	3.8	3.5	3.3	3.2

Real GDP Growth Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	2.9	0.2	0.1	3.1	3.1	3.0
Inflation	0.9	0.9	1.2	2.0	2.3	2.5
Primary balance	-1.3	-2.5	-3.5	-1.6	-1.1	-0.8
Effective interest rate	3.1	2.4	2.5	2.6	2.6	2.6
Real Exchange Rate Shock						
Real GDP growth	2.9	3.2	3.1	3.1	3.1	3.0
Inflation	0.9	4.5	2.0	2.0	2.3	2.5
Primary balance	-1.3	-1.7	-1.8	-1.6	-1.1	-0.8
Effective interest rate	3.1	2.5	2.5	2.5	2.5	2.5
Augmented Contingent Liability Shock						
Real GDP growth	2.9	0.2	0.1	3.1	3.1	3.0
Inflation	0.9	0.9	1.2	2.0	2.3	2.5
Primary balance	-1.3	-18.8	-1.8	-1.6	-1.1	-0.8
Effective interest rate	3.1	2.4	4.4	4.0	3.6	3.4

Source: IMF staff.

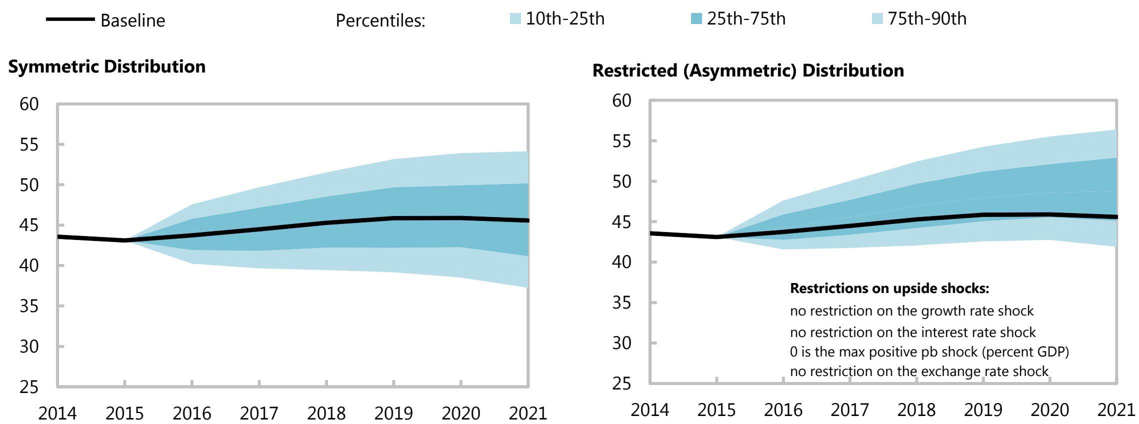
Thailand Public Sector DSA Risk Assessment

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

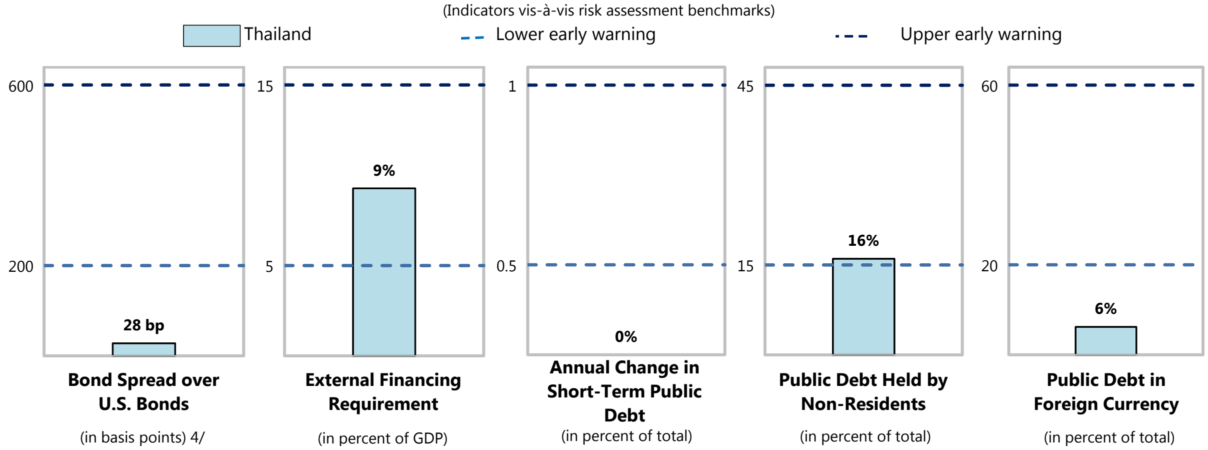
Evolution of Predictive Densities of Gross Nominal Public Debt

(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, 09-1-16 through 08-4-16.

Appendix IV. Thailand—Avoiding Dark Corners

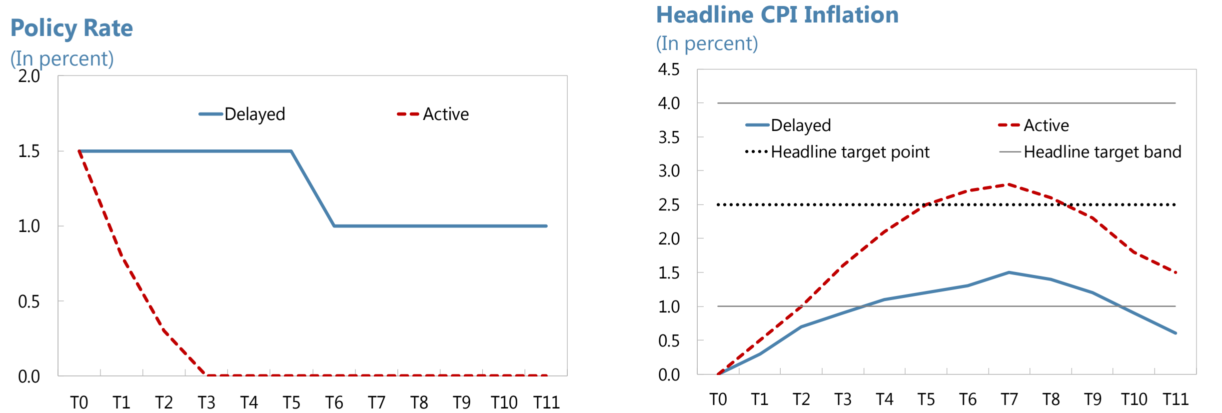
1. The Inflation Targeting regime in Thailand brought higher stability to inflation and inflation expectations over the last decade (Grenville and Ito, 2010). More recently, however, lower oil prices and relatively low growth have pushed headline inflation into negative territory through Q1 2016, and left medium-term inflation expectations at historical lows. Moreover, downside risks stem from the international environment, with disinflationary pressures spreading across the globe.

2. In this context, this appendix explores the scope/power of monetary policy actions to avoid potential "dark corners" of deflation should downside risks materialize. This is illustrated by simulation results based on a stylized new Keynesian model built along the lines of Clinton and others (2015). The policy reaction function is guided by Inflation-Forecast Targeting (IFT) to capture Thailand's monetary policy institutional setting. Finally, the economy is assumed to face additional disinflationary pressures from weaker global growth and subdued commodity prices that, in the absence of any monetary policy action, would keep headline inflation below the target band and the output gap in negative territory over the simulation horizon (12 quarters).

3. Simulations consider two extreme scenarios for the reaction of monetary policy to disinflationary pressures. Under the "aggressive easing" strategy, the policy rate hits the zero-lower bound floor from the current 150 basis points in three quarters, and stays there for the rest of the simulation horizon (Text figure, red line). Headline inflation would return to the target point in three quarters and fluctuate within the BOT's target range for the rest of the simulation horizon. In particular, the inflation rate temporarily overshoots the 2.5 percent target point, so that the simulation allows for a recovery to the target in price level terms. Core inflation would remain subdued, though a "dark corner" with unanchored inflation expectations is avoided. Moreover, by preventing further declines in inflation and inflation expectations, aggressive monetary easing can also prevent a rise in real interest rates and help close the output gap by the end of the simulation horizon.

4. The advantages of decisive monetary policy action can be illustrated by an alternative policy reaction that keeps rates on hold for another five quarters. Model simulations suggest that a delayed policy reaction would lead to a very subdued headline inflation path, with the inflation rate below the target band (Text figure, blue line) and core inflation in negative territory over most of the simulation horizon. Moreover, lack of accommodation in nominal rates would lead to further declines in inflation expectations, exerting an increase of around 200 basis points in real rates and contributing to a widening negative output gap. In this scenario, a (delayed) policy cut of 50 basis points after those first five quarters is not able to close the output gap and inflation undershoots the target band within the simulation horizon. In the current subdued inflation environment, careful monitoring of disinflationary forces and readiness to act and communicate in decisive manner (see Alichi et al., 2015) would be fundamental to prevent the entrenchment of deflationary expectations and avoid dark corners.

Thailand: Scenarios for Policy and Inflation Rates



References

Clinton, K., Freedman, C., Juillard, M., Kamenik, O., Laxton, D., and Wang, H., 2015, "Inflation-Forecast Targeting: Applying the Principle of Transparency," IMF Working Paper No.15/132 (Washington: International Monetary Fund).

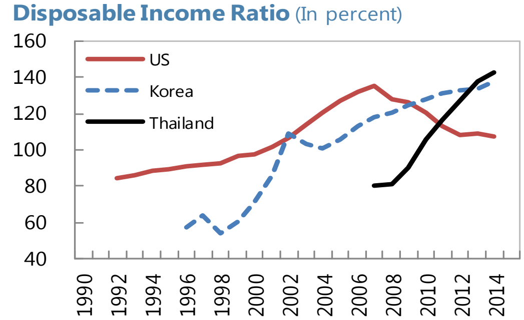
Grenville, S. and Ito, T., 2010, "An Independent Evaluation of the Bank of Thailand's Monetary Policy under the Inflation Targeting Framework, 2000-2010" (Thailand: Bank of Thailand).

Wang H., 2015, "Avoiding Dark Corners: A Robust Monetary Policy Framework for the United States," IMF Working Paper No.15/134 (Washington: International Monetary Fund).

Appendix V. Thailand—Tackling Risks from Household Debt

1. **Household debt in Thailand increased rapidly over the past decade, reaching 141 percent of disposable income at end-2014.** More recent data shows household debt at 82 percent of GDP as of the fourth quarter of 2015, among the highest in emerging markets. Mortgage loans account for a quarter of total debt and grew at a fast 9.5 percent (y/y) on average during 2007–2015. Consumer loans account for much of the remaining debt, while loans for business purposes account for one fifth of the total. The growth in household debt excluding mortgage loans has slowed down sharply since 2013, reaching 4 percent by end-2015. Nonetheless, the fast pace of increase in debt relative to household disposable income raises concern.

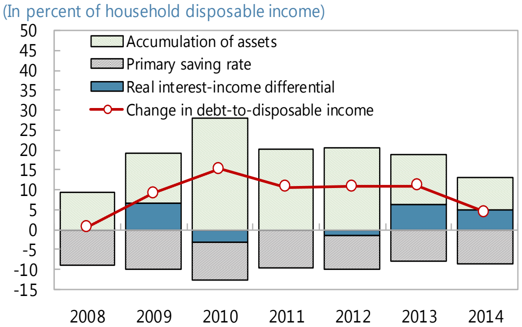
Selected Countries: Household Debt to Disposable Income Ratio (In percent)



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

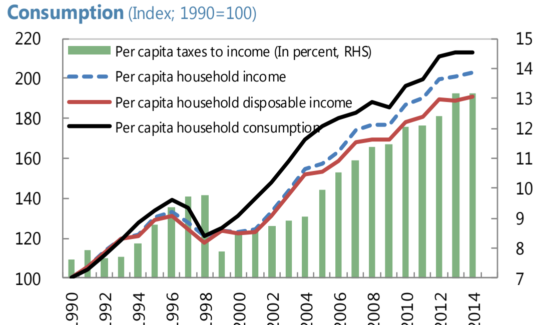
2. **Debt dynamics were influenced by several factors, including quasi-fiscal measures and macroeconomic developments.** Following the 2011 floods, the government introduced a first-car buyer program to boost the auto industry, which increased demand for car loans. The use of credit cards to smooth consumption also expanded rapidly and pushed household debt further up. Economic growth was sluggish during 2013–15, and declines in commodity prices, coupled with a severe drought, hit farmers' income particularly hard. Moreover, low inflation opened a widening gap between real interest rates and real income growth in recent years. Further deflationary pressures would increase the real cost of servicing the debt, leading to even more unfavorable household debt dynamics in the future.

Thailand: Household Debt-to-Income Dynamics
(In percent of household disposable income)



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

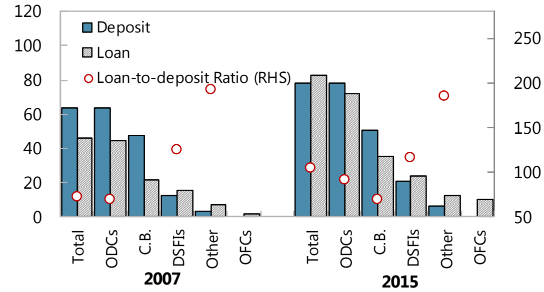
Thailand: Inflation-adjusted Per Capita Income and Consumption (Index; 1990=100)



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

3. While balance sheets of commercial banks remain sound, other financial institutions are more exposed to vulnerable households. The balance sheets of depository corporations and other financial corporations expanded rapidly during 2007–2015. Among depository corporations, commercial banks played an important role in providing loans to middle- and high-income households. Although consumer NPLs have recently ticked up, they remain relatively low, and commercial banks continue to be well-capitalized and profitable. In turn, SFIs and credit cooperatives have catered more to lower income households, including households in the agricultural sector, in line with their mandate. These institutions also have higher overall exposure to the household sector, with household loans exceeding household deposits. The BOT has recently conducted onsite inspections of all SFIs and found no imminent systemic risks. However, financial soundness indicators in these institutions vary considerably, and two small SFIs are under restructuring. Some SFIs and cooperatives have also seen an increase in households facing difficulties to remain current on loan payments. Although their NPLs have been relatively contained by active refinancing opportunities, developments should be monitored closely.

Thailand: Exposure to Household Sector 1/
(In percent of GDP or otherwise indicated)



Sources: Authorities' data; and IMF staff calculations.
1/ Total is based on OFCs and ODCs. The latter includes commercial banks (C.B.), DSFIs, and other depository institutions (Other).

4. Against this background, the authorities should consider proactive strategies to address risks form high household debt. Recent developments in the housing market, and risks from search for yield behavior, call for vigilance. As financial conglomerates increase their role in the financial landscape, understanding interconnectivity of financial institutions and addressing systemic risks would help guard against risks to financial stability. Ongoing efforts to transfer the prudential supervision of SFIs to the BOT and enhance coordination among regulators are steps in the right direction. Similarly, expanding data collection and analysis of systemic risks would help better inform any need for tighter macroprudential policies. Moreover, strengthening the resolution framework would help enhance market discipline and mitigate excessive risk taking. Proactive policies would help maintain financial stability.

Appendix VI. Thailand—External Assessment

	Thailand
Foreign asset and liability position and trajectory	**Background.** The net international investment position (NIIP) improved steadily from -48 percent of GDP in 2000 to -3 percent of GDP in 2009. Subsequently, higher foreign liabilities raised the NIIP to -23 percent of GDP in 2014. In 2015, the NIIP halved to around -11 percent of GDP due to portfolio investment outflows and subdued FDI inflows amid steadily rising outward investment by residents. **Assessment.** The deterioration of the NIIP during 2010–2014 appears to be largely due to valuation changes as, on average, the current account was in surplus. There are limited risks to external debt sustainability as Thailand's external debt is projected to remain low and net foreign liabilities (as a percent of GDP) are expected to stabilize. The improvement of the 2015 NIIP may not be auspicious as it was mainly driven by portfolio outflows and sluggish FDI. 1/
Current account	**Background**. Thailand's current account (CA) has been volatile over the last decade, ranging from a 4 percent of GDP deficit in 2005 to a 7¼ percent of GDP surplus in 2009, against a broadly stable trend real appreciation. The current account surplus came down from its peak in 2009 to a deficit of 1¼ percent of GDP in 2013 and rose back to a surplus of 8 percent of GDP in 2015, with imports declining faster than exports amid record low oil prices. The decline in net oil imports between 2014 and 2015 was 2.6 percent of GDP, explaining more than half of the improvement in the CA. **Assessment**. In cyclically-adjusted terms, the EBA CA model estimated the 2015 CA at 7.6 percent of GDP and the CA norm at 1.3 percent of GDP. The CA gap of 6.4 percent of GDP consists of a policy gap of 1.5 percent of GDP, of which 0.7 percent of GDP corresponds to domestic policy gaps, and an unexplained residual of 4.9 percent of GDP. The large unexplained residual is likely due to Thailand-specific factors not well captured by the EBA model, including political uncertainty weighing on domestic demand and underdeveloped social safety nets, particularly pensions for informal workers. Considering these factors, staff assesses the CA gap within 1½ to 3½ percent of GDP of the level consistent with medium-term fundamentals and appropriate policies. 2/ The CA gap is expected to narrow over the medium term, as policy stimulus is deployed and private confidence recovers.
Real exchange rate	**Background.** Barring the global financial crisis, the Thai baht has been appreciating in real effective terms since 2005. The real effective exchange rate (REER) weakened during the Fed's tapering talk in mid-2013 and started to appreciate from mid-2014. During 2015, the REER appreciated by 2.5 percent on average, while the CA surplus increased. The null contribution of REER appreciation to narrowing the CA gap was likely due to the Thailand-specific factors outlined above, weak domestic demand and imports, the build-up of global value chains, and volatile capital flows. **Assessment**. The EBA index REER gap in 2015 is estimated at -2.8 percent; the EBA level REER gap is estimated at -11.2 percent, but with a large unexplained residual. Using an elasticity of 0.6, staff assesses the 2015 REER to be 2.5-6 percent below levels consistent with medium-term fundamentals and appropriate policies.
Capital and financial accounts: flows and policy measures	**Background**. The capital and financial account balance has been negative since 2013. In 2015, the negative balance increased to $18 billion due to portfolio outflows in both equity and bond markets and subdued FDI inflows. The authorities continued with financial account liberalization, encouraging outward investment by residents. **Assessment.** Up to 2013, Thailand enjoyed overall portfolio inflows benefiting from its strong fundamentals. But from 2013, Thailand has faced headwinds, including the Fed's interest rate lift-off, China's slowdown, and political uncertainty. Capital outflows are manageable considering the resilience of the external sector and the flexibility of the baht, partially offsetting the large current account surplus.
FX intervention and reserves level	**Background**. The exchange rate is floating with intervention limited to mitigating excessive volatility. International reserves gradually declined from 52 percent of GDP in 2012 to 43 percent of GDP in 2015, but stand at over three times short-term debt, 180 percent of the IMF's reserve metric unadjusted for capital controls, and 211 percent of the metric adjusted for capital controls.3/During 2015, reserves declined by around $12 billion, mostly from the net forward position amid persistent depreciation pressures against the U.S. dollar. **Assessment.** The decline in reserves suggests possible intervention to mitigate market volatility, but there is no clear evidence of one-sided intervention considering valuation effects from the strong U.S. dollar. Thailand's gross reserves are higher than the range of IMF's adequacy metrics and there is no need to build up reserves for precautionary purposes. The exchange rate should continue to move flexibly to serve as a first line of defense against adverse shocks.
Technical Background Notes	1/ The valuation effect results from the difference in returns between foreign assets and liabilities. On the one hand, large capital inflows in most years in the period 2005-2012 contributed to the growth of asset prices and baht appreciation. As a result, investment returns accruing to foreign investors increased. On the other hand, a large proportion of Thailand international investment assets consist of foreign exchange reserves, which were mainly invested in foreign government bonds with lower return. 2/ The EBA model has a large (and rising since 2013) unexplained residual for Thailand, likely driven by political uncertainty not captured by available institutional quality indices and measures of global risk aversion. During 2015, political uncertainty and associated weak private sector confidence weighed on domestic demand against the backdrop of high household debt and a cautious adjustment to the sizable oil windfall. Political uncertainty, compounded by prolonged discussions with potential investors, also led to delays in the execution of large public investment projects, with public investment picking up by year-end through shovel-ready projects with relatively low import content. Moreover, the public health expenditure variable may not capture still underdeveloped social safety nets, in particular low minimum pensions accruing to the large informal sector (which accounts for over 50 percent of employment). These factors may increase private sector precautionary savings. 3/ The adjusted metric relies on de jure measures of capital controls. Using these measures to classify Thailand's capital account openness is problematic, as such de jure indices are not granular enough to measure the extent of capital account liberalization in Thailand and do not capture whether outflow controls are binding. Moreover, recent actions to further liberalize capital outflows are not incorporated in this adjusted metric. Staff considers the unadjusted adequacy metric to be more appropriate.

Overall Assessment

Overall Assessment:

The external position in 2015 was stronger than warranted by medium-term fundamentals and desirable policy settings.

However, the overall assessment and the size of the 2015 CA gap are subject to a wide margin of error reflecting Thailand specific factors not sufficiently captured in the EBA model, such as political uncertainty and underdeveloped social safety nets. Developments in early-2016, including a continued surplus in the current account amid capital inflows, are not likely to change the overall assessment.

Potential policy responses:

Accommodative macroeconomic policies and the planned boost to public infrastructure will support domestic demand and help lower the current account gap.

The authorities should continue to allow the exchange rate to move flexibly as a first line of defense against external shocks. Intervention should be limited to smoothing excessive market volatility.

Reserves exceed all adequacy metrics, thus there is no need to build up reserves for precautionary purposes.

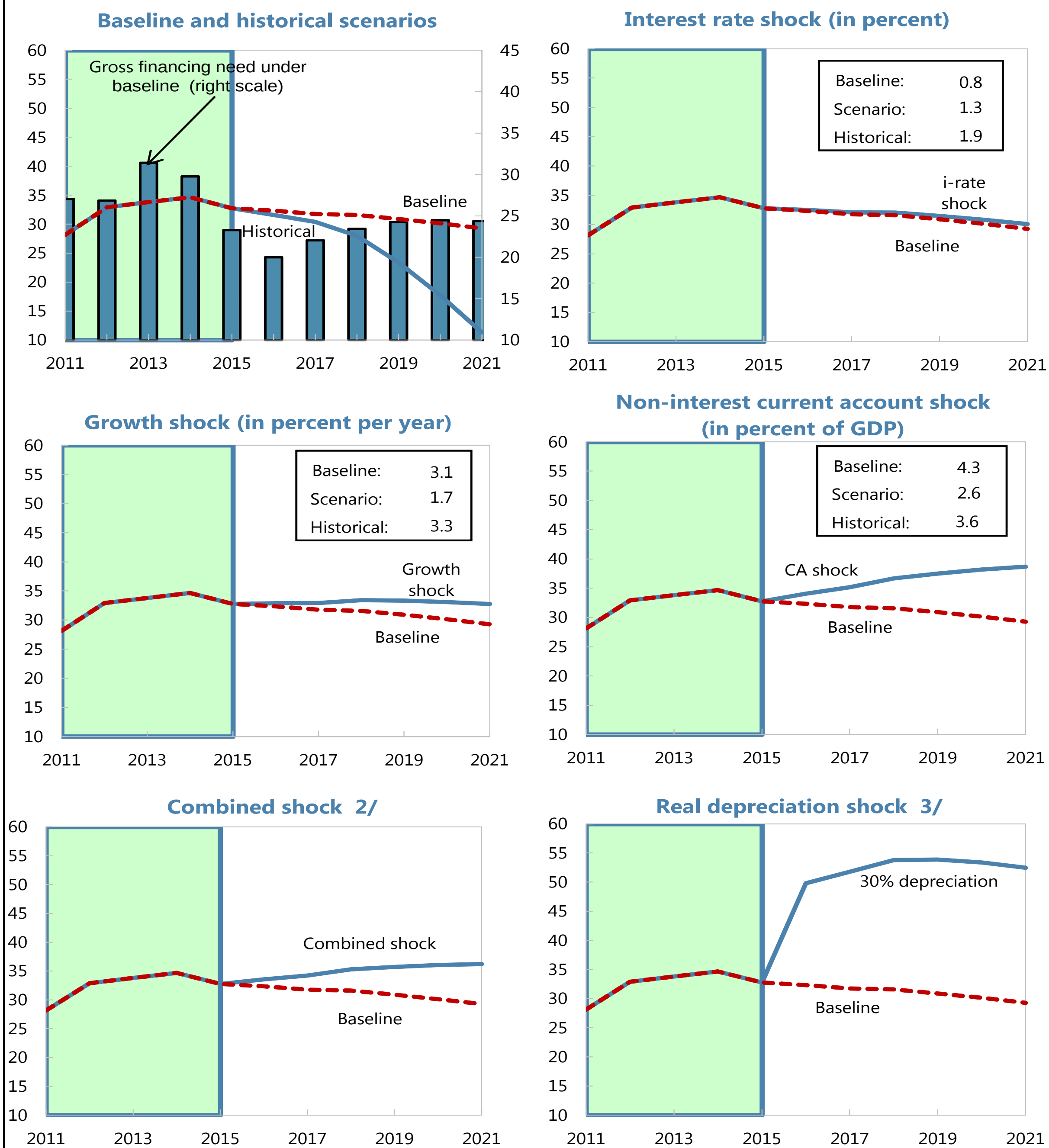
The authorities should reform social safety nets, notably the fragmented health insurance and pension schemes compounded by widespread informality.

Appendix VII. Thailand—External Debt Sustainability Analysis

1. Thailand's external debt is projected to remain relatively low over the medium term, declining from about 33 percent of GDP in 2015 to about 29 percent of GDP in 2021 under the baseline scenario. Stress tests indicate that external debt would remain stable under various shocks, such as a higher interest rate, weaker GDP growth, a lower current account balance, and a one-time 30 percent depreciation of the baht. Under these shocks, the external debt-to-GDP ratio rises somewhat above the baseline over the projection period. In the case of the exchange rate depreciation shock, the debt ratio would rise to about 54 percent of GDP. However, this scenario does not take into account the adjustment in trade flows that would take place if such depreciation were to occur, i.e. a sharp improvement in the current account that would significantly bring down the debt-to-GDP ratio.

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 2016.

INTERNATIONAL MONETARY FUND

THAILAND

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 4, 2016

Prepared By | Asia and Pacific Department

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FUND RELATIONS

(As of March 31, 2016)

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

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

General Resources Account:

	SDR Million	Percent Quota
Quota	3,211.90	100.00
Fund holdings of currency	2,751.55	85.67
Reserve position in Fund	460.35	14.33
Lending to the Fund		
New Arrangements to borrow	31.91	

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	970.27	100.00
Holdings	974.82	100.47

Outstanding Purchases and Loans:

None

Latest Financial Arrangements:

In millions of SDR

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

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

	2016	2017	2018	2019	2020
Principal					
Charges/interest	0.02	0.02	0.02	0.02	0.02
Total	**0.02**	**0.02**	**0.02**	**0.02**	**0.02**

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 2015 Article IV consultations, Executive Directors were encouraged by the recovery of the Thai economy after a series of shocks in recent years, and noted that the resilience of the economy has been underpinned by solid economic fundamentals that reflect prudent macroeconomic management. Looking ahead, they noted that risks are tilted somewhat to the downside and that the estimated output gap would close only gradually. Directors agreed that the current accommodative fiscal and monetary policies are appropriate to support the recovery. Over the medium term, however, Directors noted that fiscal consolidation combined with structural reforms in infrastructure, education, and immigration, would be key to sustain higher growth, while at the same time protecting financial stability. In addition, they welcomed the 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. The elimination of cross-price subsidies among different fuel types and the reinstatement of excises on diesel are welcome developments as they will reduce economic distortions and contribute to stronger public finances. Directors welcomed the transition to a headline inflation target in the monetary policy framework. They noted the recent reduction of the policy rate and indicated that there might be scope for some further monetary easing, if the expected recovery is delayed. While volatile capital inflows have presented challenges to macroeconomic management, Directors agreed that Thailand's strong policy buffers, including ample reserves and a flexible exchange rate, have served the country well and have provided the tools to address potential market volatility. They welcomed the progress made in strengthening financial stability in Thailand and the authorities' decision to extend the supervision and regulatory framework of the Bank of Thailand to specialized financial institutions.

Recent Technical Assistance:

FAD: A TA mission on a comprehensive property tax reform and an introduction of a refundable tax credit for low-earning individuals took place in April 2015. Two TA missions on developing a macro-fiscal forecasting model took place in June and August 2015. A TA mission on strengthening the collection performance of the value-added tax (VAT) took place in January-February 2016. [A TA mission on long-term projections of public pension and health spending took place in September 2015]. A TA mission on improving the infrastructure investment processes of the general government and state-owned enterprises (SOEs) took place in February-March 2016.

MCM/RES/STA: A mission on the on strengthening the bank resolution and crisis preparedness frameworks took place in May 2015. A mission on Forecasting and Policy Analysis System (FPAS) and communications processes for inflation forecast targeting took place in November 2015. A mission to expand the coverage of Financial Soundness Indicators took place in March 2016. A scoping mission to strengthen the financial stability framework was undertaken in April 2016.

Resident Representative: None

BANK-FUND COLLABORATION

Thailand: JMAP Implementation Table			
Title	**Products**	**Provisional Timing of Missions**	**Delivery Date (tentative)**
A. Mutual information on relevant work programs			
Bank work program	Thailand-World Bank Group Public Engagements Thailand Economic Monitor Thailand Country Systematic Diagnostic Report Implementation of Secured Transactions Small and Medium Enterprise Promotion Strengthening corporate governance of State Owned Enterprises and State Financial Institutions	On-going Bi-annual On-going On-going On-going On-going	Continuous April 2016 and October 2016 September 2016 TA – Just in time TA – Just in time TA – Just in time
IMF work program	2016 Article IV mission 2016 Staff Visit	March 2016 Fall 2016	Board discussion expected in May 2016
B. Request for work program inputs			
Fund request to Bank	Assessment of economic developments and structural policies Public Investment Management Assessment Information sharing	Semi-annual or more frequent March 2016 Semi-annual or more frequent	Ongoing Completed 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 April 6 2016)

I. Assessment of Data Adequacy for Surveillance	
General: Data provision is broadly adequate for surveillance. The authorities have continued to improve the quality and coverage of data. The dissemination of additional data may enhance the basis for macroeconomic analysis.	
National accounts: The National Economic and Social Development Board (NESDB) compiles annual and quarterly GDP estimates using both the production and expenditure approaches. The annual GDP volume measures are derived at previous year's prices and as chain-linked indices with 2002 as the reference year. The NESDB introduced new quarterly GDP current price and chain-linked volume estimates in May 2015. **Price statistics**: The Bureau of Trade and Economic Indexes (BTEI) compiles and disseminates a monthly consumer price index with weights based on expenditure data collected from households during the 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. In addition, the authorities 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 Specialized Financial Institutions.	
Monetary statistics: The authorities submit the Standardized Reporting Forms (SRFs) for monetary statistics on a timely basis. 10 FSIs for Thailand are 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 Q4-2015 (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 April 6, 2016

	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]	Memo Items: Data Quality – Accuracy and Reliability[8]
Exchange Rates	4/6/2016	4/6/2016	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	2/29/2016	3/20/2016	W	W	W		
Reserve/Base Money	2/2016	3/20/2016	M	M	M	O, O, LO, O	O, O, O, O, O
Broad Money	2/2016	3/20/2016	M	M	M		
Central Bank Balance Sheet	2/2016	3/20/2016	M	M	M		
Consolidated Balance Sheet of the Banking System	2/2016	3/20/2016	M	M	M		
Interest Rates[2]	4/6/2016	4/6/2016	D	D	D		
Consumer Price Index	3/2016	4/4/2016	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[3]– General Government[4]	2015	2/2016	A	A	A	O,LO,O,LO	LO, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	12/2015	2/2016	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/2015	2/2016	M	M	M		
External Current Account Balance	12/2015	2/2016	M	M	M	O, LO,LO,LO	LO, O, O, O, LO
Exports and Imports of Goods and Services	2/2016	2/2016	M	M	M		
GDP/GNP	Q4 2015	2/2016	Q	Q	Q	LO, LO, O, LO	O, O, LO, O, O
Gross External Debt	12/2015	2/2016	M	M	M		
International Investment Position	Q4 2015	3/2016	Q	Q	Q		

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

THAILAND

May 17, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Prepared by Asia and Pacific Department

1. **This supplement reports on information that has become available since the Staff Report was circulated to the Executive Board on May 6.** It does not alter staff's broad assessment of policy issues and recommendations contained in the report.

2. **Recent data remain consistent with an ongoing gradual recovery in growth and inflation.**

- **GDP growth.** Real GDP grew by 3.2 percent year-on-year in the first quarter of 2016, up from 2.8 percent in the last quarter of 2015. Public expenditure, including double-digit growth in public investment, and net exports were the main drivers, while private consumption growth moderated somewhat, given persistently low agricultural income and the fading impact of short-term stimulus measures. On the supply side, the non-agricultural sector continued to lead the recovery, supported by strong tourism and construction.

- **Inflation**. In April, headline inflation turned positive (0.1 percent year-on-year), a few months ahead of staff's forecast, as temporary factors led to an unexpected uptick in food prices, while the base effect of oil prices continued to wane. Core inflation stood at 0.8 percent, reflecting subdued demand-side inflationary pressures, broadly in line with staff's baseline.

3. **Thai financial indicators continue to strengthen in line with regional developments.** Thailand's ten-year government bond yield declined 57 bps year-to-date, the equity market index is up by 9.2 percent, and the Thai baht appreciated by 1.4 percent against the US dollar, but was relatively stable in nominal and real effective terms.

4. **On May 11, the Bank of Thailand kept the policy interest rate unchanged at 1.5 percent.** The Monetary Policy Committee (MPC) judged the Thai economy would continue to expand at a gradual rate although it acknowledged greater downside risks on the domestic front. Nonetheless, low bond yields and a decline in commercial bank lending rates contributed to easing monetary conditions. Therefore, the MPC voted unanimously to maintain the policy rate at 1.5 percent to preserve policy space, while noting that risks to financial stability from search-for-yield behavior continued to warrant close monitoring.

Statement by Pornvipa Tangcharoenmonkong, Alternate Executive Director for Thailand
May 23, 2016

1. The Thai authorities express their profound appreciation to the IMF mission team for the constructive and candid policy discussions, which centered on policies towards a long lasting economic recovery. They are in broad agreement with the staff's analysis and the three-pronged policy recommendation to implement an expansionary macroeconomic policy mix, safeguard financial stability and boost long-term potential growth. The authorities welcome staff's recognition of Thailand's strong macroeconomic fundamentals and ample buffers that have helped the country withstand adverse shocks relatively well, and would like to provide an update on the latest developments as well as clarifications on some policy issues.

Recent Developments and Near-Term Outlook

2. **The Thai economy has been on a gradual recovery path since the beginning of 2015** as private sector confidence is restored. In the first quarter of this year, the economy grew by 3.2 percent, driven mainly by government spending and broad-based increase in the number of inbound tourists. This outcome is in line with the authorities' growth projection of slightly above 3 percent for the year 2016.

3. **The authorities concur that risks to the economic outlook are tilted to the downside from both external and domestic fronts**, including weak global growth prospects, China's engineered slowdown due to the structural rebalancing, changes in global trade structure, plummeting commodity prices, as well as the drought's impact on the income of agricultural households. In addition, implementation and communication of monetary policy in major economies may continue to be a key contributing factor to capital flow and exchange rate volatility.

4. **Despite significant uncertainties and headwinds, Thailand is able to maintain overall economic stability and sound fundamentals**, supported by a strong external position, robust banking system and flexible exchange rate. Nevertheless, recent global economic and financial conditions do not warrant complacency and the authorities are closely monitoring global developments and preparing policy toolkits in order to appropriately counter unexpected shocks.

Macroeconomic Policy Response

5. **On fiscal policy, the authorities view that public spending will continue to play a crucial role in driving growth in 2016 and beyond**, in particular, investment expenditure that will help crowd-in private investments given its larger scale compared to last year. With steadfast resolution to get the economy back on sustainable growth path, the government is committed to pressing ahead with the implementation of key infrastructure projects. The expedition of the water resources management and road

transportation system projects has resulted in satisfactory expansion of public investment at 12.4 percent in the first quarter of this year, following a 41.2 percent growth in the fourth quarter of 2015. Against this backdrop, the authorities are optimistic that investment plan execution will progress at a higher rate compared to historical average and staff's assumption, and believe that it will contribute to shoring up private confidence and market sentiment.

6. **The Ministry of Finance has placed high priority on expediting the enactment of the Fiscal Responsibility Act to enhance public finance management,** especially on fiscal prudence and transparency. The draft Act has been approved by the Cabinet in March 2016 and submitted for consideration of the Council of State. The ongoing reforms of State Owned Enterprises (SOEs) together with the establishment of a Holding Company for SOEs, would enhance their governance and transparency, and also contribute to efficient implementation of government projects in the future. The authorities are encouraged by staff's public debt sustainability analysis which suggests that Thailand's public debt would remain on a sustainable path in the medium term despite various shock scenarios.

7. **On monetary policy, the authorities have maintained an accommodative stance to provide favorable liquidity and credit conditions** in order to complement expansionary fiscal policy in supporting domestic demand, while preserving financial stability. The authorities take note of staff's concerns over risk of deflation associated with negative headline inflation and falling inflation expectations in 2015, but view staff's assessment as too pessimistic. The development of headline inflation (in terms of y-o-y percentage change) in Thailand is rather country-specific to the extent that it is more sensitive to global oil price movements due to smaller tax cushion in retail fuel prices, in comparison to other oil importing countries. As such, the latest figures already show headline inflation returning to positive territory in April 2016 as the impact of base effect of high oil prices from past periods dissipates. Meanwhile, the latest medium-term consensus forecast for headline inflation (April 2016) stands close to the inflation target at 2.5 percent, suggesting that medium-term inflation expectations remain relatively well anchored. The authorities anticipate that headline inflation will gradually rise in 2016 and 2017 as a result of continued positive base effect and gradual closing of output gap, albeit remaining subject to the uncertain outturn of global oil price movements and domestic demand recovery.

8. **The authorities stress the importance of preserving policy space in light of potential policy spillovers of major economies and the bouts of volatility in the period ahead.** Although staff's simplified-model simulation of aggressive monetary policy easing (assuming 150 bps policy rate cut to zero percent) suggests that it might help prevent a downward spiral of inflation expectations, further easing needs to sufficiently take into account the effectiveness of monetary policy transmission under the low interest environment, and more importantly, the potential side effects on search-for-yield

behavior and financial stability. The Monetary Policy Committee will remain vigilant on macroeconomic and financial developments, and stand ready to make use of available policy space should significant risks materialize.

9. **Thailand has witnessed capital flows and financial market volatilities in recent periods driven by policy divergence of major central banks and the foreign investors' search-for-yield behavior.** In this regard, the flexible exchange rate has helped act as a shock absorber for the economy. The Bank of Thailand (BOT) also occasionally uses foreign exchange intervention to mitigate excessive exchange rate volatility so as to prevent its adverse effect on domestic financial conditions. In addition, the BOT announced additional measures earlier this year to relax foreign exchange regulations under the Capital Account Liberalization Master Plan aimed at deepening Thailand's financial markets and encouraging outward investment by residents to balance capital flow movements.

Financial Sector Stability

10. **We are encouraged by staff's acknowledgement that Thailand's financial system remains resilient amidst volatility in global financial markets and welcome in-depth assessment of macro-financial stability.** The banking sector, the key financial intermediary, has been performing well with comfortable level of capital buffers, liquidity and profitability ratios. Notwithstanding, the authorities acknowledge that there are pockets of vulnerabilities among Specialized Financial Institutions (SFIs) and less regulated intermediaries such as saving/credit cooperatives and non-bank financial institutions whose exposure to commercial banks have increased over the years.

11. **In line with staff's recommendation, the authorities give high priority to continue strengthening supervision and oversight of SFIs, most of which are financially healthy**. The transfer of supervisory authority over SFIs to the BOT is expected to be completed by the end of this year to ensure that SFIs would remain financially sound, while effectively fulfilling their mandates. The BOT is working on the necessary preparation to carry out both on-site and off-site examinations of SFIs for compliance with its regulations and risk management standards.

12. **Exposure of cooperatives to commercial banks may have noticeably increased but remains small in absolute terms.** Deterioration in their financial standings is thus likely to be contained, with limited spillovers to the overall banking sector. Nevertheless, given that potential implications for retail stakeholders remain, the supervisory agency has been in close consultation with the BOT on appropriate application of banking standards on savings cooperatives, and cooperatives' participation in the national credit bureau database to improve credit analysis and enhance risk monitoring.

13. **The issue of high household debt still lingers, partly as a result of deteriorating debt-service capabilities of agricultural and low-income households.** The authorities

share staff's concern that the debt overhang could weigh down consumption and in turn, hinder economic recovery. Nonetheless, recent figures suggest that household debt has somewhat leveled-off following the application of more stringent credit standards and as the legacy from government's consumption stimulus measures subsided. To address debt overhang, the authorities are working on policy measures to facilitate banks in the process of household debt restructuring.

14. **The authorities note staff's recommendation to tighten the macroprudential policies, but consider that the various measures currently in place are sufficient at this juncture.** Available policies in the current toolkit are not only in the form of regulations (e.g. LTVs, loan-loss provisioning, specific risk weights, capital surcharges, etc.), but also by means of moral suasion which have proven effective so far. The authorities are of the view that further tightening would require caution in light of sluggish growth. The degree of adjustment and timing of implementation are also critical to achieve the desired outcome without unintended consequences. To prepare for possible risks to financial stability, the authorities are undertaking study on new measures such as Debt-to-Income Ratio, and stepping up efforts to enhance data quality as well as risk monitoring tools to improve effectiveness of macroprudential policy implementation. In this respect, the authorities would like to express appreciation for the Fund's technical assistance in strengthening Thailand's financial stability framework.

Structural Reforms

15. **The authorities recognize that structural issues will have an important bearing on the economy in the long-run.** A number of reform policies and measures are underway to facilitate structural adjustment in the period ahead by promoting high value-added industries, transforming to digital economy, as well as deepening regional integration to strengthen the country's competitiveness. To achieve such objective, a number of infrastructure upgrade projects will facilitate a more effective transfer of factors of production both within the country and to neighboring countries. This plays to Thailand's geographical advantage of being located at the heart of the ASEAN economic community. The authorities have taken steps to improve the ease of doing business in Thailand and collaborated with the private sector to streamline business incorporation process, reduce red tape and documentation requirements.

16. **Regarding developments in regional integration, Thailand continues to benefit from the ASEAN Economic Community (AEC) and participation in other trade partnerships is also being considered.** Within ASEAN, the fast-growing CLMV countries have become Thailand's important trading partners. Their robust growth performances despite the global slowdown would contribute to Thailand's economic recovery in the period ahead. As pointed out by staff, the Trans-Pacific Partnership (TPP) could have important implications on the global trade structure going forward. Thai authorities are now studying the costs and benefits of TPP, and have been in consultation with national stakeholders to thoroughly evaluate opportunities from as well as the economic and social implications of joining the agreement. In addition, the authorities are

working on other trade partnerships such as the Regional Comprehensive Economic Partnership (RCEP) between ASEAN and six key regional economies.

17. **The authorities are aware that aging population could have important implications not only on labor productivity, but also on adequacy of social safety nets and pose contingent fiscal burden.** On staff's recommendation for a more open policy toward foreign workers, the authorities view that labor policy has been adequately flexible in addressing labor shortages and priority has been given to policies for improving migration management to solve the illegal workers problem and limit their impact on public health expenditure. To tackle this important issue in a holistic and sustainable manner, the authorities continue their efforts on upgrading labor skills in collaboration with the private sector, reforming the education system, and promoting the use of technology to increase productivity.

18. **On fiscal consequences of population aging, the authorities are initiating the work on pension system reforms.** The Ministry of Finance has set up a committee to undertake this task although details have yet to be released at this early stage. The authorities also aim to enhance individual savings through National Savings Fund that will cover 25 million people aged between 15-60 years in the informal sector so as to encourage accumulation of savings for retirement.

Final Remarks

19. The authorities believe that the Thai economy's strong fundamentals and resilience will provide solid foundation to meet the future challenges, while the country's long-term potential and competitiveness will be enhanced by the steadfast implementation of much needed reforms, many of which would foster sustainable private investment. The authorities look forward to continued support by the Fund through invaluable technical assistance in their reform endeavors.