INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/136

THAILAND

May 2017

2017 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 2017 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 17, 2017 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 17, 2017, following discussions that ended on March 1, 2017, 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 2, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** 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

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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May 31, 2017

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

IMF Executive Board Concludes 2017 Article IV Consultation with Thailand

On May 17, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation[1] with Thailand.

The Thai economy continued to recover in 2016. GDP growth reached 3.2 percent, mainly driven by exports of services and public investment. Amid subdued import growth and soaring tourism, the external current account strengthened further to 11.4 percent of GDP. Average headline inflation was 0.2 percent, below the tolerance band for the second year in a row, reflecting low energy prices and persistently weak core inflation. Financial markets were highly resilient in the face of external and domestic shocks.

The recovery is expected to advance at a moderate pace in the near to medium term. Public investment would remain a key driver, rising over the next few years in line with the government's infrastructure plans, and crowding in private investment. Headline inflation is projected to remain around the low end of the tolerance band in 2017–18, amid subdued core inflation. The current account surplus is expected to decline gradually, as domestic demand improves over the medium term. Headwinds arise from further weakness in the international environment, as well as from political uncertainty and structural bottlenecks. On the other hand, recent momentum in global growth could be sustained, providing upside risk through a faster recovery in Thai exports and tourism in the near term.

Policy space and ample buffers can be deployed to minimize the risk of a low-inflation, low growth trap. Structural bottlenecks are holding back employment and investment, reinforcing weak expectations of domestic demand. A mutually reinforcing policy mix of fiscal and monetary stimulus, coupled with structural reforms and a flexible exchange rate, can

[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.

support domestic demand in the short run and boost potential growth over the long run. Such strategy would help reduce the high current account surplus over the medium term through a growth-driven process, boosting real incomes.

Executive Board Assessment[2]

Executive Directors commended the authorities for maintaining macroeconomic stability through challenging domestic and external conditions. However, Directors noted that the ongoing recovery remains modest and faces downside risks, including from global uncertainty and financial volatility. They concurred that existing policy space and buffers should be deployed to curtail risks of a low-inflation, low-growth trap.

Directors supported the use of fiscal space through growth-enhancing public investment. They agreed that large infrastructure projects would help crowd-in private investment and play an important role in supporting growth and inflation as well as in facilitating external rebalancing. Directors noted that domestic revenue mobilization through growth-friendly taxes would finance expenditure needs and ensure debt sustainability over the longer term. They welcomed the authorities' plan for a comprehensive review of the pension system to tackle design shortcomings and population aging, with due consideration for equity, efficiency, and sustainability. Directors emphasized that articulating a medium-term fiscal strategy would enhance fiscal management and transparency.

Most Directors concurred that monetary easing, within a broader expansionary policy mix, could counteract the risk of low inflation becoming entrenched, while strengthening both macroeconomic and financial stability. They also noted that enhanced communication would improve the effectiveness of monetary policy transmission. A number of Directors supported preserving the monetary policy space at this time, with adjustments to the stance when warranted by new developments. Directors emphasized the importance of maintaining the exchange flexibility, with intervention limited to avoiding disorderly market conditions. A few Directors noted that there was scope for scaling back the overall size of interventions, and allowing the exchange rate to play a greater role as a shock absorber, given substantial external buffers.

Directors viewed financial stability risks as contained and commended the authorities' ongoing efforts to upgrade the financial stability framework. They agreed that pockets of vulnerability in the shadow banking system should be addressed by tailoring macroprudential policies and closing loopholes for regulatory arbitrage. Similarly, tighter macroprudential measures on highly leveraged households and certain segments of the real estate market could contain any buildup of systemic risk.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors welcomed the authorities' continued progress in poverty alleviation and supported efforts to strengthen the targeting and efficacy of fiscal measures to protect the most vulnerable. They noted that concerted reforms are needed to achieve sustained, inclusive growth and highlighted that priority should be given to mitigating the drag from the demographic transition by promoting labor force participation, facilitating skilled migration, and improving the quality of education.

Directors agreed that Thailand's external position is stronger than warranted by medium-term fundamentals and desirable policies, with some Directors citing Thailand-specific issues as contributing factors. They viewed a policy mix of fiscal and monetary stimulus, coupled with structural reforms and a flexible exchange rate, as instrumental to support domestic demand and help reduce the large current account surplus over time. Directors emphasized that such strategy would facilitate the needed real exchange rate appreciation through a growth-driven process, boosting real incomes.

Thailand: Selected Economic Indicators, 2013–18

	2013	2014	2015	2016 Prel.	2017 Proj.	2018 Proj.
Real GDP growth (y/y percent change) 1/	2.7	0.9	2.9	3.2	3.2	3.3
Consumption	1.1	1.3	2.4	2.7	3.3	3.7
Gross fixed investment	-1.0	-2.2	4.4	2.8	5.1	8.0
Inflation (y/y percent change)						
Headline CPI (end of period)	1.7	0.6	-0.9	1.1	1.2	0.6
Headline CPI (period average)	2.2	1.9	-0.9	0.2	1.0	1.2
Core CPI (end of period)	0.9	1.7	0.7	0.7	0.9	1.2
Core CPI (period average)	1.0	1.6	1.1	0.7	0.7	1.1
Saving and investment (percent of GDP)						
Gross domestic investment	27.5	24.0	22.2	22.0	24.2	24.7
Private	19.7	19.5	18.3	17.8	17.6	18.1
Public	5.7	5.2	6.3	6.5	7.0	7.4
Change in stocks	2.1	-0.7	-2.4	-2.3	-0.4	-0.7
Gross national saving	26.4	27.7	30.3	33.4	33.8	32.4
Private, including statistical discrepancy	22.0	24.8	25.8	26.2	28.3	27.1
Public	4.4	2.9	4.5	7.2	5.5	5.3
Foreign saving	1.2	-3.7	-8.1	-11.4	-9.6	-7.7
Fiscal accounts (percent of GDP) 2/						
General government net lending (+)/net borrowing (-) 3/	0.5	-0.8	0.1	0.6	-1.6	-1.8
SOEs net lending (+)/net borrowing (-)	-1.8	-0.5	0.7	0.8	0.3	-0.2
Public sector net lending (+)/net borrowing (-) 4/	-1.3	-1.3	0.9	1.3	-1.3	-2.0
Public sector debt (end of period) 4/	42.2	43.4	42.7	42.2	41.5	41.3
Monetary accounts (end of period, y/y percent change)						
Broad money growth	7.3	4.7	4.4	4.2	4.5	4.8
Narrow money growth	3.9	1.3	5.7	4.8	5.3	5.3
Credit to the private sector by depository corporations	9.6	5.1	4.9	4.8	5.3	5.0
Balance of payments (billions of U.S. dollars)						
Current account balance	-4.8	15.1	32.1	46.8	41.7	35.4
(Percent of GDP)	-1.2	3.7	8.1	11.4	9.6	7.7
Exports, f.o.b.	227.5	226.7	214.1	214.1	222.3	229.1
Growth rate (dollar terms)	-0.1	-0.3	-5.6	0.0	3.8	3.1
Growth rate (volume terms)	0.1	0.6	-3.4	0.0	1.9	1.9
Imports, f.o.b.	227.4	209.4	187.2	178.4	191.3	202.0
Growth rate (dollar terms)	-0.1	-7.9	-10.6	-4.7	7.3	5.6
Growth rate (volume terms)	2.0	-6.2	0.3	-2.1	1.6	4.5
Capital and financial account balance 5/	-0.2	-16.3	-26.3	-34.0	-41.7	-35.4
Overall balance	-5.0	-1.2	5.9	12.8	0.0	0.0
Gross official reserves (including net forward position, end of period)						
(billions of U.S. dollars)	190.2	180.2	168.2	197.6	197.6	197.6
(Months of following year's imports)	10.9	11.6	11.3	12.4	11.7	11.1
(Percent of short-term debt) 6/	267.3	257.4	280.1	308.6	324.8	296.0
(Percent of ARA metric)	209.3	187.4	204.6	210.9	...	...
Forward position of BOT (end year)	-24.1	-23.0	-11.7	-25.8	...	...
Exchange rate (baht/U.S. dollar)	30.7	32.5	34.2	35.3	...	...
NEER appreciation (annual average)	5.5	-3.0	4.4	-3.2	...	...
REER appreciation (annual average)	5.9	-3.2	2.5	-4.0	...	...
External debt						
(Percent of GDP)	35.8	34.7	32.1	32.5	31.8	31.4
(Billions of U.S. dollars)	141.9	141.7	131.4	131.4	138.1	145.1
Public sector 7/	25.2	25.3	20.6	22.5	28.8	35.1
Private sector	116.7	116.4	110.8	108.9	109.4	110.0
Medium- and long-term	56.1	60.4	58.7	57.7	53.6	53.3
Short-term (including portfolio flows)	60.6	56.0	52.2	51.2	55.8	56.7
Debt service ratio 8/	4.0	4.9	6.3	6.3	6.0	6.4
Memorandum items:						
Nominal GDP (billions of baht)	12,921	13,204	13,673	14,361	15,117	15,895
(Billions U.S. dollars)	420.5	406.5	399.2	406.8	434.4	461.9

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

1/ This series reflects the new GDP data based on the chain volume measure methodology, 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 SOEs.
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 2017 ARTICLE IV CONSULTATION

May 2, 2017

KEY ISSUES

The recovery is expected to advance at a moderate pace, but large uncertainty and downside risks cloud the outlook. GDP growth is projected to reach 3.2 percent in 2017 and 3.3 percent in 2018, with inflation at the low end of the tolerance band (2.5±1.5 percent). Headwinds arise from further weakness and volatility in the external environment, as well as from domestic political uncertainty and structural bottlenecks.

Policy space and ample buffers can be deployed to minimize the risk of a low-inflation, low-growth trap. While cyclical conditions are improving, Thailand is afflicted by features of low growth and aging as some advanced economies. Staff recommended an expansionary policy mix and structural reforms to support domestic demand and lift inclusive growth over the longer term. Such strategy is needed to reduce the excessive current account surplus through a growth-driven process.

- *Monetary policy easing and clear communication should steer inflation back to target.* Monetary easing would counteract the risk of low inflation becoming entrenched and prevent a further rise in real interest rates and the real debt burden. The exchange rate should remain a key shock absorber, with foreign exchange intervention limited to avoiding disorderly market conditions.

- *Macroprudential policy and regulatory reform can address emerging pockets of financial fragility.* Financial stability risks remain contained. Concerns that monetary easing could exacerbate systemic risks can be addressed by tailoring macroprudential policies and closing loopholes for regulatory arbitrage. Continuing to upgrade the financial stability framework will also reinforce stability.

- *Thailand has some fiscal space and staff supported its use to remove infrastructure bottlenecks in a sustainable, medium-term framework.* Infrastructure projects remain macro-critical to crowd-in private investment and support growth and external rebalancing. Revenue mobilization should provide for the demographic transition and secure longer-term debt sustainability. A medium-term fiscal strategy would enhance fiscal management and transparency.

- *Concerted reforms should foster inclusive and sustained growth.* A priority is addressing the challenges from population aging through social security reform, higher female labor force participation, high-skilled migration, and education reform. There is also scope to enhance private investment and total factor productivity (TFP). Well targeted social transfers and more progressive taxes should mitigate the effects of structural reforms on income inequality.

Approved By
Markus Rodlauer and Zuzana Murgasova

Discussions took place in Bangkok during February 16–March 1, 2017. The staff comprised Ms. Corbacho (head), Messrs. Craig, Garcia, Lopez-Murphy, and Wu (all APD). Mr. Rodlauer (APD) participated in policy discussions. Messrs. Omar and Sumawong (OED) accompanied the mission. Mss. Dao (APD) and Mendes Tavares (SPR) and Messrs. Laxton, Melina and Zhang (all RES) provided analytical inputs. Mr. Landicho (APD) coordinated the production of the report.

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APPENDICES

CONTEXT

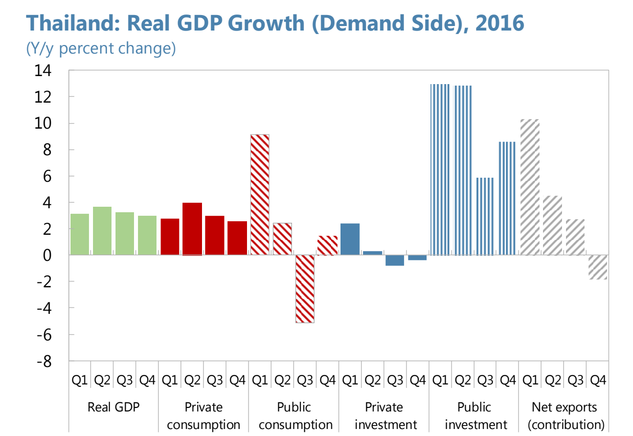
1. **Thailand has maintained macroeconomic stability through challenging domestic and external conditions**. The new constitution received royal endorsement in April 2017. General elections could take place next year, following the enactment of organic laws for the new constitution. Prudent macroeconomic management, underpinned by highly regarded policy-making institutions, has maintained macroeconomic stability during uncertain political times, though urban-rural polarization remains an underlying challenge. A flexible exchange rate, high international reserves, and relatively low public debt continue to provide strong resilience against volatile external conditions.

2. **While cyclical conditions are improving, Thailand is afflicted by features of low growth and aging as some advanced economies**. Over the last decade, GDP growth has trailed behind regional peers (Figure 1). Inflation, investment, and employment rates have steadily declined since 2012. Rapid population aging, widespread informality, and overdue structural transformation represent important bottlenecks. The resulting drag on potential output has reinforced weak expectations of domestic demand. Notwithstanding low growth, progress in poverty alleviation has been impressive, with extreme poverty virtually eradicated by 2013.

3. **Discussions focused on a strategy to use policy space to avoid a low-growth, low-inflation trap and redress the large external imbalance**. During 2016, the authorities implemented fiscal stimulus broadly in line with staff advice, while monetary policy was tighter than recommended (Appendix 1). In this consultation, staff underscored the benefits of policy synergy and structural reforms to align short- and long-term goals by: (i) easing monetary policy, while tailoring macroprudential policies to address emerging pockets of fragility, (ii) using fiscal space with a long-term view, and (iii) upgrading structural conditions for inclusive, sustained growth.

RECENT DEVELOPMENTS

4. **The economy continued to recover in 2016**. GDP growth reached 3.2 percent, mainly driven by exports of services and public investment (Figure 2). Private consumption was robust amid rising farm income, while private investment remained subdued. On the supply side, tourism sectors were the most dynamic, notwithstanding a temporary slowdown in the last quarter of 2016, due to government efforts to curb illegal tour operators and limited festivities during the mourning period for the late King.



Sources: Thai authorities; and IMF staff calculations.

5. Monetary conditions tightened, while fiscal policy was expansionary.

- Average headline inflation was 0.2 percent in 2016, below the tolerance band (2.5±1.5 percent) for the second year in a row, due to low energy prices but also declining core inflation. Notwithstanding downward revisions to inflation forecasts, the Bank of Thailand (BOT) has kept the policy rate at 1.5 percent since April 2015, citing the need to preserve policy space given global uncertainty and to safeguard financial stability in a low-interest-rate environment. Despite the low policy rate, the (ex-ante) real interest rate increased from 0.3 percent to 1.3 percent during 2016,[1] above staff estimates of the neutral rate.[2]

- Credit growth to the private sector by depository corporations slowed to 4.0 percent (y/y) in December, amid tightening credit standards and rising NPLs (from a low base), while corporate bond issuance continued at a robust pace (Figures 4-5). The household debt ratio stabilized.

- The structural primary balance of the public sector weakened by 1.3 percent of GDP in FY 2016,[3] as public investment accelerated and taxes were cut to bolster domestic demand. The public debt ratio fell slightly given favorable financing conditions.

6. The external position strengthened further. In 2016, the current account surplus climbed to 11.4 percent of GDP, supported by strong tourism and import compression. Low oil prices and rising tourism income accounted for about 2 percent of GDP (or two-thirds) of the increase in the current account since 2015 (Figure 6). The capital and financial account registered a deficit of 6.1 percent of GDP, with outflows reflecting mainly Thai corporates' investment overseas, while FDI inflows slowed given political uncertainty and tepid growth. Gross international reserves increased by US$29.4 billion (including US$14 billion in the net forward position) to US$197.6 billion in December.[4] Interventions appear to have been two sided, as shown by changes in reserves and the net forward position (the only proxies for intervention, as actual intervention data are not published) that have been positive (7 months) and negative (5 months) throughout 2016.

7. Thailand remained highly resilient during episodes of global financial volatility. Portfolio inflows rallied after Brexit, with Thai financial assets seen as a safe haven within ASEAN, given the strong external position and resilience factors. Portfolio outflows were sizable following the U.S. election but have partially recovered, while the baht appreciated against the U.S. dollar, in

[1] The real interest rate at the beginning of 2016 was measured as the difference between the nominal policy rate and consensus forecast for headline inflation. The real rate at the end of 2016 was measured as the difference between the policy rate and the inflation outturn.

[2] Staff estimated the neutral rate at 0.2 percent in 2016, driven by a persistently negative output gap and a protracted period of below-target inflation. The methodology is based on a TVP-VAR as in Lubik, T., and Matthes, C., 2015, "Calculating the Natural Rate of Interest: A Comparison of Two Alternative Approaches," Economic Brief No. 15-10, (Richmond, VA: Federal Reserve Bank of Richmond).

[3] The structural balance is adjusted by one-off revenue from the 4G license auction (1.6 percent of GDP).

[4] Reserves stood at 211 percent of the ARA metric unadjusted for capital controls.

contrast to exchange rate depreciation elsewhere. With the turn in external financial conditions, the Thai bond yield curve shifted up.

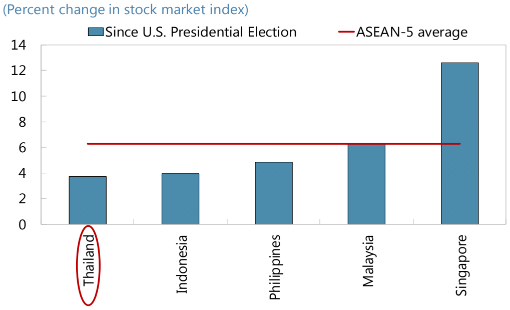
OUTLOOK AND RISKS

8. The recovery is expected to advance at a moderate pace in the near to medium term. Staff's baseline (most likely) scenario assumes a constant monetary policy rate and fiscal stimulus of the nonfinancial public sector of cumulative 1 percent of GDP over 2017–2019. Growth is projected at 3.2 percent in 2017, same as in 2016 purely due to carryover from the transitory slowdown in Q4.[5] Growth is then expected to gain momentum driven by higher investment, before converging to 3 percent over the medium term. Large infrastructure projects are expected to crowd-in private investment and imports, while exports would strengthen along with external demand. The output gap would close gradually, with inflation at the low end of the tolerance band in 2017–18 and below the mid-point target for several years. Credit is projected to grow in line with nominal GDP, as in past recoveries under political uncertainty.

Thailand: Asset Prices and Capital Flows Post U.S. Election

Thailand's equity prices moved broadly in line with peers…

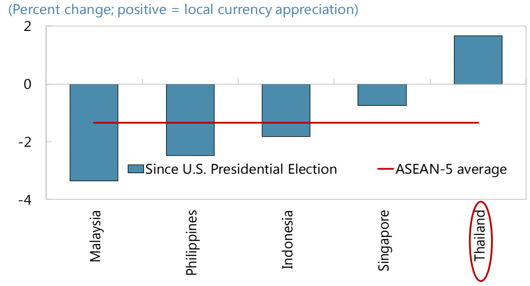
ASEAN-5: Equity Price Movements 1/
(Percent change in stock market index)



Sources: Bloomberg L.P.; and IMF staff calculations.
1/ Data are as of April 28, 2017.

…while the exchange rate appreciated.

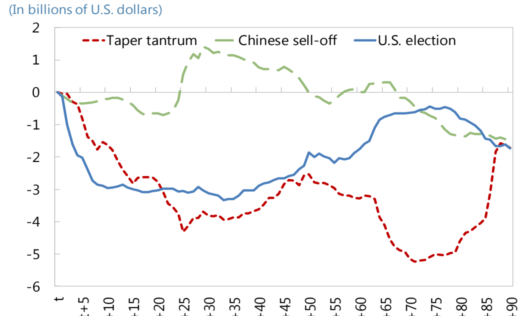
ASEAN-5: Bilateral Exchange Rate Movements against USD 1/
(Percent change; positive = local currency appreciation)



Sources: Bloomberg L.P.; and IMF staff calculations.
1/ Data are as of April 28, 2017.

Portfolio outflows partially recovered…

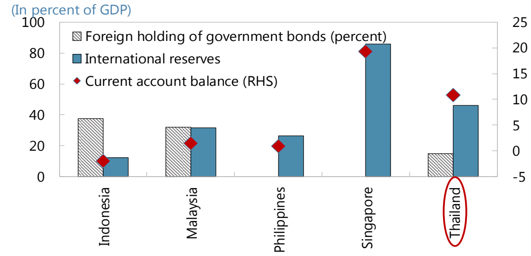
Thailand: Cumulative Portfolio Flows
(In billions of U.S. dollars)



Sources: Bloomberg L.P. ; and IMF staff calculations.

…supported by strong resilience factors.

ASEAN-5: Current Account, Reserves, and Foreign Holding of Local Currency Government Bonds 1/
(In percent of GDP)



Sources: Authorities; Asian Development Bank; and IMF staff calculations.
1/ Data for foreign holding of government bonds are not available for the Philippines and Singapore.

[5] Quarterly growth is projected at 1 percent (s.a.) throughout 2017, more than doubling growth in 2016: Q4.

9. The outlook is subject to significant uncertainty and downside risks. On the external front, a bumpy rebalancing in China may hurt Thai exports. A shift in the U.S. policy mix towards more expansionary fiscal policy and tighter monetary policy could generate capital outflows, raise financing costs, and heighten global volatility. Trade protectionism could particularly affect open economies such as Thailand over the medium term. On the other hand, recent momentum in global activity could be sustained, providing upside risk for Thai exports and tourism. On the domestic front, further delay in the call for elections could dent private sector confidence and investment. Weaker crowding-in of private investment would reduce domestic demand and potential growth. Low inflation could become entrenched, and the household debt overhang could create stronger-than-expected headwinds to consumption and growth (Appendix 2).

Thailand: Staff's Baseline (Most Likely) Scenario, 2013–22

				Prel.	Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Real GDP growth (y/y percent change)	2.7	0.9	2.9	3.2	3.2	3.3	3.2	3.1	3.0	3.0
Output gap (percent of potential output)	1.5	-0.7	-0.8	-0.7	-0.5	-0.2	0.0	0.0	0.0	0.0
Headline CPI inflation (period average, y/y percent change)	2.2	1.9	-0.9	0.2	1.0	1.2	1.6	2.0	2.3	2.5
Public sector balance (percent of GDP, fiscal year basis)	-1.6	-1.4	0.8	1.3	-1.3	-2.0	-2.3	-2.2	-2.1	-2.0
Structural public sector primary balance (Percent of GDP, fiscal year basis)	-0.7	0.3	2.3	1.0	0.5	0.0	-0.2	-0.1	0.1	0.2
Total public sector debt (Percent of GDP, fiscal year basis, end of period)	42.2	43.4	42.7	42.2	41.5	41.3	41.7	41.7	41.6	41.3
Current account balance (percent of GDP)	-1.2	3.7	8.1	11.4	9.6	7.7	6.1	4.8	3.5	2.7
Credit to the private sector by depository corporations (End of period, y/y percent change)	9.6	5.1	4.9	4.8	5.3	5.0	5.0	4.8	4.7	4.4

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

10. The authorities broadly shared staff's assessment of risks to growth, though considered the outlook to be somewhat stronger than staff. They agreed that growth momentum was gradually improving, driven mainly by public spending, exports, and private consumption. They expected growth in the range of 3 to 4 percent in 2017, and 3.5 to 4.0 percent over the medium term, buoyed by stronger contributions from investment and TFP. The authorities recognized downside risks from global headwinds, which might prompt an adjustment in the macroeconomic policy mix to mitigate any potential adverse impact on the Thai economy.

A STRATEGY FOR SUSTAINED, INCLUSIVE GROWTH

11. Staff recommended a strategy to support domestic demand in the short run and lift inclusive, potential growth over the long run. Staff underscored the benefits of policy synergy and structural reforms to align short- and long-term goals. Monetary easing would improve the outlook by reinforcing the fiscal stimulus already in the pipeline and closing faster the output and inflation gaps, with macroprudential policies addressing any buildup of systemic risk. Fiscal space should be used to upgrade infrastructure, strengthen social safety nets, and facilitate structural reforms, balancing short-term stimulus with long-term sustainability.

12. Such strategy would help reduce the excessive current account surplus over time. Based on the External Balance Assessment (EBA) model, and accounting for Thailand-specific factors, staff assessed the 2016 external position as substantially stronger than warranted by medium-term fundamentals and desirable policies, with a current account gap of 3 to 7 percent of GDP and a real effective exchange rate (REER) gap of -11 to -5 percent. Developments in early 2017 are unlikely to change the assessment (Appendix 3). However, estimates are subject to a wide margin of error reflecting Thailand-specific factors not captured in the EBA model, in particular the cautious response of domestic demand to the sharp improvement in terms of trade and tourism during a period of political uncertainty (Box 1 and Selected Issues Paper). Underdeveloped social safety nets within a fast demographic transition may also be driving up precautionary savings. A mutually reinforcing policy mix of fiscal and monetary stimulus, coupled with structural reforms, should support domestic demand and external rebalancing over the medium term. This will help to ensure that the needed REER appreciation takes place through a growth-driven process, boosting real incomes.

Thailand: EBA Estimates and Staff Adjustments

Actual current account (CA)	11.4
EBA CA estimates	
Cyclical adjustment	0.3
Cyclically adjusted CA	11.1
CA norm	1.1
CA gap	10.0
Policy gap	2.3
Unexplained residual	7.6
Staff-adjusted estimates	
Cyclical and transitory adjustments	[3.0, 7.0]
Terms of trade	[1.0, 1.5]
Tourism	[1.0, 1.5]
Political uncertainty	[1.0, 4.0]
CA gap	[3.0, 7.0]

Source: IMF staff estimates.

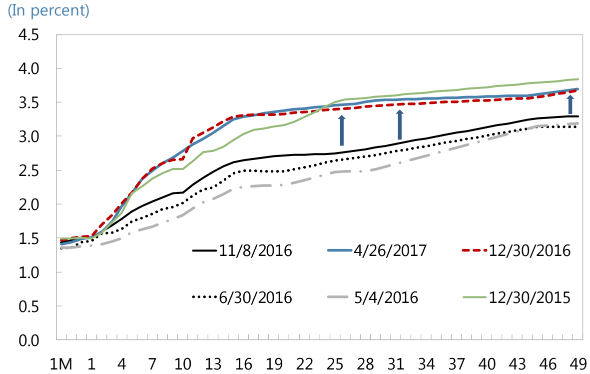
13. The authorities agreed that the current account surplus should decline over time through a growth-driven process. They emphasized that the boom in terms of trade and tourism and low private investment and consumption, accounted for a large share of the recent increase of the current account surplus. They concurred that investment-led fiscal stimulus and structural reforms to boost growth would raise imports over time, accompanied with gradual REER appreciation. However, they cautioned against the interpretation of the Fund's estimated REER undervaluation based on a regression with a large unexplained residual, which did not capture features specific to Thailand, including its high oil intensity and net oil imports, as well as the surge in tourism income in recent years. In their view, the Fund had not given sufficient weight to factors contributing to imbalances from the perspective of emerging markets on the receiving end of capital flows, and had neglected the global environment and spillovers from originating countries. The authorities stressed that their exchange rate policy had not aimed to gain any unfair competitive advantage for Thai exports, which had declined in recent years, but rather to avoid abrupt exchange rate movements driven by capital inflows in order to safeguard financial market stability.

A. Reaching the Inflation Target

14. The Bank of Thailand (BOT) successfully kept inflation within the target range for over a decade following the adoption of flexible inflation targeting in 2000. In 2015–16, however, the sharp drop in oil prices, falling core inflation and inflationary expectations for 2015 and 2016, and a lingering negative output gap resulted in a protracted period of below-target inflation (Box 2). Headline inflation recovered alongside energy prices to 1.6 percent in early 2017 (within the band), but slid to 0.8 percent in March (outside the band), given low food prices. Core inflation declined to 0.6 percent in March and is expected to remain subdued. In staff's baseline scenario, with a constant policy rate and modest fiscal stimulus, headline inflation will remain at the low end of the tolerance band in 2017 with significant downside risks. Moreover, inflation is projected to undershoot the mid-point target for several years.

Thailand: Government Bond Yield Curve

(In percent)



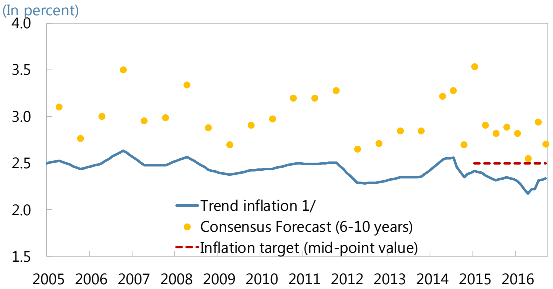
Source: Thai Bond Market Association.

15. Staff recommended monetary easing to improve the balance of risks and steer inflation towards its target. Staff emphasized that monetary easing should be part of a broader expansionary policy mix, while macroprudential policies address systemic risks. Monetary easing would counteract risks of low inflation becoming entrenched and prevent a further rise in real interest rates and the real debt burden. Moreover, a faster convergence to target would allow a faster exit from the low-interest-rate environment, strengthening both macroeconomic and financial stability. Monetary easing would also counteract the sharp steepening of the yield curve over the last six months, particularly in the one- to three-year segment driven by issuance of BOT bills to sterilize capital flows.

Staff estimates show that the long-term inflation trend—the level of inflation that would prevail once transitory influences unwind—dropped below the mid-point target in early 2015. This has weakened the contribution of forward-looking dynamics to headline inflation (Selected Issues Paper).

Thailand: Trend Inflation

(In percent)

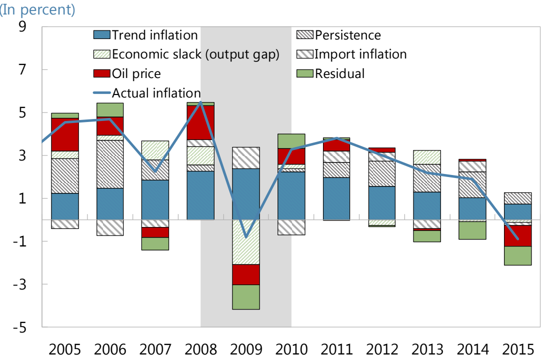


Sources: Consensus Forecast; and IMF staff calculations.

1/ Trend inflation estimates, from Garcia and Poon (forthcoming), are based on actual inflation dynamics and long-term survey inflation expectations, following Chan, J., Clark, T., and Koop, G., 2015, "*A New Model of Inflation, Trend Inflation, and Long-Run Inflation Expectations*," FRB of Cleveland Working Paper No. 15-20.

Thailand: Main Drivers of Inflation

(In percent)



Sources: Thai authorities; and IMF staff calculations.

16. Enhanced communication of the strong determination to meet the inflation target would strengthen monetary policy effectiveness. The authorities noted, and staff agreed, that transmission through the credit channel could be weak in the current environment. Yet, staff cautioned that the "expectations channel" had also weakened in recent years, making headline inflation more vulnerable to the negative oil price shock. Enhanced communication of the strong determination to meet the inflation target, including forward guidance if needed, would reinforce the effectiveness of policy easing.

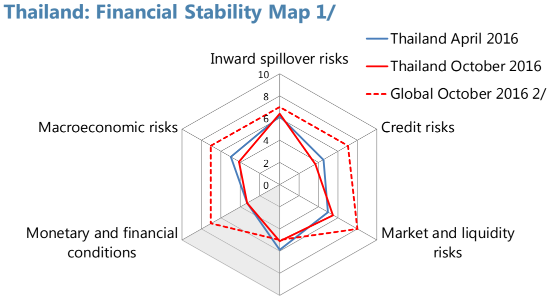
17. The exchange rate should be allowed to adjust flexibly, with foreign exchange intervention limited to avoiding disorderly market conditions. The authorities noted that their exchange rate policy aimed to smooth excessive volatility. Staff emphasized that Thailand's large external buffers, low share of public debt held by nonresidents, declining external financing requirements (Appendix 4), and low FX debt provided strong resilience against external shocks and enhanced monetary policy autonomy. FX intervention limited to avoiding disorderly market conditions would enable the exchange rate to play its role as a shock absorber.

18. The authorities assessed the current monetary policy rate as appropriately accommodative to support the recovery. They believed medium-term inflation expectations were still well anchored, while available evidence did not suggest price dynamics would fall into a self-fulfilling low inflation trap. In their view, the slowdown in credit growth was driven by weak demand amid sluggish private investment and global headwinds, putting into question the effectiveness of policy transmission through the credit channel. Moreover, the authorities emphasized that further monetary easing would need to assess whether the marginal benefits could outweigh the costs of undesirable side effects on financial stability, as the prolonged period of low interest rates could lead to undesirable search-for-yield behavior and pockets of financial fragility. They argued that policy space should be preserved, but clarified they stood ready to ease monetary policy further if the recovery did not turn out as expected or if significant shocks materialized. They agreed that the exchange rate should continue to adjust flexibly, but noted the need to smooth the impact of large capital flows, which could lead to excessive volatility in a period of fragile domestic demand and uncertain global recovery.

B. Preserving Financial Stability

19. Financial stability risks remain contained. Short-term risks broadly receded in 2016, with Thailand's scores in the Financial Stability Map well within those in the comparable global map for emerging markets. The Financial Soundness Indicator Map also suggests declining vulnerabilities, with subdued credit growth and strong commercial banks' balance sheets. Specialized Financial Institutions (SFIs) appear sound, although many have lower profitability and

Thailand: Financial Stability Map 1/

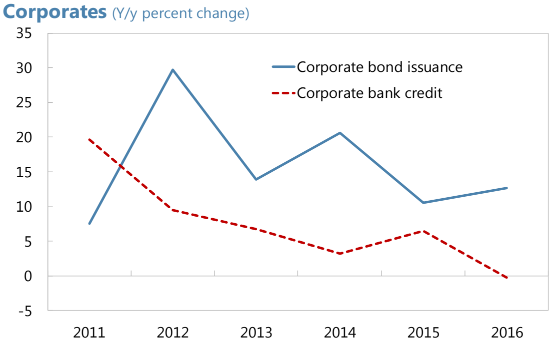


Source: IMF staff calculations.
1/ Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.
2/ Inward spillover risks for emerging markets.

higher NPLs than commercial banks, reflecting their policy bank mandate. However, pockets of risk may be increasing in the "shadow" banking system. This seems driven by regulatory arbitrage more than a search for yield in the low-interest-rate environment, as there is little sign of a buildup in leverage.

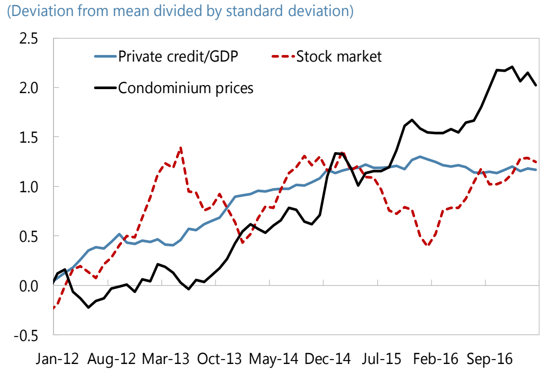
20. Macroprudential policy and regulatory reform can address emerging pockets of financial fragility. Concerns that policy rate cuts could exacerbate systemic risks can be addressed by targeted macroprudential policies. Closing loopholes for regulatory arbitrage by harmonizing the prudential framework across different types of institutions would also help ensure that monetary easing does not give rise to financial stability risks.

Thailand: Growth in Bank Credit and Bond Issuance for Corporates (Y/y percent change)



Sources: Bank of Thailand; Thai Bond Market Association; and IMF staff calculations.

Thailand: Financial Cycle
(Deviation from mean divided by standard deviation)



Sources: Thai authorities; Haver Data Analytics; and IMF staff calculations.

- *Regulatory arbitrage*. Risk is migrating to the more lightly regulated nonbank financial institutions (NBFIs) and credit cooperatives in the "shadow" banking system. Households are shifting deposits to these institutions, enabling them to increase financing. This is driven by regulatory arbitrage, as a large proportion of this shift occurs within the same financial group, where the NBFI arm can generally offer higher-yielding deposit substitutes and cheaper financing opportunities than the commercial bank arm. This facilitated strong debt issuance by highly rated corporates against weak bank credit. Overall financial stability risks are limited by the still small size of the shadow banking system and predominance of higher-rated corporate borrowers. Expanding the regulatory perimeter to harmonize the regulatory treatment across these institutions, particularly through integrated supervision of conglomerates and of liquidity risk (Appendix 5), should correct any underpricing of risk and help preserve financial stability.

- *Household debt.* Risks from household debt are contained by the strengthened balance sheets of banks, who hold most of the debt and have slowed their lending (Appendix 5). To avoid unduly constraining overall credit growth, risks can be mitigated by targeting macroprudential measures at highly leveraged households and the potential tail risk of a self-reinforcing cycle of household defaults and deleveraging.

- *Housing markets*. The rise in housing prices is concentrated in the Bangkok condominium market, supported by mortgage loan growth and foreign buying. Risks can be addressed through targeted, time-varying macroprudential tools (e.g., by tightening credit standards and risk weights; and loan-to-value or debt-to-income limits for mortgage loans).

21. The BOT made significant strides in strengthening the financial stability framework. The transfer of SFIs to the regulatory umbrella of the BOT and the planned regulatory reform for cooperatives will strengthen supervisory oversight. Building on the Financial Stability Unit, macrofinancial surveillance capacity should be further upgraded by enhancing cooperation among regulators. This should focus on identifying and correcting any mispricing of systemic risk, including from newer forms of finance. Financial regulators for banks, NBFIs, and cooperatives should have explicit financial stability mandates with formal roles and responsibilities, under the BOT's coordination. This can proceed separately from establishing the resolution authority over SFIs and contingency plans for systemic crisis, which remain critical. Drawing on the Asia Pacific Group's ongoing assessment, effective AML/CFT supervision will ensure that ML/TF risks remain contained.

22. The authorities agreed on the merits of further developing macroprudential tools, which they viewed as a complement, rather than a substitute, to sound monetary policy. They emphasized that macroprudential tools should not be expected to work effectively against the broader monetary policy stance. They cited concerns over financial stability risks in the decision to keep monetary policy rates on hold, and highlighted that if the policy rate was lowered, a tightening of macroprudential policies may not be effective in containing the emergence of risks through new forms of shadow banking. These risks originated from exploiting regulatory loopholes and would take time to address. On real estate prices, the authorities highlighted that the boom was concentrated in high-end condominiums, channeling excess savings of high-net-worth individuals, while recent data indicated the rise in prices had moderated. In addition, as banks had been cautious with their credit policies and most of the large real estate developers were in strong financial position, the authorities saw limited systemic risk. Nevertheless, the authorities noted they would remain vigilant and monitor search-for-yield behaviors that could lead to cumulative pockets of risk and vulnerability. Staff acknowledged that tailoring macroprudential policies could take time and agreed on the need for continued vigilance.

Thailand: Financial Soundness Indicator Map 1/

	2014:Q4	2015:Q4	2016:Q1	2016:Q2	2016:Q3
Overall Rating	M	M	L	L	L
Credit cycle of all financial corporations	M	M	L	L	L
Change in credit / GDP ratio (pp, annual)	3.9	3.5	-1.4	-1.8	-2.2
Growth of credit / GDP (%, annual)	2.7	3.0	2.4	-0.9	-1.2
Credit-to-GDP gap (st. dev)	-1.2	-0.6	-1.1	-0.8	-0.7
Balance Sheet Soundness of Commercial Banks	L	L	L	L	L
Balance Sheet Structural Risk	L	L	L	L	L
Deposit-to-loan ratio 2/	104.0	102.5	105.0	103.3	102.7
FX liabilities % (of total liabilities)	1.5	1.8	1.7	1.6	1.4
FX loans % (of total loans)	5.5	5.8	5.4	5.4	5.3
Balance Sheet Buffers	L	L	L	L	L
Leverage	L	L	L	L	L
Leverage ratio (%)	11.7	12.3	12.2	12.4	13.1
Profitability	L	L	L	L	L
ROA	1.7	1.4	1.5	1.4	1.4
ROE	14.7	11.1	11.4	11.0	11.0
Asset quality	L	M	M	M	L
NPL ratio	2.3	2.7	2.8	2.9	3.1
NPL ratio change (%, annual)	0.1	16.4	16.1	15.6	4.7
Balance Sheet Soundness of Depository SFIs	L	L	L	L	M
Balance Sheet Structural Risk	L	L	L	L	M
Deposit-to-loan ratio 2/	87.7	86.3	86.5	85.2	84.3
FX liabilities % (of total liabilities)	0.8	0.8	0.8	0.7	0.7
FX loans % (of total loans)	0.7	0.7	0.7	0.7	0.7
Balance Sheet Buffers	L	L	L	L	L
Leverage	M	M	M	M	M
Leverage ratio (%)	5.8	5.7	5.8	5.8	5.9
Profitability	L	L	L	L	L
ROA	0.7	0.8	0.8	0.8	0.8
ROE	6.8	7.4	7.6	7.2	7.5
Asset quality	L	L	L	L	L
NPL ratio	4.2	3.9	3.8	4.0	4.7
NPL ratio change (%, annual)	-1.5	-6.4	-5.7	-2.6	3.1

Source: IMF staff calculations.

1/ The latest data is based on 2016:Q3. Credit cycle analysis is based on loans and securities by all financial corporations, including depository and nonbank institutions. Due to data constraints, balance sheet soundness analysis excludes credit cooperatives and small institutions, which represent 9.8 percent of total assets of depository corporations.

2/ Deposits and loans exclude interbank data.

C. Using Fiscal Space with a Long-Term View

23. **In staff's baseline scenario, the fiscal balance is expected to weaken with the boost to infrastructure, though public debt would remain sustainable in the medium term**. Staff's baseline scenario assumes an execution rate of about 50 percent for the government's investment plan launched in 2015, in line with historical patterns.[6] The baseline also incorporates a gradual rise in public spending on health and pensions, in line with demographics. Along tighter external

[6] The five-year infrastructure plan has been in the pipeline for several years (see 2015 Staff Report).

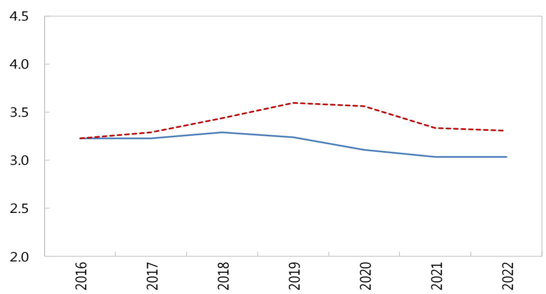
conditions, growth-interest rate differentials are expected to shrink. Still, public debt would remain broadly stable over the medium term—within the Cabinet ceiling of 60 percent of GDP, which remains appropriate (Appendix 6).

24. Thailand has *some* fiscal space and staff supported its use for higher public investment. Staff estimates that a relaxation of the primary balance of cumulative 1 percent of GDP during 2017-19, as in staff's baseline, is consistent with a broadly stable debt-to-GDP ratio. The existing fiscal space should be used for large infrastructure projects that remain macro-critical,[7] rather than for untargeted, short-term measures poorly aligned with long-term goals. Higher public investment than in the baseline would support domestic demand and inflation, redress faster the external imbalance, and increase potential growth. However, it would require stronger implementation capacity and a modest revenue effort to stabilize debt in the medium term (Active Scenario). More ambitious revenue is needed over the long term given rising age-related spending (Appendix 7).

Thailand: Alternative (Active) Medium-Term Scenario

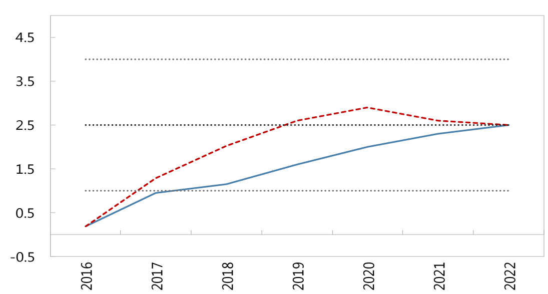
The baseline (most likely) scenario assumes a constant monetary policy rate, cumulative fiscal stimulus of 1 percent of GDP over 2017–19, and no major tax policy changes. The alternative (active) scenario incorporates (i) monetary easing, (ii) additional public investment of cumulative 1 percent of GDP sustained over the medium term, and (iii) an increase in the VAT rate to 8.5 percent (still below the statutory rate of 10 percent), phased in from 2019, once the recovery is entrenched. In this alternative scenario, inflation reaches the mid-point target by 2019 with a substantial improvement in the balance of risks, private investment crowds-in, and the VAT hike stabilizes public debt. The boost to investment and inflation contributes to faster external rebalancing than in the baseline scenario, with gradual REER appreciation.

Growth
(In percent, year-on-year)



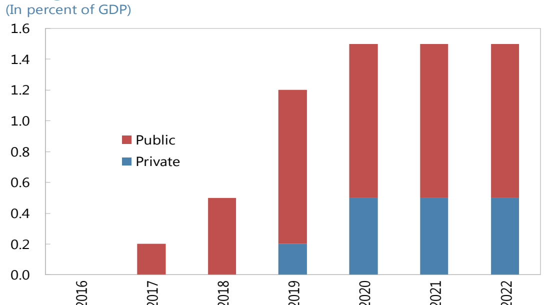
Source: IMF staff calculations.

Inflation
(In percent, year-on-year)



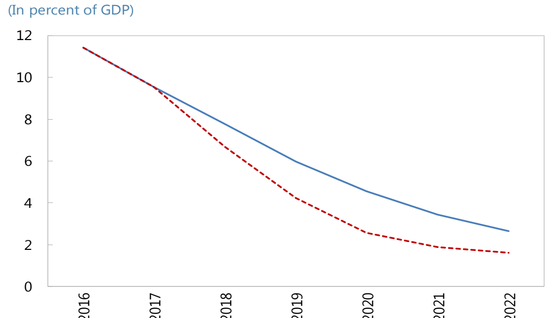
Source: IMF staff calculations.

Change in Investment from Baseline
(In percent of GDP)



Source: IMF staff calculations.

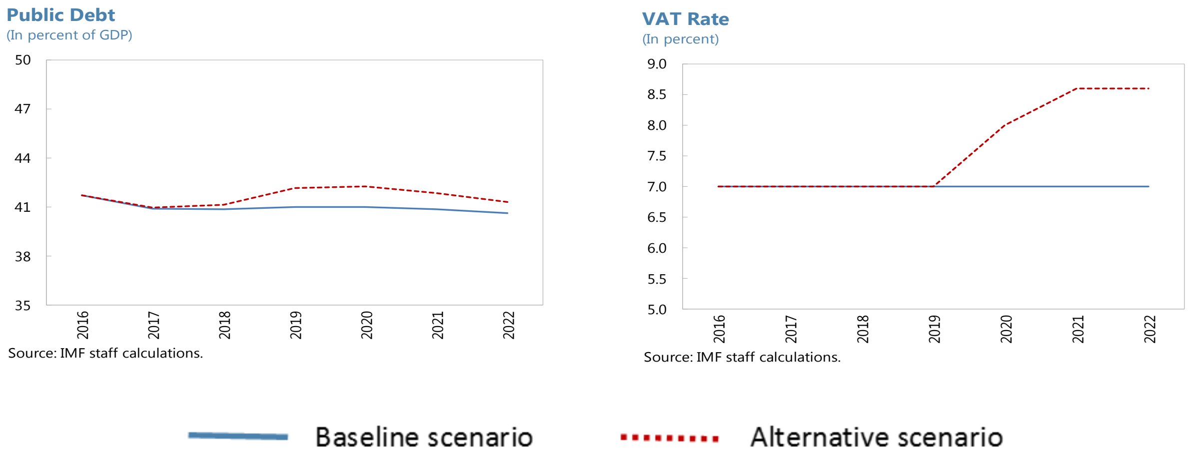
Current Account Balance
(In percent of GDP)



Source: IMF staff calculations.

[7] Staff estimates the multiplier from public investment at 0.6 percent.

Thailand: Alternative (Active) Medium-Term Scenario (Concluded)



25. **At any rate, domestic revenue mobilization should finance growing social protection needs and ensure debt sustainability over the longer term**. Public spending in pensions and health is projected to increase from 2.5 to 5.5 percent of GDP in the coming two decades, as the old-age dependency ratio rises from 15 to 36 percent. Revenue mobilization should provide for the costs of the demographic transition, focusing on growth-friendly taxes (Box 3). Gradually increasing the VAT rate, while mitigating the impact on vulnerable households, would capitalize on the good design of Thailand's VAT. Rationalizing tax incentives based on rigorous cost-benefit analysis would also increase fiscal revenues and enhance allocation efficiency.

Does Thailand have Fiscal Space?

On the positive side:	On the negative side:
The overall fiscal balance of the public sector has been close to zero in recent years suggesting a good track record of fiscal discipline.	Quasifiscal activities by some SOEs are not properly tracked or reported. Risks of contingent liabilities are hard to quantify with the available information.
The current cost of debt financing is low but likely to increase in the medium term. Now is the time for debt financing at fixed rates for new debt issuance.	Age-related spending is projected to increase steadily for demographic reasons, threatening fiscal sustainability beyond the medium term.
Public debt and gross financing needs paths are below standard vulnerability benchmarks and below the Cabinet debt ceiling of 60 percent of GDP.	

Bottom line: Thailand has some fiscal space that should be used wisely.

26. **The pension system needs a comprehensive overhaul**. Staff welcomed plans to undertake a thorough review of pension schemes through the national reform committee. Reforms should tackle design shortcomings and population aging, with due consideration for equity, efficiency, and sustainability (see 2016 Selected Issues Paper). Reforms should also mitigate risks of old-age poverty, particularly in the fast aging (and largely informal) rural sector, where traditional family safety nets are weakening along with urban migration. On the health side, universal coverage since 2002 and a basic package that is affordable, adequate, and cost-effective are noteworthy achievements. The

challenge is to preserve these features given rising health care needs and costs. Establishing a unit in the Ministry of Finance to monitor costs across systems would be helpful.

Pension Reform Challenges

Harmonization	The pension system is fragmented in regimes for public, (formal) private, and informal employees.
Sustainability	The retirement age, 55, and the contribution rate, 6 percent, are low.
Coverage	Over 60 percent of the working-age population is not covered by a formal pension.
Adequacy	The average replacement rate for private sector workers (19 percent) is too low.
Fairness	Pensions for civil servants are much more generous, with higher replacement ratios, than for private sector workers.
Poverty Alleviation	The old-age allowance (minimum pension for those without a formal pension) is low and untargeted.

27. A medium-term fiscal strategy would enhance fiscal management and transparency. Against the spending needs from higher investment and age-related pressures, communicating a credible strategy for revenue mobilization and pension reform would help secure continued access to favorable financing terms. The medium-term fiscal framework should include forecasts for the general government as well as the large SOE sector.[8] A tax expenditure review and comprehensive debt sustainability and fiscal risk analysis, including from public-private partnerships (PPPs) and contingent liabilities, would also strengthen fiscal management and accountability.

28. The authorities broadly concurred with staff's views on fiscal policy priorities. They believed Thailand had fiscal space to accommodate the infrastructure plan, which remained critical for the recovery and potential growth. In their view, higher investment than in staff's baseline was within reach, in line with efforts to expedite project implementation. They concurred on the need to gradually strengthen tax revenue to finance age-related spending, and clarified that VAT changes would be considered as conditions warranted. The authorities acknowledged the multiple challenges arising from the fragmented pension system and have created a national pensions committee to design a reform strategy. They reaffirmed efforts to enhance fiscal transparency, especially by operationalizing the medium-term fiscal framework and improving reporting on SOEs. The authorities also agreed on the importance of undertaking cost-benefit analysis of tax incentives.

D. Strengthening Inclusive Growth

29. Staff stressed the need for structural reforms to support sustained, inclusive growth. Potential growth in Thailand declined from over 4 percent in the early 2000s to about 3 percent in 2016. The falling contribution from labor has been the main driver, reflecting the demographic transition, while the contribution from capital accumulation has been broadly constant. Population aging also likely impacted TFP growth, adding to the challenges from widespread informality, low

[8] The budgetary central government accounts for 40 percent of nonfinancial public expenditure. SOE operations are estimated at 30 percent of GDP. SOEs undertake quasi-fiscal activities, and some need to be restructured.

agricultural productivity, and weak competition in services (Figure 7). Absent reforms, potential growth could decline to 2 percent by 2035, with population aging subtracting close to 1 percent.

30. Concerted reforms should boost all drivers of potential growth, with priority placed on addressing the drag from demographics. Key steps include:

- Closing the gender gap in labor force participation by subsidizing childcare services, which could offset more than half of the impact of the drop in the working-age population (Box 4).
- Gradually increasing the low retirement age and automatically linking it to life expectancy.
- Improving the quality of education, increasing the focus on Science, Technology, Engineering and Math subjects, and better aligning vocational training with business needs.
- Promoting foreign-skilled migration by removing administrative hurdles.

31. There is also scope to enhance capital accumulation by:

- Upgrading infrastructure and improving investment processes. Although gaps in public investment efficiency in Thailand are relatively low (16 percent) compared to other middle-income countries (27 percent), there is scope to strengthen planning and budgeting, budget coverage, and transparency of execution (see 2016 Staff Report).
- Reducing barriers to investment in services by relaxing limits on foreign equity stakes.
- Facilitating PPPs, subject to proper management of fiscal risks.
- Moving to best practices in ease of doing business, including by streamlining regulations.

32. Reforms should also aim to increase TFP by:

- Eliminating untargeted subsidies and providing education and training to facilitate the transition away from the low-productivity and largely informal agricultural sector.
- Fostering efficiency in services by upgrading the competition law.
- Continuing the restructuring of the SOE sector.
- Reducing tax distortions to improve firms' resource allocation efficiency and TFP.

33. A robust mechanism to identify and assist vulnerable households would help advance social inclusion and structural reforms. Thailand achieved an impressive reduction in poverty over the last three decades. Yet, given declining potential growth, advancing social inclusion in the future will require better targeted redistributive policies (Box 5). Although Thailand has many fiscal and quasi-fiscal social assistance tools, a major constraint is the lack of a robust targeting mechanism to identify vulnerable households. Such mechanisms are essential for fostering inclusion, mitigating the distributional impact of reforms, and building political and social support for reform packages. The authorities' plans to strengthen means-tested transfers, building on the national e-payment registry, could be instrumental in this regard.

34. The authorities agreed on the need to tackle structural barriers to inclusive and sustainable growth. They were fully aware of the challenges posed by rapid population aging and insufficient social safety nets, requiring renewed emphasis on increasing labor efficiency. The authorities are working on initiatives to boost TFP and competitiveness, including by (i) facilitating productivity improvements; (ii) advancing SOE reform; (iii) revising the competition law; and (iv) reducing the cost of logistics and transportation through infrastructure development. They also emphasized the potential growth benefits of trade integration initiatives and the promotion of 10 target industries in the eastern economic corridor. They noted efforts underway to advance social inclusion by strengthening the targeting and efficacy of fiscal policy measures to protect the most vulnerable, including through means-tested transfers.

STAFF APPRAISAL

35. Thailand has maintained macroeconomic stability through challenging domestic and external conditions. However, the recovery still faces downside risks, including from global uncertainty and financial volatility. Headline inflation is expected to remain at the low end of the tolerance band in 2017–18, given weak core inflation and low inflation expectations. Policy space and ample buffers can be deployed to curtail risks of a low-inflation, low-growth trap.

36. Fiscal stimulus through public investment is appropriate. Large infrastructure projects remain macro-critical to crowd-in private investment, support growth and inflation, and facilitate external rebalancing. Domestic revenue mobilization, focused on growth-friendly taxes, is needed to finance expenditure needs and ensure debt sustainability over the longer term. A comprehensive pension reform should tackle design shortcomings and population aging, with due consideration for equity, efficiency, and sustainability. Articulating a medium-term fiscal strategy would enhance fiscal management and transparency.

37. Monetary policy easing should reinforce fiscal stimulus and steer inflation back to target. Monetary easing, within a broader expansionary policy mix, would counteract the risk of low inflation becoming entrenched and strengthen both macroeconomic and financial stability. Enhanced communication on the strong determination to meet the inflation target is needed to improve the effectiveness of monetary policy transmission. The exchange rate should be allowed to adjust flexibly, with FX intervention limited to avoiding disorderly market conditions.

38. Macroprudential policy and regulatory reform can tackle emerging pockets of fragility. Financial stability risks remain contained, but pockets of vulnerability are building in the shadow banking system. These can be addressed by tailoring macroprudential policies and closing loopholes for regulatory arbitrage. Tighter macroprudential measures on highly leveraged households and certain segments of the real estate market can address systemic risks. Continuing to upgrade the financial stability framework would also strengthen stability.

39. Concerted reforms are needed to achieve sustained, inclusive growth. Promoting labor force participation, facilitating skilled migration, and improving the quality of education would raise labor productivity and mitigate the drag from demographics. There is also scope to enhance private investment and TFP. A robust mechanism to identify vulnerable households would improve the targeting of social assistance and help address the impact of reforms on income distribution.

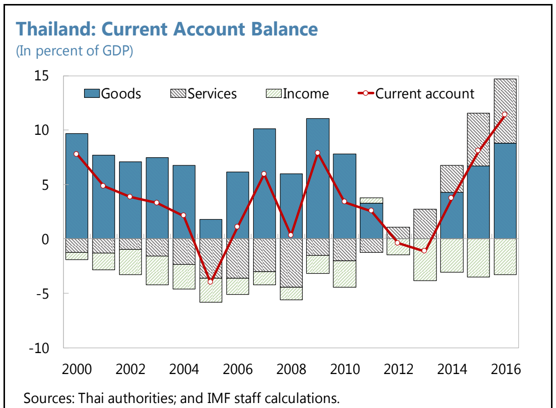
40. The external position is substantially stronger than warranted by medium-term fundamentals and desired policies. Mutually reinforcing monetary and fiscal stimulus, coupled with structural reforms, should support domestic demand and help lower the current account gap over time. Such strategy would facilitate the needed REER appreciation through a growth-driven process, boosting real incomes.

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

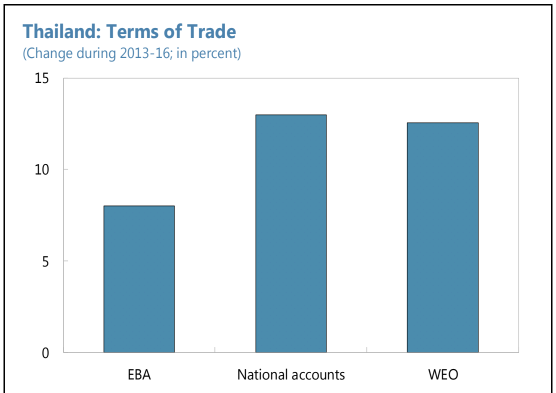
Box 1. Current Account Surplus

The high current account surplus reflects a cautious response of domestic demand to large, positive income shocks during a period of political uncertainty, as well as underlying imbalances and policies.

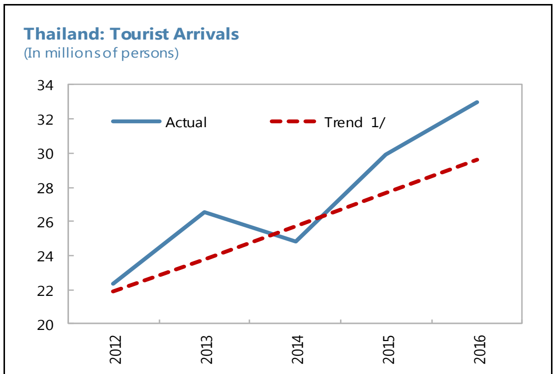
In 2016, the current account surplus reached 11.4 percent of GDP, one of the highest in the world. The 12.6 percent of GDP turnaround in the current account between 2013–16 is attributable to a 5.8 percent of GDP decline in net oil imports and a 3 percent of GDP rise in the services balance (mainly due to tourism from China). Goods exports have been stagnant. Despite sizable, positive income shocks, domestic demand remained weak. Preliminary data shows that corporates in particular increased their savings after 2014, while there has been a noticeable drop in the private investment rate. Such a cautious response of domestic demand may reflect political uncertainty. The ensuing transitory increase in the current account is expected to unwind as political uncertainty dissipates and confidence improves. An expansionary policy mix, coupled with structural reforms, should support external rebalancing through a growth-driven process. Reforms should tackle the inadequate social safety net, which may be increasing precautionary savings amid the sharp demographic transition, as well as bottlenecks to private investment.



Sources: Thai authorities; and IMF staff calculations.



Source: IMF staff calculations.



Sources: Authorities; and IMF staff calculations.
1/ Trend calculated using an HP filter since the mid-1990s.

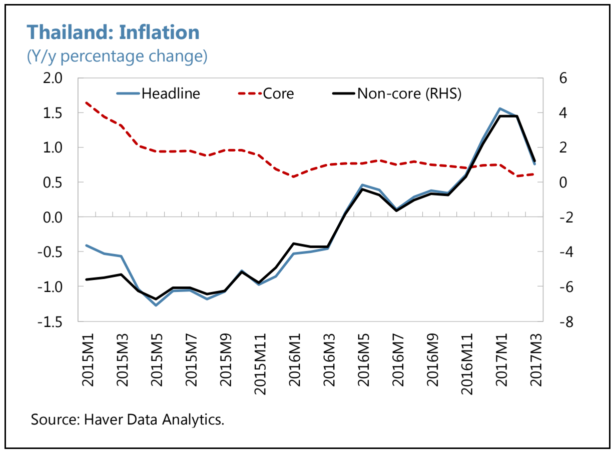
The 2016 external position was substantially stronger than warranted by medium-term fundamentals and desired policies. The Fund's EBA model estimated the cyclically-adjusted current account for Thailand at 11.1 percent of GDP and the current account norm at 1.1 percent of GDP in 2016. After considering a policy gap of 2.3 percent of GDP, the unexplained residual remains very large at 7.6 percent of GDP. Accounting for Thailand-specific factors, staff estimated a current account gap of 3 to 7 percent of GDP (Appendix 3 and Selected Issues Paper). Staff adjustments improve the measurement of cyclical and transitory factors, including:

- The cyclical contribution of the commodity terms of trade index, with updated weights that capture Thailand's high oil intensity;
- The boom in tourism, which may take time to trickle down;
- The transitory effect of ongoing political uncertainty that was not well captured in institutional quality indices used in the EBA regressions.

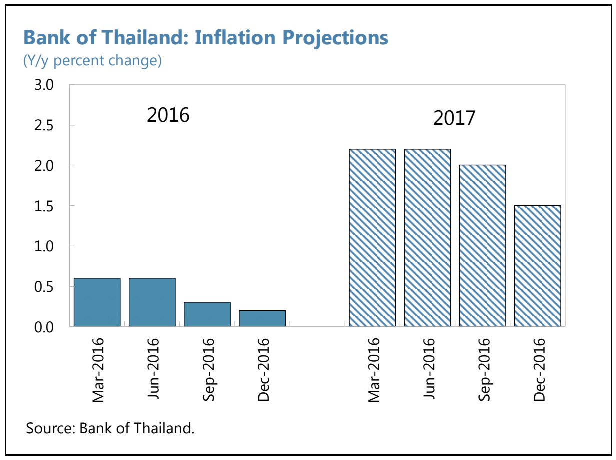
Box 2. Recent Experience Targeting Headline Inflation

The BOT changed its target from core to headline inflation in 2015, but inflation remained below the tolerance band in 2015-16.

The BOT changed its target from *core* to *headline* inflation in 2015. The regime also moved from a *range* target, specified as y/y *quarterly* inflation, to a *point* target of 2.5 percent, specified as annual *average* inflation, with a tolerance band of ±1.5 percent.[1] The changes aimed to strengthen the effectiveness of monetary policy in anchoring expectations.



The headline inflation target was undershot in 2015 and 2016. Moreover, inflation was well below the lower bound of the tolerance band. The undershooting of the inflation target was partly explained by the large decline in commodity prices since early 2015. Headline inflation was negative throughout 2015, turned positive in April 2016, and picked up alongside oil prices by end-2016. However, it dropped to 0.8 percent in March 2017 (below the tolerance band), due to food price shocks. Moreover, core inflation has been on a steady declining path since 2012, reaching 0.6 percent in March 2017.



The BOT is required to explain the reasons underlying the deviation of headline inflation from target. The Memorandum of Understanding with the Minister of Finance states that the Monetary Policy Committee (MPC) should explain the reasons for missing the target band. The MPC must specify the period within which inflation is expected to return to target and the appropriate monetary policy response:

- In February 2015, the MPC attributed negative inflation to the sharp decline in oil prices. The MPC expected inflation to turn positive by 2015: Q3, benefitting from higher disposable income due to lower oil prices and high inflation expectations. No policy stimulus was envisaged at that stage, but policy rates were cut twice to 1.5 percent by April 2015.
- In January 2016, the return to positive inflation territory was expected within the first half of 2016, to the tolerance band in the second half of 2016, and to the target within two years. The MPC decided to keep the policy rate on hold, underscoring the need to preserve policy space and the potential adverse consequences of low interest rates on financial stability.
- In January 2017, the MPC noted that inflation remained below expectations mainly due to supply-side factors—especially low energy and fresh food prices—but also lower core inflation. The MPC agreed to keep monetary conditions accommodative to support the ongoing recovery.

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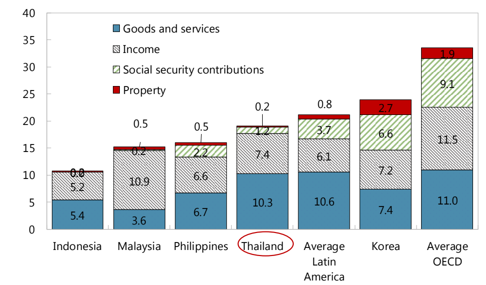
[1] In 2016, it was also adopted for the medium term.

Box 3. Domestic Revenue Mobilization

Revenue mobilization should focus on growth-friendly taxes and minimize the impact on vulnerable groups.

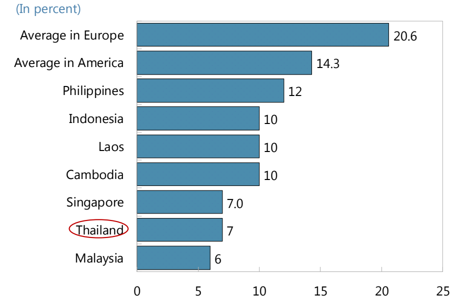


Sources: OECD Revenue Statistics; and Thai authorities.

Thailand has a relatively low revenue ratio compared to advanced or other emerging economies. Hence, a significant revenue mobilization effort should be feasible.

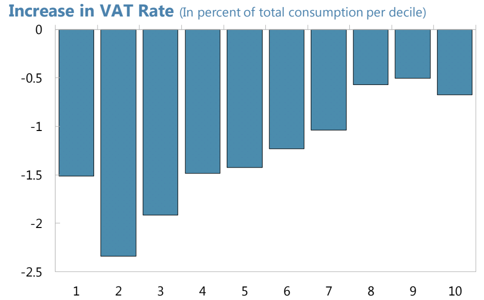
Revenue mobilization should rely on a tax system that is growth-friendly, fair, and simple. Broad-based consumption taxes and property taxes are less harmful to growth than income taxes, while corporate income taxes (CIT) can be particularly distortionary. In terms of fairness, what matters is the combined impact of tax measures and the spending they finance. In terms of simplicity, taxes with a single rate and with few exemptions are easier to administer and comply with.

Enhancing the effectiveness of the Tax Revenue Department (TRD) should be a key pillar. Reform priorities in the TRD include: (i) deploying a compliance risk framework to allocate resources where risks to revenues are greatest; (ii) streamlining core processes to allow reallocation of the workforce from low to high value work activities; (iii) strengthening compliance by reinvigorating the audit function; and (iv) accelerating the implementation of electronic processes in core functions.



Source: IBFD.

There is substantial scope to improve VAT collection. VAT revenue was 3.8 percent of GDP (21 percent of tax revenue) in 2015. The design of the VAT is in line with best practices, with a single rate, a broad base, and low compliance gaps. However, the rate of 7 percent is one of the lowest in the world. Hence, a gradual increase in the rate is the most adequate option to increase revenue collection. Estimates suggest that revenue could increase by about 0.6 percent of GDP per percentage point increase in the rate. Part of the additional revenues could be used to compensate the consumption loss of the lowest quintile of the income distribution (estimated at 0.15 percent of GDP per point increase in the rate). Effectively reaching those households will require well designed, targeted social transfers. There is also scope to increase property tax revenue by broadening the base.



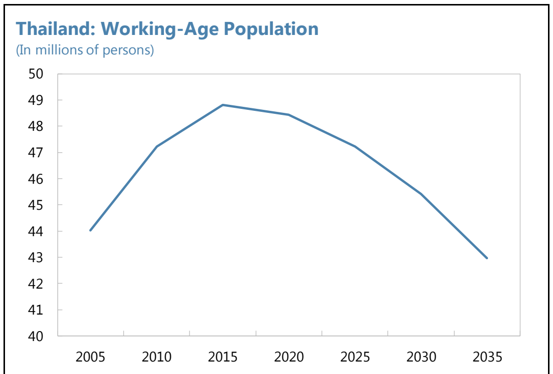
Source: IMF staff calculations.

The system of tax incentives should be reformed and subject to rigorous cost-benefit analysis. A wide menu of tax incentives is offered to foreign investors. For example, knowledge-based activities benefit from an eight-year exemption from CIT, without a cap. Infrastructure activities also benefit from a tax holiday, but subject to a cap. These tax holidays are at odds with best practices and can be very costly. Moreover, business surveys document that tax incentives rank low compared to other considerations (e.g., infrastructure, rule of law, labor skills) for foreign investors. Fiscal costs of tax incentives should be reviewed annually, discussed with the budget, and publicly disclosed. A thorough cost-benefit analysis should inform a strategy to phase out distortionary and ineffective incentives.

Box 4. Gender Gap in Labor Force Participation and Potential Growth

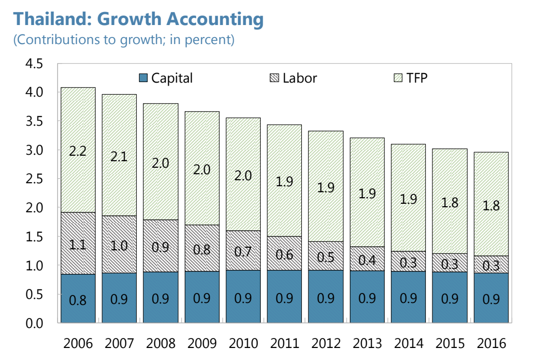
Closing the gender gap in labor force participation would help address the drag from population aging on potential growth.

The contribution from labor to growth in the coming decades will likely be negative given the projected decline in the working-age population. In a stylized growth accounting framework, the expected contribution from labor to growth equals the labor income share (around two-thirds) times employment growth. Assuming that employment growth equals growth in the working age-population (with constant unemployment and labor force participation rates), the contribution from labor would drop from about zero percent currently to -0.7 percent by 2035.



Source: United Nations.

Higher female labor force participation would help offset the impact of the decline in the working-age population. The unemployment rate of both men and women was 0.2 percent in 2015, limiting the scope to raise the contribution of labor by reducing unemployment. Although women's participation rate in Thailand (60.8 percent) is relatively high in international perspective, it still lags that of men (77.6 percent). If labor force participation of women gradually catches up with that of men, the total annual contribution from labor would remain slightly positive in coming years and then drop to only -0.3 percent by 2035.



Sources: Thai authorities; Haver Analytics Data; and IMF staff calculations.

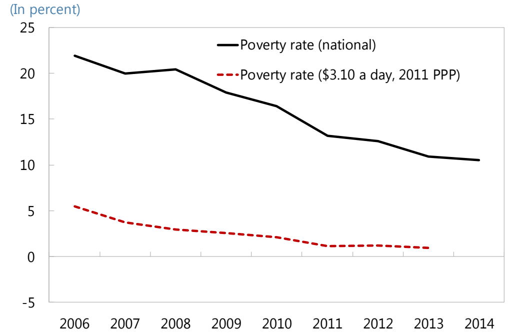
Options to increase female labor force participation include: (i) expanding after-school programs and affordable early-childhood services; (iii) publicly financing parental leave; (iv) improving flexibility in working hours; (v) moving towards individual (rather than household) taxation; (vi) increasing female education and training; and (vii) extending female retirement age.

Box 5. Trends in Poverty and Inequality

Reducing poverty and inequality in the future will require more proactive redistributive fiscal policy.

Thailand achieved an impressive reduction in poverty over the last three decades. The national poverty rate dropped from 67 percent in 1986 to 10 percent in 2014, while extreme poverty (measured by the international poverty line) was virtually eliminated. High GDP growth rates, especially in the first two decades, were the main driver, while fiscal policies played a relatively minor role. However, high poverty remains an important challenge in some regions; more than 80 percent of the poor live in rural areas.

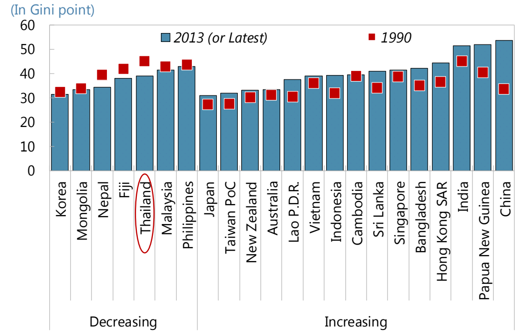
Thailand: Poverty Development
(In percent)



Source: World Bank, *World Development Indicators.*

Inequality also declined but remains high. Thailand is the only country in Asia with a consistent declining trend in inequality since 1990. The Gini coefficient declined from 45 percent in 1990 to 38 percent in 2012. This decline was driven by lower inequality in rural areas and between rural and urban areas. Universal health coverage in the early 2000s and progress in financial inclusion contributed to these results.

Net Gini Index
(In Gini point)



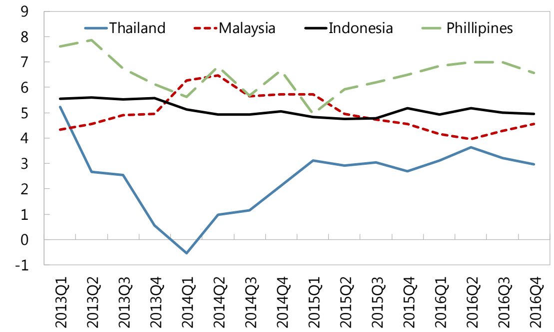
Source: SWIID 5.0.

Reducing poverty and inequality in the future will require more proactive redistributive fiscal policy. The high growth rates of the past are not expected in the future, so strengthening the progressivity of fiscal policy is essential to foster inclusion. On the tax side, broadening the base (especially on income taxes), strengthening compliance, and addressing the distributional implications of a VAT increase are important priorities. A refundable income tax credit for low-income earners would also improve income distribution, encourage employment, and bring more individuals into the tax net. However, it would require significant capacity building within the TRD. On the spending side, well targeted transfers should replace untargeted subsidies and soft loans to protect the most vulnerable in a cost-effective way. Improving access to quality education would also reduce inequality.

Figure 1. Thailand: Features of Low Growth

Low real GDP growth.

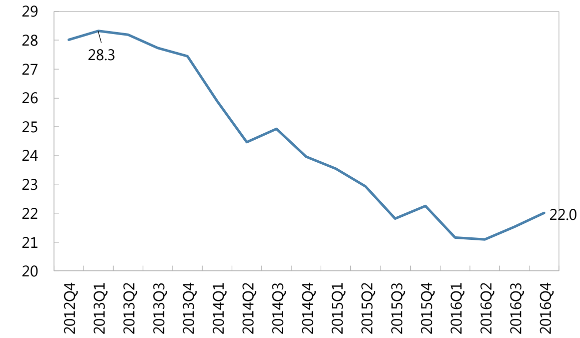
Real GDP Growth
(Y/y percent change)



Source: Haver Data Analytics.

Low investment.

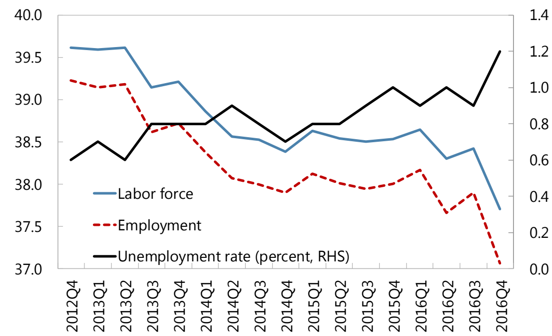
Gross Investment
(In percent of GDP)



Sources: Thai authorities; and IMF staff calculations.

Low employment.

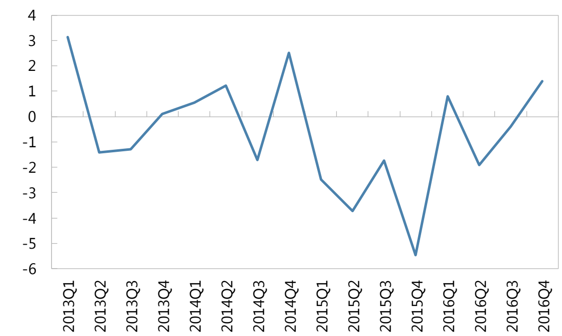
Labor Market
(In millions of persons, seasonally adjusted)



Source: Haver Data Analytics.

Low trade volume.

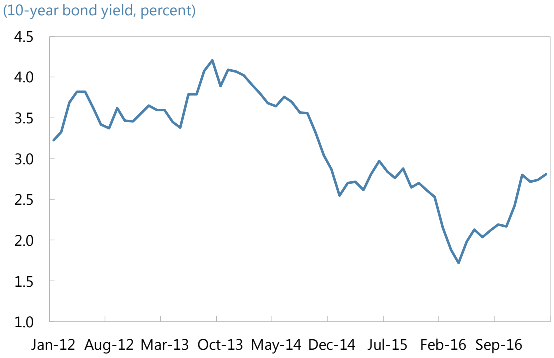
Real Exports of Goods Growth
(Y/y percent change)



Source: Thai authorities; and IMF staff calculations.

Low interest rates.

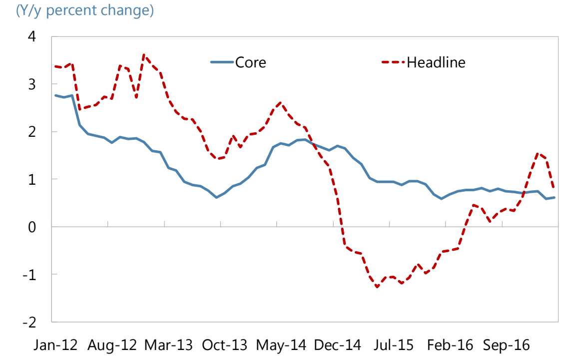
Interest Rate
(10-year bond yield, percent)



Source: Haver Data Analytics.

Low inflation.

Inflation
(Y/y percent change)

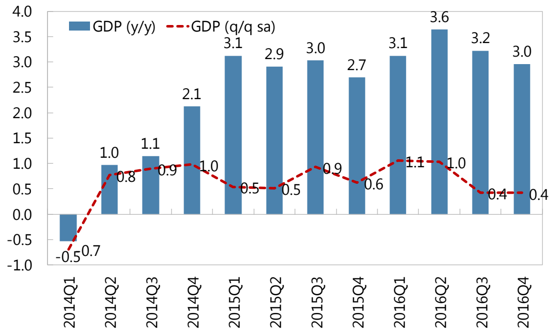


Source: Haver Data Analytics.

Figure 2. Thailand: Macro-Fiscal Developments

The recovery advanced at a moderate pace in 2016.

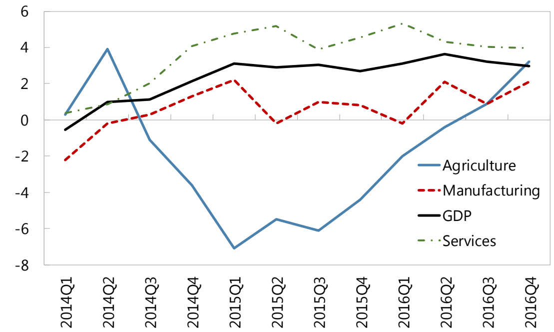
Real GDP Growth
(Percent)



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

The services sector has been the most dynamic.

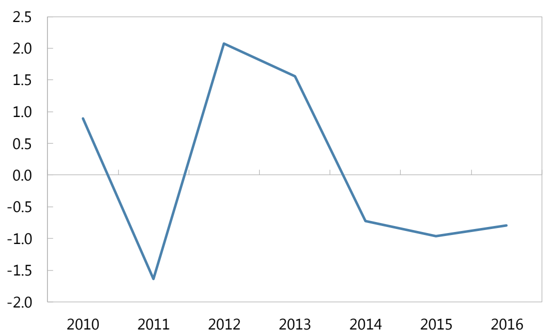
Real GDP Growth (Supply Side)
(Y/y percent change)



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

The output gap is still negative.

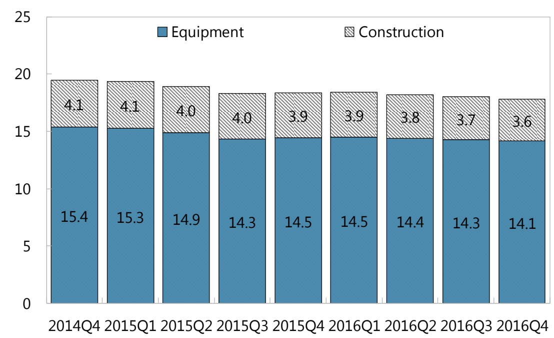
Output Gap
(Percent of potential GDP)



Source: IMF staff calculations.

Private investment in equipment is declining.

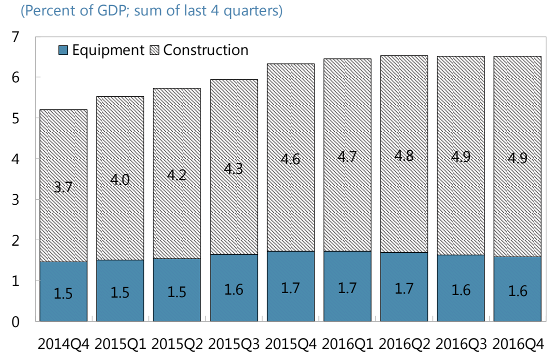
Private Fixed Investment
(Percent of GDP; sum of last 4 quarters)



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

Public investment in construction is compensating.

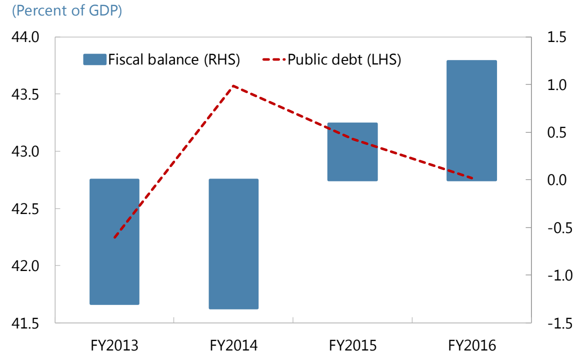
Public Fixed Investment
(Percent of GDP; sum of last 4 quarters)



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

Public debt consolidated over 2015–16.

Fiscal Balance and Public Debt
(Percent of GDP)

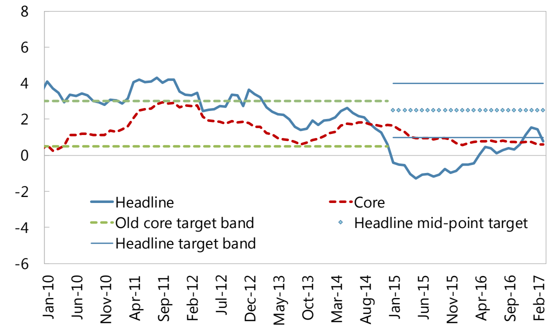


Sources: Thai authorites; and IMF staff calculations.

Figure 3. Thailand: Inflation and Inflation Expectations

Inflation has been below target for a long time…

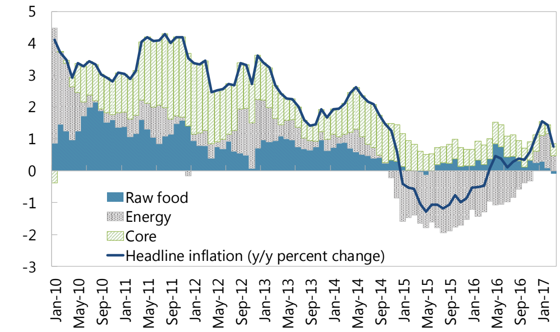
Headline and Core CPI Inflation
(Y/y percent change)



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

…driven by low energy prices and weak core inflation.

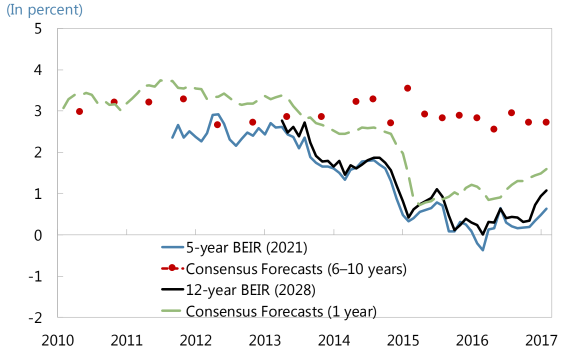
Contributions to Headline Inflation
(In percentage points)



Sources: Haver Data Analytics; and IMF staff calculations.

Short-term inflation expectations partially recovered but remain low…

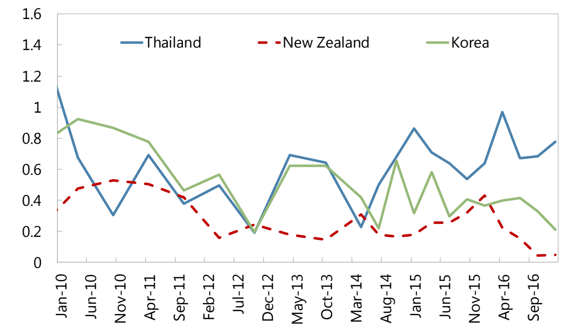
Inflation Expectations
(In percent)



Sources: Consensus Forecasts; and IMF staff calculations.

…while larger dispersion of long-term expectations signals risks of de-anchoring.

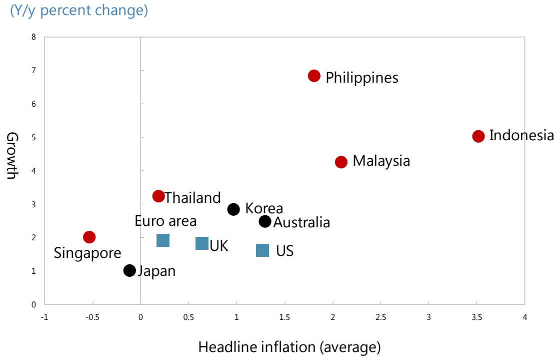
Selected Countries: Disagreement on Long-term Inflation Expectations (Standard deviation of point forecasts)



Source: Consensus Forecast.

Countries with higher inflation and growth…

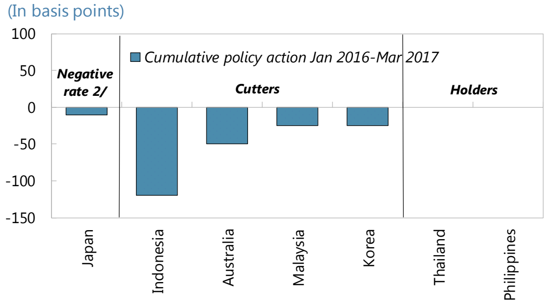
Selected Countries: Growth and Inflation, 2016
(Y/y percent change)



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

…cut monetary policy rates in 2016.

Selected Asia: Policy Rate Actions 1/
(In basis points)

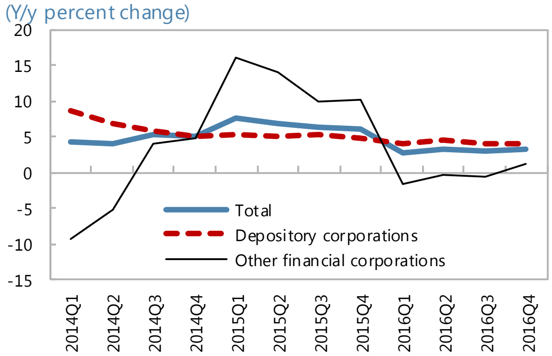


Sources: Haver Analytics; Bloomberg L.P.; and IMF staff calculations.
1/ Cutters/holders are classified based on policy action since Jan. 2016.
2/ Japan announced negative rates on some bank excess reserves on Jan 29, 2016.

Figure 4. Thailand: Financial Sector Developments

Total credit growth has been slowing down...

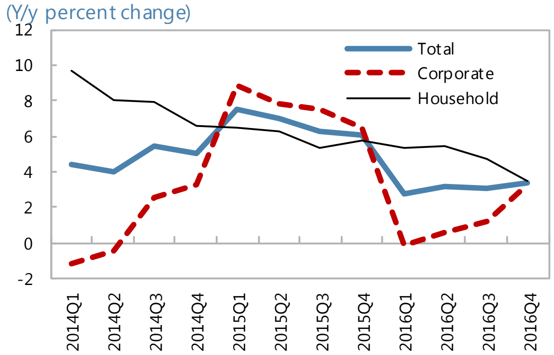
Credit Growth
(Y/y percent change)



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

...though corporate credit from nonbank institutions is strengthening.

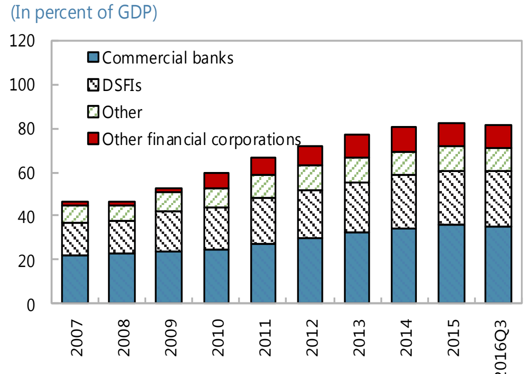
Credit Growth by Sector
(Y/y percent change)



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

The growth in household debt moderated ...

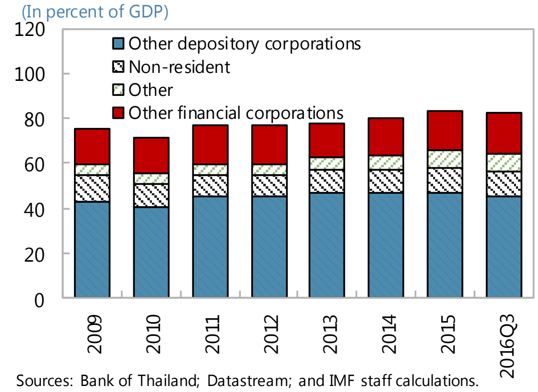
Household Debt
(In percent of GDP)



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

...while corporate debt remains stable.

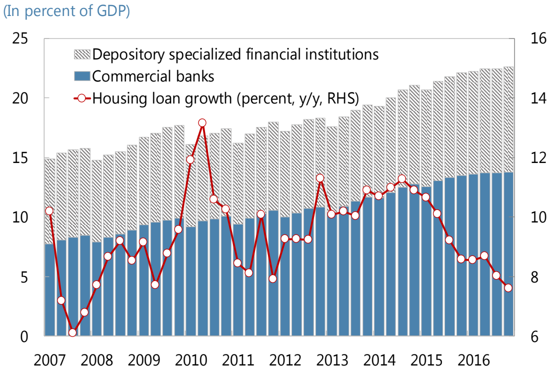
Corporate Debt
(In percent of GDP)



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

Housing loans to households still grow relatively fast...

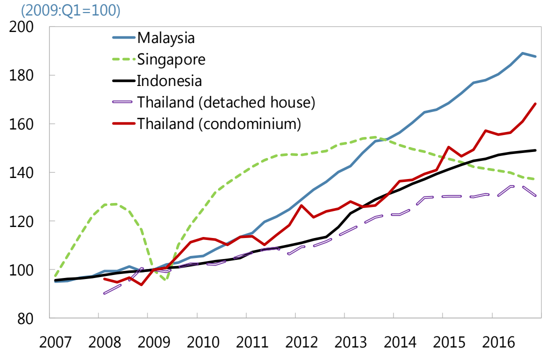
Housing Loans
(In percent of GDP)



Sources: Thai authorities; and IMF staff calculations.

...while condominium prices continue to appreciate.

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

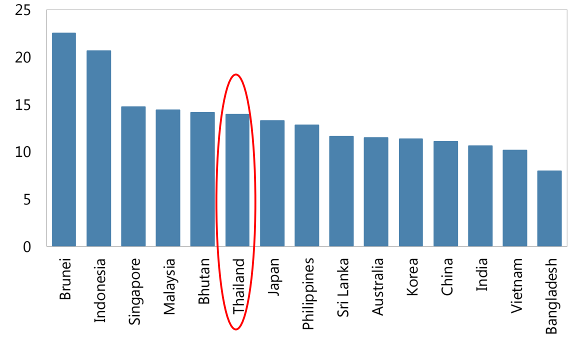


Sources: CEIC Data Company Ltd.; and IMF staff calculations.
1/ Quarterly averages. House price indices for Thailand start in 2008:Q1.

Figure 5. Thailand: Financial Soundness Indicators of Commercial Banks

Thai commercial banks' capital buffers are strong...

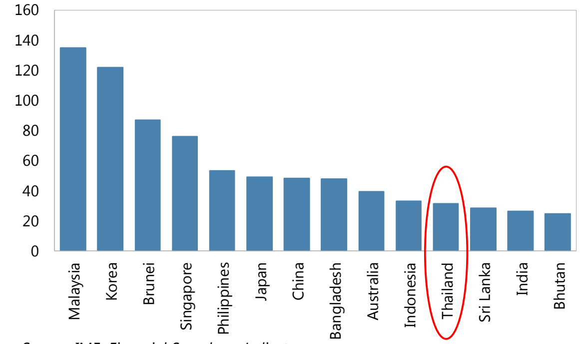
Regulatory Tier 1 Capital to Risk-Weighted Assets
(In percent)



Source: IMF, *Financial Soundness Indicators.*

...with adequate short-term liquidity.

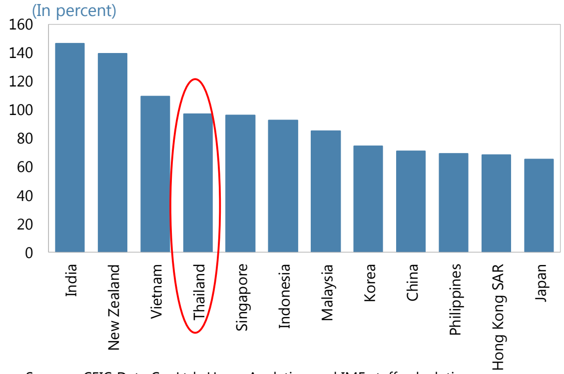
Liquid Assets to Short-Term Liabilities
(In percent)



Source: IMF, *Financial Soundness Indicators.*

Thailand's loan-to-deposit ratio is relatively high...

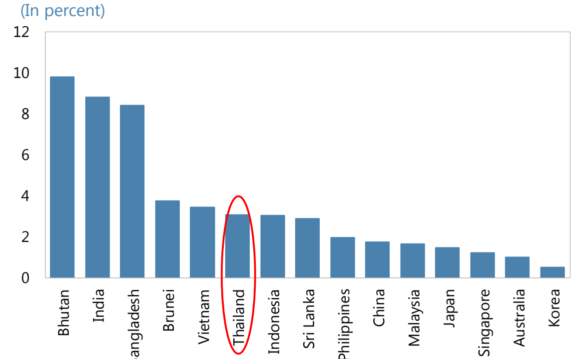
Loans to Deposits
(In percent)



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

...while NPLs are still contained.

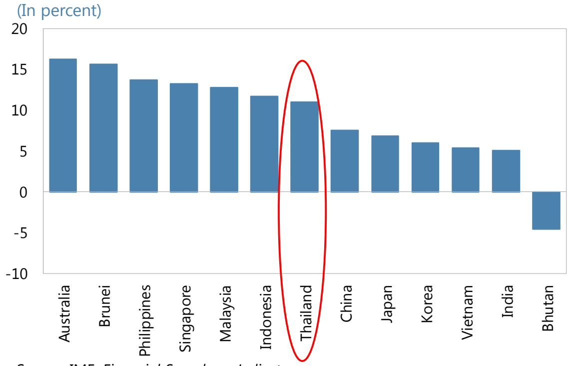
Nonperforming Loans to Total Gross Loans
(In percent)



Source: IMF, *Financial Soundness Indicators.*

Profitability is sound, as shown by return on equity...

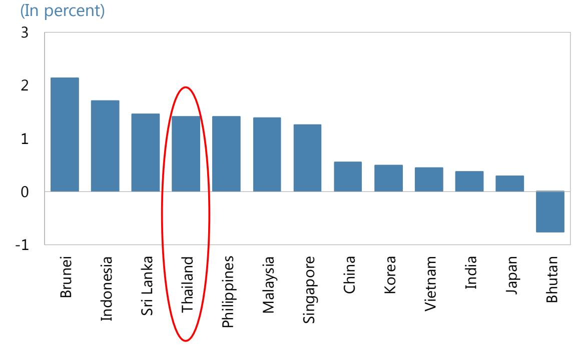
Return on Equity
(In percent)



Source: IMF, *Financial Soundness Indicators.*

...as well as by return on assets.

Return on Assets
(In percent)

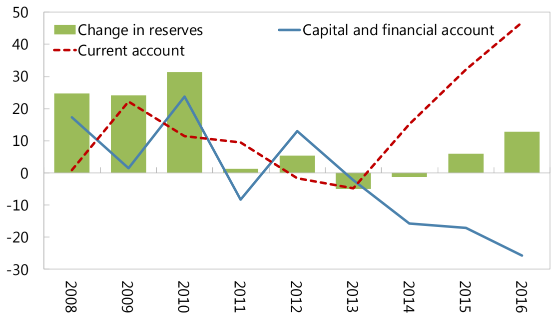


Source: IMF, *Financial Soundness Indicators.*

Figure 6. Thailand: External Sector Developments

The current account surplus continued to rise in 2016…

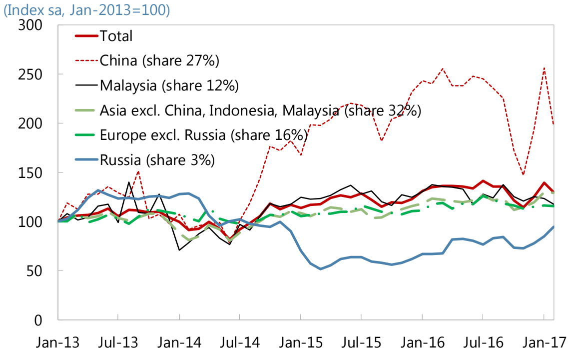
Current Account, Capital and Financial Account, and Reserves (In billions of U.S. dollars)



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

…reflecting strong tourism income…

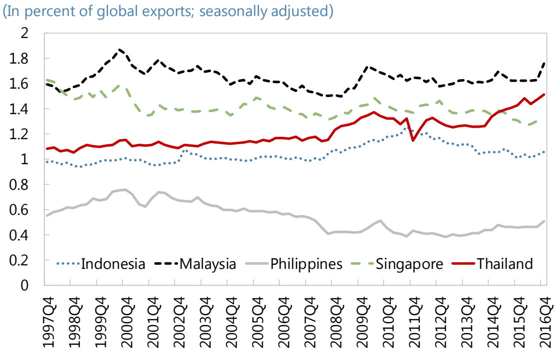
Tourist Arrivals
(Index sa, Jan-2013=100)



Sources: Haver Data Analytics; and IMF staff calculations.

…and despite a broadly constant export share.

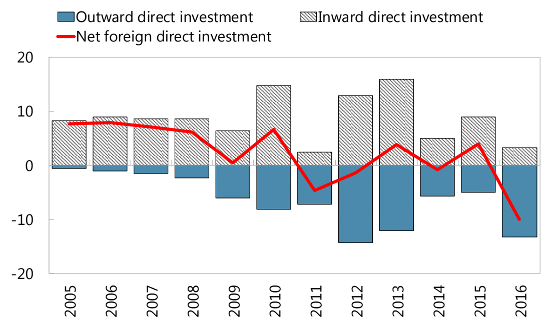
ASEAN-5: Export Market Share
(In percent of global exports; seasonally adjusted)



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

Thai corporates increased overseas investment…

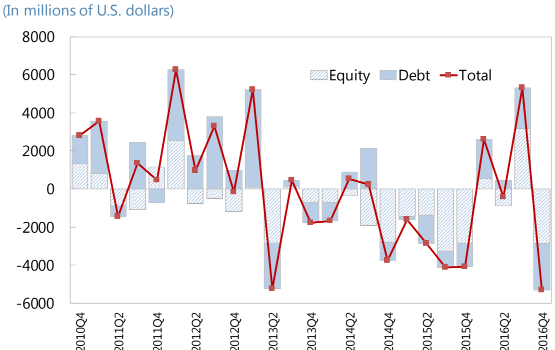
Inward and Outward Direct Investment
(In billions of U.S. dollars)



Sources: Haver Data Analytics; and IMF staff calculations.

…while portfolio flows turned with external conditions.

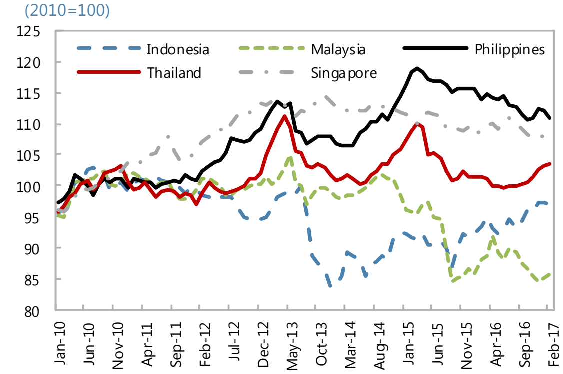
Equity and Bonds Net Flows
(In millions of U.S. dollars)



Source: Bank of Thailand; Haver Data Analytics; and IMF staff calculations.

The REER resumed gradual appreciation in 2016: Q1.

ASEAN-5: Real Effective Exchange Rate
(2010=100)

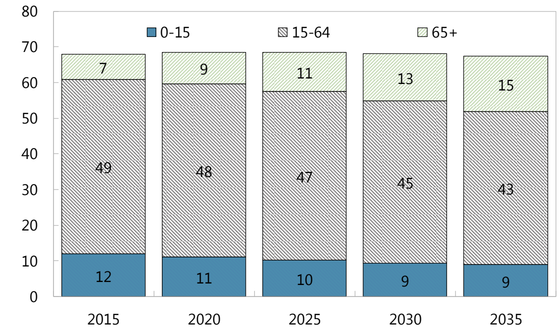


Source: IMF stafff calculations.

Figure 7. Thailand: Structural Challenges

The working-age population is expected to shrink fast.

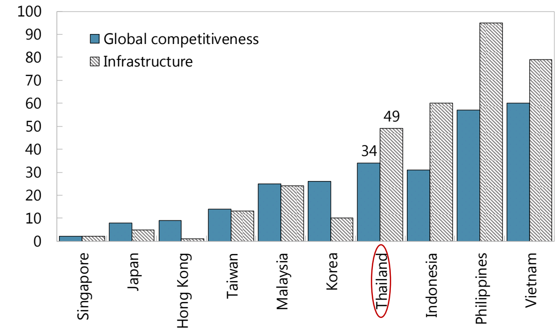
Projected Composition of Population
(In millions of persons)



Source: United Nations.

Infrastructure is a drag on competitiveness.

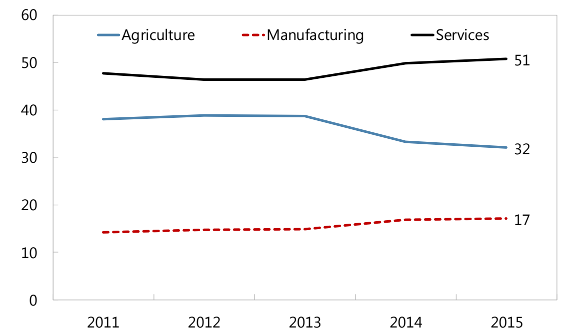
Global Competitiveness and Infrastructure
(Ranking)



Source: World Economic Forum, *Global Competitiveness Report 2016-17.*

Agriculture still absorbs a high share of employment…

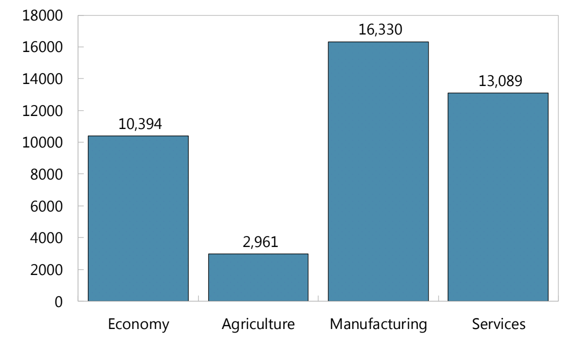
Employment by Sector
(In percent of total employment)



Source: Haver Data Analytics.

…with lagging productivity.

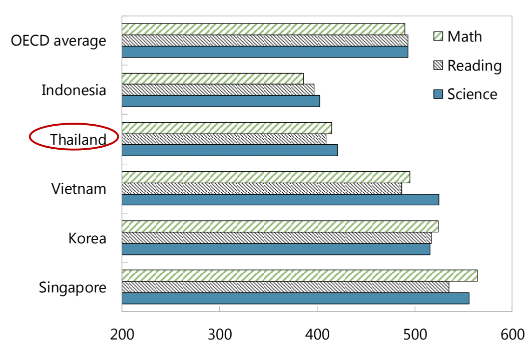
Value of Output per Worker, 2015
(In U.S. dollars)



Sources: Thai authorities; Haver Data Analytics; and IMF staff calculations.

The quality of education should improve.

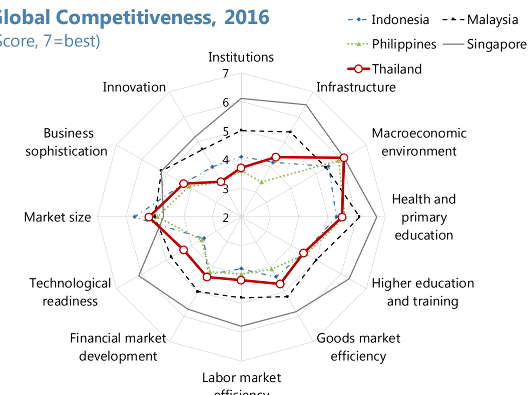
Selected Countries: PISA Scores
(Mean score)



Source: OECD, *Programme for International Student Assessment,* 2015.

Overall competitiveness is below other ASEAN countries.

Global Competitiveness, 2016
(Score, 7=best)



Source: World Economic Forum, *Global Competitiveness Report 2016-17.*

Table 1. Thailand: Selected Economic Indicators, 2013–18

Main exports (percent of total 2015): machinery (44), food (12)
GDP per capita (2016): US$5,899
Unemployment rate (2016): 1 percent
Poverty headcount ratio at national poverty line (2014): 10.5 percent
Net FDI (2016): US$-10.02 billion
Population (2015): 67.2 million

	2013	2014	2015	Prel. 2016	Proj. 2017	Proj. 2018
Real GDP growth (y/y percent change) 1/	2.7	0.9	2.9	3.2	3.2	3.3
Consumption	1.1	1.3	2.4	2.7	3.3	3.7
Gross fixed investment	-1.0	-2.2	4.4	2.8	5.1	8.0
Inflation (y/y percent change)						
Headline CPI (end of period)	1.7	0.6	-0.9	1.1	1.2	0.6
Headline CPI (period average)	2.2	1.9	-0.9	0.2	1.0	1.2
Core CPI (end of period)	0.9	1.7	0.7	0.7	0.9	1.2
Core CPI (period average)	1.0	1.6	1.1	0.7	0.7	1.1
Saving and investment (percent of GDP)						
Gross domestic investment	27.5	24.0	22.2	22.0	24.2	24.7
Private	19.7	19.5	18.3	17.8	17.6	18.1
Public	5.7	5.2	6.3	6.5	7.0	7.4
Change in stocks	2.1	-0.7	-2.4	-2.3	-0.4	-0.7
Gross national saving	26.4	27.7	30.3	33.4	33.8	32.4
Private, including statistical discrepancy	22.0	24.8	25.8	26.2	28.3	27.1
Public	4.4	2.9	4.5	7.2	5.5	5.3
Foreign saving	1.2	-3.7	-8.1	-11.4	-9.6	-7.7
Fiscal accounts (percent of GDP) 2/						
General government net lending (+)/net borrowing (-) 3/	0.5	-0.8	0.1	0.6	-1.6	-1.8
SOEs net lending (+)/net borrowing (-)	-1.8	-0.5	0.7	0.8	0.3	-0.2
Public sector net lending (+)/net borrowing (-) 4/	-1.3	-1.3	0.9	1.3	-1.3	-2.0
Public sector debt (end of period) 4/	42.2	43.4	42.7	42.2	41.5	41.3
Monetary accounts (end of period, y/y percent change)						
Broad money growth	7.3	4.7	4.4	4.2	4.5	4.8
Narrow money growth	3.9	1.3	5.7	4.8	5.3	5.3
Credit to the private sector by depository corporations	9.6	5.1	4.9	4.8	5.3	5.0
Balance of payments (billions of U.S. dollars)						
Current account balance	-4.8	15.1	32.1	46.8	41.7	35.4
(Percent of GDP)	-1.2	3.7	8.1	11.4	9.6	7.7
Exports, f.o.b.	227.5	226.7	214.1	214.1	222.3	229.1
Growth rate (dollar terms)	-0.1	-0.3	-5.6	0.0	3.8	3.1
Growth rate (volume terms)	0.1	0.6	-3.4	0.0	1.9	1.9
Imports, f.o.b.	227.4	209.4	187.2	178.4	191.3	202.0
Growth rate (dollar terms)	-0.1	-7.9	-10.6	-4.7	7.3	5.6
Growth rate (volume terms)	2.0	-6.2	0.3	-2.1	1.6	4.5
Capital and financial account balance 5/	-0.2	-16.3	-26.3	-34.0	-41.7	-35.4
Overall balance	-5.0	-1.2	5.9	12.8	0.0	0.0
Gross official reserves (including net forward position, end of period) (billions of U.S. dollars)	190.2	180.2	168.2	197.6	197.6	197.6
(Months of following year's imports)	10.9	11.6	11.3	12.4	11.7	11.1
(Percent of short-term debt) 6/	267.3	257.4	280.1	308.6	324.8	296.0
(Percent of ARA metric)	209.3	187.4	204.6	210.9	…	…
Forward position of BOT (end year)	-24.1	-23.0	-11.7	-25.8	…	…
Exchange rate (baht/U.S. dollar)	30.7	32.5	34.2	35.3	…	…
NEER appreciation (annual average)	5.5	-3.0	4.4	-3.2	…	…
REER appreciation (annual average)	5.9	-3.2	2.5	-4.0	…	…
External debt						
(Percent of GDP)	35.8	34.7	32.1	32.5	31.8	31.4
(Billions of U.S. dollars)	141.9	141.7	131.4	131.4	138.1	145.1
Public sector 7/	25.2	25.3	20.6	22.5	28.8	35.1
Private sector	116.7	116.4	110.8	108.9	109.4	110.0
Medium- and long-term	56.1	60.4	58.7	57.7	53.6	53.3
Short-term (including portfolio flows)	60.6	56.0	52.2	51.2	55.8	56.7
Debt service ratio 8/	4.0	4.9	6.3	6.3	6.0	6.4
Memorandum items:						
Nominal GDP (billions of baht)	12,921	13,204	13,673	14,361	15,117	15,895
(Billions U.S. dollars)	420.5	406.5	399.2	406.8	434.4	461.9

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

1/ This series reflects the new GDP data based on the chain volume measure methodology, 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 SOEs.
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, 2012–22

					Prel.	Projections					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Real GDP growth (y/y percent change)	7.2	2.7	0.9	2.9	3.2	3.2	3.3	3.2	3.1	3.0	3.0
Consumption	6.8	1.1	1.3	2.4	2.7	3.3	3.7	3.7	3.6	3.4	3.2
Gross fixed investment	10.7	-1.0	-2.2	4.4	2.8	5.1	8.0	6.4	4.8	5.3	4.6
Headline CPI inflation (period average, y/y percent change)	3.0	2.2	1.9	-0.9	0.2	1.0	1.2	1.6	2.0	2.3	2.5
Core CPI inflation (period average, y/y percent change)	2.1	1.0	1.6	1.1	0.7	0.7	1.1	1.4	1.7	2.1	2.2
Saving and investment (percent of GDP)											
Gross domestic investment	28.0	27.4	24.0	22.2	22.0	24.2	24.7	25.4	26.5	27.6	28.4
Private	21.1	19.7	19.5	18.3	17.8	17.6	18.1	18.6	19.2	19.9	20.5
Public	5.9	5.7	5.2	6.3	6.5	7.0	7.4	7.5	7.2	7.0	6.8
Change in stocks	1.0	2.1	-0.7	-2.4	-2.3	-0.4	-0.7	-0.6	0.2	0.6	1.2
Gross national saving	27.6	26.4	27.7	30.3	33.4	33.8	32.4	31.5	31.3	31.1	31.1
Private, including statistical discrepancy	23.0	22.0	24.7	25.8	26.2	28.3	27.1	26.3	26.3	26.2	26.4
Public	4.6	4.4	2.9	4.5	7.2	5.5	5.3	5.2	5.0	4.8	4.7
Foreign saving (- = current account surplus)	0.4	1.2	-3.7	-8.1	-11.4	-9.6	-7.7	-6.1	-4.8	-3.5	-2.7
Fiscal accounts (percent of GDP, fiscal year basis)											
Public sector net lending (+)/net borrowing (-)	-1.8	-1.3	-1.3	0.9	1.3	-1.3	-2.0	-2.3	-2.2	-2.1	-2.0
Public sector debt (end of period)	41.9	42.2	43.4	42.7	42.2	41.5	41.3	41.7	41.7	41.6	41.3
Credit to the private sector by depository corporations (End of period, y/y percent change)	14.6	9.6	5.1	4.9	4.8	5.3	5.0	5.0	4.8	4.7	4.4
Balance of payments (billions of U.S. dollars)											
Exports, f.o.b.	227.7	227.5	226.7	214.1	214.1	222.3	229.1	238.9	248.4	257.1	266.4
(Volume growth, y/y percent change)	2.2	0.1	0.6	-3.4	0.0	1.9	1.9	2.6	2.3	2.1	2.1
Imports, f.o.b.	227.6	227.4	209.4	187.2	178.4	191.3	202.0	214.6	227.8	241.9	255.6
(Volume growth, y/y percent change)	7.1	2.0	-6.2	0.3	-2.1	1.6	4.5	4.6	4.3	4.0	3.5
Trade balance	0.1	0.1	17.3	26.8	35.8	31.0	27.1	24.3	20.6	15.2	10.8
Services, income, and transfers	-1.7	-4.9	-2.2	5.3	11.1	10.7	8.3	5.6	4.2	3.9	8.2
Current account balance	-1.6	-4.8	15.1	32.1	46.8	41.7	35.4	29.9	24.8	19.1	15.3
(Percent of GDP)	-0.4	-1.2	3.7	8.1	11.4	9.6	7.7	6.1	4.8	3.5	2.7
Financial account balance 1/	6.9	-0.2	-16.3	-26.3	-34.0	-41.7	-35.4	-29.9	-24.8	-19.1	-15.3
Overall balance	5.3	-5.0	-1.2	5.9	12.8	0.0	0.0	0.0	0.0	0.0	0.0
Gross official reserves (including net forward position, billions of U.S. dollars)	205.8	190.2	180.2	168.2	197.6	197.6	197.6	197.6	197.6	197.6	197.6
External debt											
External debt (billions of U.S. dollars)	130.7	141.9	141.7	131.4	131.4	138.1	145.1	152.2	158.2	163.7	171.0
External debt (percent of GDP)	35.3	35.8	34.7	32.1	32.5	31.8	31.4	31.0	30.5	30.1	29.8

Sources: 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, 2012–22 1/

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

				Prel.		Projections					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
				(In billions of U.S. dollars)							
Current account balance	-1.6	-4.8	15.1	32.1	46.4	41.7	35.4	29.9	24.8	19.1	15.3
Trade balance	0.1	0.1	17.3	26.8	35.8	31.0	27.1	24.3	20.6	15.2	10.8
Exports, f.o.b.	227.7	227.5	226.7	214.1	214.1	222.3	229.1	238.9	248.4	257.1	266.4
Imports, f.o.b.	227.6	227.4	209.4	187.2	178.4	191.3	202.0	214.6	227.8	241.9	255.6
Services balance	4.1	11.4	10.3	19.2	24.2	23.3	21.6	19.6	18.7	18.4	18.9
Of which: tourism receipts	33.9	41.8	38.4	44.9	49.9	52.4	53.7	54.9	56.3	57.6	58.9
Income and transfers balance	-5.8	-16.3	-12.5	-13.9	-13.1	-12.6	-13.3	-14.0	-14.5	-14.5	-14.4
Capital and financial account balance	13.0	-2.2	-16.1	-17.1	-25.7	-41.7	-35.4	-29.9	-24.8	-19.1	-15.3
Foreign direct investment	-1.4	3.8	-0.8	4.0	-11.7	-1.9	-1.6	-2.0	-2.3	-2.6	-1.3
Portfolio investment	3.4	-4.8	-12.0	-16.5	-2.9	-9.6	-10.8	-9.6	-8.7	-8.4	-10.3
Financial derivatives	0.5	-0.3	0.7	0.9	0.3	0.5	0.5	0.6	0.6	0.5	0.5
Other investment	10.2	-1.2	-4.1	-5.5	-11.5	-30.8	-23.6	-19.0	-14.6	-8.8	-4.4
Errors and omissions	-6.1	2.0	-0.2	-9.2	-8.3	0.0	0.0	0.0	0.0	0.0	0.0
Changes in official reserves (increase -)	-5.3	5.0	1.2	-5.9	-12.8	0.0	0.0	0.0	0.0	0.0	0.0
				(In percent of GDP)							
Current account balance	-0.4	-1.2	3.7	8.1	11.4	9.6	7.7	6.1	4.8	3.5	2.7
Trade balance	0.0	0.0	4.2	6.7	8.8	7.1	5.9	5.0	4.0	2.8	1.9
Exports, f.o.b.	57.3	54.1	55.8	53.6	52.6	51.2	49.6	48.6	48.0	47.2	46.5
Imports, f.o.b.	57.3	54.1	51.5	46.9	43.8	44.0	43.7	43.7	44.0	44.4	44.6
Services balance	1.0	2.7	2.5	4.8	5.9	5.4	4.7	4.0	3.6	3.4	3.3
Of which: tourism receipts	8.5	9.9	9.5	11.3	12.3	12.1	11.6	11.2	10.9	10.6	10.3
Income and transfers balance	-1.5	-3.9	-3.1	-3.5	-3.2	-2.9	-2.9	-2.9	-2.8	-2.7	-2.5
Capital and financial account balance	3.3	-0.5	-4.0	-4.3	-6.3	-9.6	-7.7	-6.1	-4.8	-3.5	-2.7
Foreign direct investment	-0.3	0.9	-0.2	1.0	-2.9	-0.4	-0.3	-0.4	-0.4	-0.5	-0.2
Portfolio investment	0.9	-1.1	-3.0	-4.1	-0.7	-2.2	-2.3	-2.0	-1.7	-1.5	-1.8
Financial derivatives	0.1	-0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other investment	2.6	-0.3	-1.0	-1.4	-2.8	-7.1	-5.1	-3.9	-2.8	-1.6	-0.8
Errors and omissions	-1.5	0.5	-0.1	-2.3	-2.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in official reserves (increase -)	-1.3	1.2	0.3	-1.5	-3.2	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item											
Gross official reserves (incl. net forward position) (billions of U.S. dollars)	205.8	190.2	180.2	168.2	197.6	197.6	197.6	197.6	197.6	197.6	197.6
(Months of following year's imports)	10.9	10.9	11.6	11.3	12.5	11.7	11.1	10.4	9.8	9.3	8.8
(Percent of ARA metric)	225.3	209.3	187.4	204.6	210.9						
Forward/swap position of BOT	-24.1	-23.0	-23.1	-11.7	-25.8						
Export growth (y/y percent change)	2.9	-0.1	-0.3	-5.6	0.0	3.8	3.1	4.3	4.0	3.5	3.6
Export volume growth	2.2	0.1	0.6	-3.4	0.0	1.9	1.9	2.6	2.3	2.1	2.1
Export unit value growth	0.6	-0.5	-1.0	-2.2	-0.1	1.9	1.1	1.6	1.6	1.4	1.4
Import growth (y/y percent change)	8.8	-0.1	-7.9	-10.6	-4.7	7.3	5.6	6.2	6.2	6.2	5.7
Import volume growth	7.1	2.0	-6.2	0.3	-2.1	1.6	4.5	4.6	4.3	4.0	3.5
Import unit value growth	1.7	-1.9	-1.6	-10.8	-2.6	5.5	1.0	1.5	1.8	2.1	2.1
External debt (percent of GDP)	35.3	35.8	34.7	32.1	32.5	31.8	31.4	31.0	30.5	30.1	29.8
(Billions of U.S. dollars)	130.7	141.9	141.7	131.4	131.4	138.1	145.1	152.2	158.2	163.7	171.0
Debt service ratio (percent) 2/	4.2	4.0	4.9	6.3	6.3	6.0	6.4	6.8	6.8	6.5	6.3
GDP (billions of U.S. dollars)	397.5	420.4	406.5	399.2	406.8	434.4	461.9	491.1	517.9	544.5	573.1

Sources: 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/ In percent of exports of goods and services.

Table 4. Thailand: Monetary Survey, 2008–16

(In billions of baht, unless otherwise stated)

	December								
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Central bank survey									
Net foreign assets	3,872	4,525	5,082	5,441	5,359	5,444	5,262	5,762	6,022
Net domestic assets	-2,833	-3,422	-3,839	-4,075	-3,861	-3,863	-3,595	-4,052	-4,206
Reserve money - Monetary base (M0)	1,040	1,103	1,243	1,365	1,498	1,581	1,667	1,710	1,816
Depository corporations survey									
Net foreign assets	4,132	4,570	4,884	5,426	4,943	5,007	4,991	5,873	6,131
Net domestic assets	5,812	6,047	6,895	8,134	10,024	11,055	11,818	11,678	12,158
Domestic credit	9,568	10,014	11,015	12,779	14,719	15,889	16,778	17,558	18,188
Net credit to central government	204	292	155	201	352	235	399	420	365
Credit to local government	5	6	18	18	22	25	22	19	18
Credit to nonfinancial public enterprises	325	366	372	392	354	334	322	291	287
Credit to financial corporations	520	625	668	699	846	892	903	955	1,011
Total credit to private sector	8,514	8,726	9,801	11,469	13,145	14,403	15,132	15,874	16,507
Credit to other nonfinancial corporations	4,136	3,847	4,132	4,837	5,393	5,838	6,006	6,187	6,411
Credit to other resident sector	4,378	4,879	5,669	6,632	7,752	8,565	9,126	9,687	10,096
Other items (net)	-3,756	-3,967	-4,120	-4,645	-4,695	-4,834	-4,960	-5,880	-6,030
Broad money	9,944	10,617	11,779	13,560	14,967	16,062	16,809	17,552	18,289
Narrow money	1,041	1,175	1,302	1,414	1,598	1,661	1,682	1,778	1,864
Currency in circulation	752	844	937	1,036	1,136	1,189	1,200	1,251	1,336
Deposits at depository corporations	289	331	365	378	462	472	482	527	528
Quasi-money	8,903	9,442	10,476	12,146	13,369	14,401	15,127	15,774	16,425
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	4.2
Narrow money growth (y/y percent change)	4.1	12.8	10.9	8.6	13.0	3.9	1.3	5.7	4.8
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	4.0
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	1.5
Net domestic assets (in percent)	3.3	2.4	8.0	10.5	13.9	6.9	4.8	-0.8	2.7
Domestic credit (in percent)	7.5	4.5	9.4	15.0	14.3	7.8	5.5	4.6	3.6

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

Table 5. Thailand: Financial Soundness Indicators of Commercial Banks, 2009–16

	2009	2010	2011	2012	2013	2014	2015	2016
				(In percent)				
Capital adequacy								
Regulatory capital to risk-weighted assets	15.8	16.1	14.8	16.2	15.5	16.5	17.1	17.8
Regulatory Tier 1 capital to risk-weighted assets	11.7	11.9	11.0	11.0	11.9	13.0	13.9	14.5
Asset quality								
Nonperforming loans net of provisions to capital	19.5	13.8	10.6	7.4	7.7	7.8	8.0	8.4
Nonperforming loans to total gross loans	5.2	3.9	2.9	2.4	2.3	2.3	2.7	3.0
Earnings and profitability								
Return on assets	1.3	1.6	1.6	1.6	1.8	1.7	1.4	1.4
Return on equity	12.1	14.1	14.9	14.9	15.9	14.7	11.1	10.7
Liquidity								
Liquid assets to total assets (liquid asset ratio)	22.5	19.4	19.0	20.2	19.2	20.9	20.0	18.8
Liquid assets to short term liabilities	33.2	29.7	29.7	32.3	31.8	35.6	33.1	30.7
Loan-deposit ratio 1/	94.4	100.0	107.8	96.4	97.9	96.1	97.6	96.9

Source: IMF, *Financial Soundness Indicators* database.

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

Table 6. Thailand: Medium-Term Fiscal Scenario, FY2013 – FY2022 1/

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

					Projections					
	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
General Government										
Revenue	22.1	21.4	22.4	22.4	21.9	22.1	22.3	22.3	22.3	22.3
Tax revenue	18.3	17.2	17.8	17.6	17.2	17.4	17.6	17.6	17.6	17.6
Taxes on income	7.3	6.7	6.6	6.4	6.4	6.4	6.4	6.4	6.4	6.4
Taxes on goods and services	9.8	9.3	10.1	10.1	9.7	9.7	9.7	9.7	9.7	9.7
Taxes on international trade	0.9	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Other	0.3	0.4	0.4	0.4	0.4	0.5	0.7	0.7	0.7	0.7
Social contributions	0.8	1.1	1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other revenue	2.9	3.1	3.4	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Total expenditure	21.6	22.2	22.3	21.8	23.5	23.9	24.1	24.1	24.1	24.1
Expense	18.8	19.3	18.7	19.2	19.6	20.0	20.2	20.4	20.6	20.7
Compensation of employees	6.6	6.5	6.6	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Purchase/use of goods and services	5.8	6.2	6.1	6.3	6.3	6.3	6.3	6.3	6.3	6.3
Interest	1.1	1.1	1.0	0.9	1.2	1.4	1.5	1.6	1.7	1.7
Social benefits	2.1	2.2	2.3	2.6	2.7	2.8	2.9	3.0	3.1	3.2
Other	3.2	3.3	2.7	3.0	2.8	2.8	2.8	2.8	2.8	2.8
Net acquisition of nonfinancial assets	2.8	2.9	3.6	2.3	3.9	3.9	3.9	3.7	3.5	3.4
o.w. fixed assets	3.1	2.9	3.6	3.9	3.9	3.9	3.9	3.7	3.5	3.4
o.w. nonproduced assets	-0.3	0.0	0.0	-1.7	0.0	0.0	0.0	0.0	0.0	0.0
Net lending (+)/net borrowing (-)	0.5	-0.8	0.1	0.6	-1.6	-1.8	-1.9	-1.9	-1.8	-1.8
SOEs										
Net lending (+)/net borrowing (-) 2/	-1.8	-0.5	0.7	0.8	0.3	-0.2	-0.4	-0.3	-0.2	-0.1
Public Sector										
Net lending (+)/net borrowing (-) 3/	-1.3	-1.3	0.9	1.3	-1.3	-2.0	-2.3	-2.2	-2.1	-2.0
Primary balance	0.3	0.3	2.3	2.5	0.3	-0.1	-0.3	-0.1	0.1	0.2
Cyclically adjusted primary balance	-0.1	0.4	2.4	2.6	0.5	0.0	-0.2	-0.1	0.1	0.2
Structural primary balance	-0.4	0.4	2.4	1.0	0.5	0.0	-0.2	-0.1	0.1	0.2
Debt (end of period)	42.2	43.4	42.7	42.2	41.5	41.3	41.7	41.7	41.6	41.3
Memorandum items:										
Public sector investment 4/	5.8	5.3	5.9	6.5	6.9	7.3	7.6	7.2	7.0	6.8
General government	3.9	3.6	4.4	4.8	4.8	4.8	4.8	4.6	4.4	4.3
Public enterprises	1.9	1.7	1.6	1.7	2.1	2.5	2.8	2.6	2.6	2.5

Sources: Thai authorities; and IMF staff estimates and projections.

1/ Fiscal year runs from October 1 to September 30.
2/ Estimated from the evolution of SOEs debt.
3/ Includes General Government and SOEs.
4/ Based on national accounts.

Appendix I. Staff Policy Advice from the 2016 Article IV Consultation

Staff Advice	Policy Actions
Implement the government's investment plan within a medium-term fiscal framework.	Public investment increased by 0.6 percent of GDP in FY2016. The fiscal stance is expected to remain expansionary in 2017, on account of a further increase in public investment. The authorities are working on operationalizing the medium-term fiscal framework.
Use room for further monetary easing.	The policy rate has been kept constant since April 2015.
Maintain exchange rate flexibility as the first line of defense against external shocks.	The authorities maintained a flexible exchange rate regime.
Tighten macroprudential policies and upgrade the financial stability framework.	The authorities tightened regulations for the issuance of unrated bonds by unregistered companies. The BOT assumed regulatory oversight of SFIs. Coordination with other financial sector regulators continues to strengthen.
Take advantage of regional and global opportunities for trade integration.	The authorities have stepped up trade integration efforts and are promoting 10 target industries in the eastern economic corridor.
Develop social safety nets in line with structural challenges, including on-budget cash transfers and skill-upgrading programs.	Efforts are underway to strengthen means-tested transfers and to introduce a low-income household registration program.
Reform social security to strengthen equity, sustainability, and efficiency.	A national reform committee will review pension schemes and propose a reform strategy.

Appendix II. Risk Assessment Matrix

Nature/Source of Threat	Likelihood	Impact	Policies to Minimize Impact
External Risks			
Retreat from cross border integration	*H*	***H:*** A fraying consensus about the benefits of globalization could lead to protectionism and economic isolationism, leading to reduced global and regional policy collaboration with negative consequences for trade, capital and labor flows, sentiment, and growth.	Strengthen domestic drivers of growth. Deepen regional trade integration and seek new opportunities to enhance position in global value chains. Greater orientation toward CLMV could buttress exports.
Policy uncertainty and divergence	*H*	***M:*** Two-sided risks to U.S. growth with difficult-to-predict policies and global spillovers. In Europe, uncertainty associated with negotiating post-Brexit arrangements and with upcoming major elections. Policy divergence could lead to rising global imbalances and exacerbate exchange rate and capital flow volatility.	Allow exchange rate flexibility to be the key shock absorber, with judicious intervention to avoid disorderly markets. If capital outflows affect the real economy and constrain monetary stimulus, redouble efforts to accelerate public investment execution to bolster domestic demand.
Significant further strengthening of the U.S. dollar and/or higher rates	*H*	***M:*** As investors reassess policy fundamentals, as term premia decompress, or if there is a more rapid Fed normalization, leveraged firms, lower-rated sovereigns and those with un-hedged dollar exposures could come under stress. Could also result in capital account pressures for some economies.	Allow exchange rate flexibility to be the key shock absorber, with judicious intervention to avoid disorderly 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 its spillovers	*M*	***H:*** Key near-term risks are disruptive drying up of liquidity for weaker borrowers in the interbank market and a stronger U.S. dollar increasing pressure on the Renminbi. Weak domestic demand further suppresses commodity prices, roils global financial markets, and reduce global growth.	Structural reforms and infrastructure development would raise returns to private investment and strengthen domestic-demand-led growth. Greater orientation toward CLMV could buttress exports. Allow exchange rate flexibility to be the key shock absorber amid global volatility.
Structurally weak growth in key advanced and emerging economies	*H*	***M:*** Low productivity growth (U.S. the Euro Area, and Japan), a failure to fully address crisis legacies and undertake structural reforms, and persistently low inflation (the Euro Area, and Japan) undermine medium-term growth. Resource misallocation and policy missteps, including insufficient reforms, exacerbate declining productivity growth in emerging markets.	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			
Heightened political uncertainty	*M*	***H:*** Consumer and business confidence would be damaged, dampening private investment and FDI inflows. Public investment execution would slow down. Capital outflows would put pressure on credit and asset markets. Tourism could also be affected.	Allow automatic stabilizers to work. Provide adequate liquidity to banks to minimize disruptions in the financial system. Let the exchange rate be the key shock absorber in case of capital outflows, but use intervention to avoid disorderly market conditions.
Weaker crowding-in of private investment	*M*	***M:*** Lower-than-projected private investment would reduce domestic demand in the cyclically weak economy and undermine Thailand's potential in the longer term. It may also weaken confidence in the government's ability to improve the business environment, denting private sentiment and FDI.	Use available room for additional fiscal and monetary stimulus. Strengthen efforts to implement structural reforms and improve the business and investment environment. Accelerate the execution of large infrastructure projects and PPPs with capacity to crowd-in private sector interest.
Entrenched low inflation	*M*	***H:*** Entrenched low inflation would worsen the macroeconomic environment, increasing real interest rates and the real debt burden, and posing risks to corporate, household, and financial sector balance sheets.	Lower the policy rate and strengthen communication to anchor inflation expectations. Consider additional fiscal stimulus, consistent with long-term goals and fiscal sustainability, within a credible medium-term fiscal framework.
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.	Use available room for additional fiscal and monetary stimulus. Explore options for household debt restructuring.

"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 percent and 30 percent, and "high" a probability between 30 percent 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.

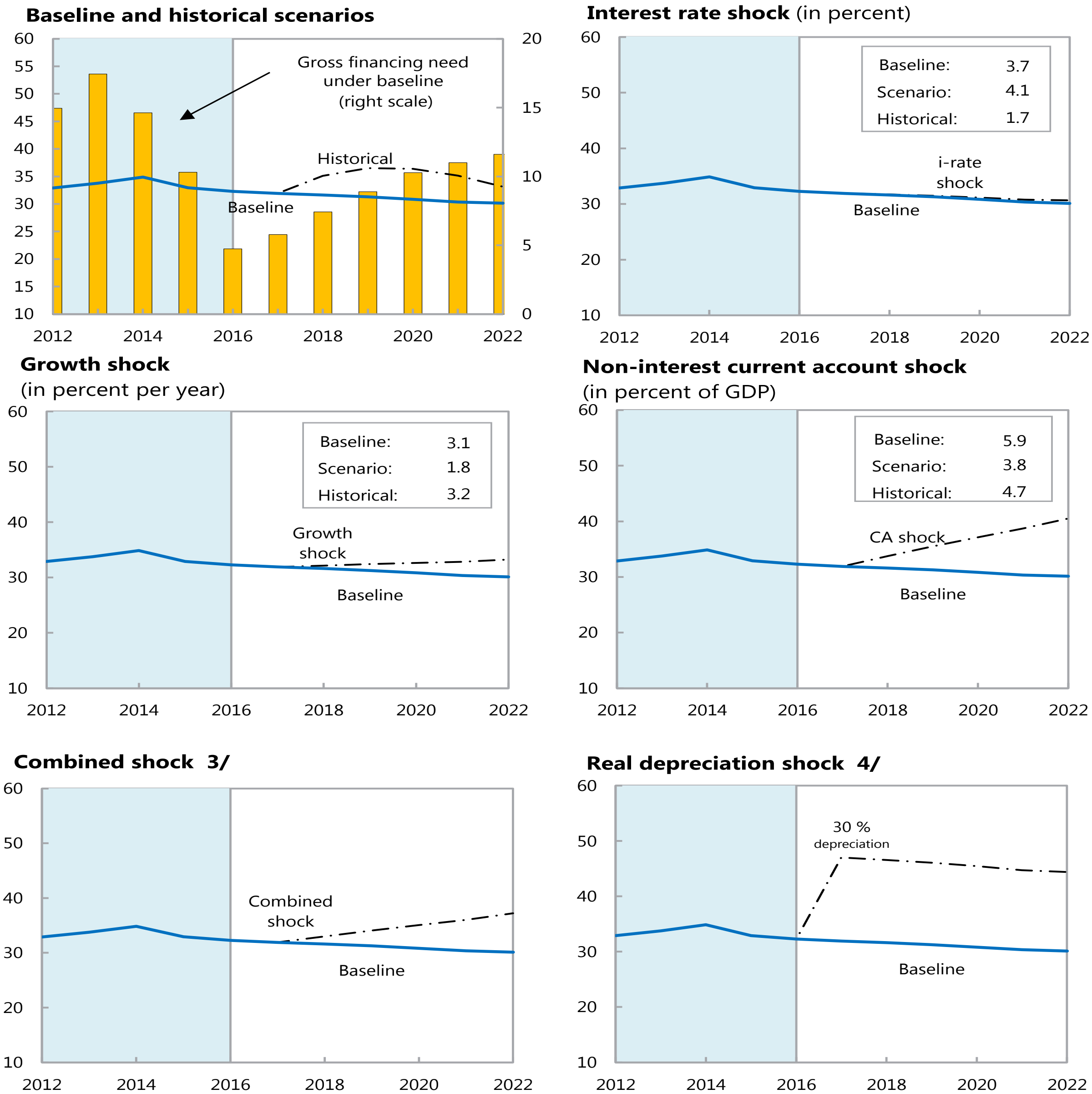
Appendix III. External Sector Assessment

	Thailand	Overall Assessment
Foreign asset and liability position and trajectory	**Background.** The net international investment position (NIIP) improved steadily from -48 percent of GDP in 2000 to -2 percent of GDP in 2009. Subsequently, the NIIP declined to -24 percent of GDP in 2014, despite CA surpluses averaging 1.6 percent of GDP, largely due to valuation changes and other stock-flow adjustments.[1] The NIIP halved to around -10 percent of GDP in 2015-16, accompanied by a rising CA surplus and subdued FDI, amid steadily rising outward investment by residents. **Assessment.** In 2016, gross liabilities were 101.8 percent of GDP and external debt stood at 32.5 percent of GDP (short term debt stood at 13 percent of GDP). There are limited risks to external debt sustainability as external debt is projected to continue declining over the medium term and net foreign liabilities (as a percent of GDP) are expected to stabilize.	**Overall Assessment**: *The external position in 2016 was substantially stronger than warranted by medium-term fundamentals and desirable policy settings.* However, the size of the 2016 CA and REER gap are subject to a wide margin of error reflecting Thailand-specific transitory factors not fully captured in the EBA model, such as the sharp improvement in ToT, the boom in tourism, and political uncertainty. The fast demographic transition may increase savings going forward. **Potential policy responses**: Mutually reinforcing monetary and fiscal stimulus, coupled with structural reforms, should support domestic demand and help lower the current account gap over time. The boost to public infrastructure within available fiscal space should crowd-in private investment. The authorities should continue addressing structural rigidities by reforming social safety nets, notably the fragmented pension schemes compounded by widespread informality, and reducing barriers to investment, especially in the services sector. The exchange rate should move flexibly as the key shock absorber. Intervention should be limited to avoiding disorderly market conditions. Reserves exceed all adequacy metrics, thus there is no need to build up reserves for precautionary purposes.
Current account	**Background**. Thailand's current account (CA) has been volatile over the last decade, ranging from a deficit of 4 percent of GDP in 2005 to a surplus of 7¼ percent of GDP in 2009. The CA then dropped to a deficit of 1¼ percent of GDP by 2013 and rose back to a record surplus of 11.4 percent of GDP in 2016. The 12.6 percent of GDP turnaround in the CA between 2013-16 can be largely accounted for by a 5.8 percent of GDP decline in net oil imports and a 3 percent of GDP rise in the services balance (mainly tourism). Net oil imports and tourism also account for the bulk (two-thirds) of the increase in the CA in 2016. Import volume declined, while goods exports were stagnant. **Assessment**. The EBA CA model estimated a small (0.3 percent of GDP) terms-of-trade (ToT) cyclical adjustment in 2016, with a cyclically-adjusted 2016 CA of 11.1 percent of GDP and a CA norm of 1.1 percent of GDP. The CA gap of 10 percent of GDP consists of an identified policy gap of 2.3 percent of GDP (1.9 percent of GDP from domestic policy gaps), and an unexplained residual of 7.6 percent of GDP. The large unexplained residual partly reflects Thailand-specific features not fully captured by the EBA model. Notwithstanding continued improvement in ToT and the boom in tourism, private domestic demand remained weak, reflecting a cautious response to these positive shocks during the ongoing political transition that weighed on private sector confidence. Considering these factors, staff assesses the CA gap within 3 percent to 7 percent of GDP of the level consistent with medium-term fundamentals and desirable policies.[2] The CA gap is expected to narrow over the medium term, as policy stimulus is deployed, political uncertainty dissipates, private confidence recovers, and steps are taken to reform the safety net.	
Real exchange rate	**Background.** The baht has been on a broadly stable real effective exchange rate (REER) appreciation trend since the mid-2000s. Exceptional periods where the Fed's tapering talk in mid-2013 and the domestic monetary policy easing cycle in 2015: Q1, when the bath depreciated for several quarters. The REER resumed its gradual real appreciation trend in 2016: Q1. By February 2017, the REER had appreciated by 2.8 percent relative to 2016. The correlation between the REER and the CA in Thailand has been weak over the last decade, likely due to the Thailand-specific factors outlined above, the buildup of global value chains, and volatile capital flows. **Assessment**. The EBA index REER gap in 2016 is estimated at -6.4 percent; the EBA level REER gap is estimated at -16.5 percent, but with a large unexplained residual. Using an elasticity of 0.6, staff assesses the 2016 REER to be 5 percent to 11 percent below levels consistent with medium-term fundamentals and desirable policies.	
Capital and financial accounts: flows and policy measures	**Background**. The capital and financial account balance has been negative since 2013. In 2016, the negative balance increased to US$25.7 billion due to Thai firms' overseas investment, subdued FDI inflows, and other investment outflows despite portfolio 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 resilient external sector and the flexibility of the baht, partially offsetting the current account surplus.	
FX intervention and reserves level	**Background**. The exchange rate regime is classified as (de jure and de facto) floating. International reserves gradually declined from 52 percent of GDP in 2012 to 49 percent of GDP in 2016, but stand at over three times short-term debt, 211 percent of the IMF's reserve metric unadjusted for capital controls, and 250 percent of the metric adjusted for capital controls. Staff considers the unadjusted adequacy metric to be more appropriate. (The adjusted metric relies on de jure capital controls, which fail to capture recent liberalization measures and the extent to which controls are binding). **Assessment.** Interventions appear to have been two-sided, as shown by changes in reserves and the net forward position (the only proxies for intervention, as actual intervention data are not published) that have been positive (7 months) and negative (5 months) throughout 2016, while gross reserves increased by US$29.4 billion (7.2 percent of GDP) during that period. 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 move flexibly, acting as a shock absorber, with intervention limited to avoiding disorderly market conditions.	
Technical Background Notes	[1] These persistent negative valuation effects during 2010-14 have been driven mainly by capital inflows contributing to the growth of asset prices and baht appreciation. [2] The EBA model has a very large (and rising since 2013) unexplained residual for Thailand, likely driven by imperfect measurement of the large, positive ToT shock, the boom in tourism, and political uncertainty. Staff adjustments improve the measurement of these Thailand-specific cyclical and transitory factors through (i) updated weights in the EBA terms of trade index; (ii) an estimate of the cyclical component in the recent boom in tourism; and (iii) an estimate of the transitory impact of the ongoing political transition not captured by the institutional quality variables included in the EBA model (see Selected Issues Paper). Moreover, the public health expenditure variable does not fully reflect the largely underdeveloped social safety nets, including low minimum pensions accruing to the large informal sector, which contribute to the current high levels of precautionary savings.	

Appendix IV. External Debt Sustainability Analysis

Thailand: External Debt Sustainability: Bound Tests 1/ 2/

(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/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2017.

Appendix V. Risk Transfer Within the Financial System[1]

Pockets of risk may be building outside the banking system, with a substantial increase in NBFIs exposure to households and nonfinancial corporations.

Balance Sheet Analysis (BSA) shows substantial shifts in *net* exposures among sectors of the financial system. BSA uses a matrix of intersectoral exposures to identify channels of risk transmission within an economy. Comparing the 2007 and 2015 BSA matrices for Thailand shows: (i) an increase in banks' net claims on the central bank (from 10 percent to 20 percent of GDP) driven by issuance of central bank bills to absorb excess liquidity; (ii) an increase in net central bank claims on the rest of the world (from 32 percent to 42 percent of GDP) as foreign currency reserves rose; and (iii) a decrease in banks' net liabilities to households (from 29 percent to 17 percent) and corporates (21 percent to 14 percent) balanced by (iv) an increase in NBFIs net liabilities to households (from 25 percent to 36 percent), and rise in NBFIs net claims on corporates (from 18 percent to 19 percent).

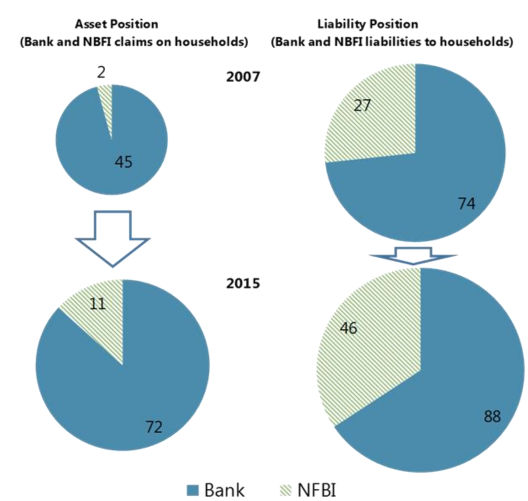
Thailand: BSA Matrix - Intersectoral Net Positions
(In percent of GDP)

	Government 1/	Central Bank	Banks 2/	NBFIs 3/	NFCs	HHs	ROW
2007							
Government 1/		-6.7	-4.4	4.9	0.3	4.1	1.2
Central Bank	6.7		9.8	4.1	1.2	1.5	-32.5
Banks 2/	4.4	-9.8		2.0	-21.4	29.3	1.5
NBFIs 3/	-4.9	-4.1	-2.0		-17.8	25.2	-2.4
NFCs 4/	-0.3	-1.2	21.4	17.8			20.7
HHs	-4.1	-1.5	-29.3	-25.2			0.0
ROW	-1.2	32.5	-1.5	2.4	-20.7	0.0	
2015							
Government 1/		-5.1	-0.8	7.9	0.3	1.7	4.7
Central Bank	5.1		19.9	5.2	0.7	0.1	-42.1
Banks 2/	0.8	-19.9		5.8	-14.1	16.9	9.8
NBFIs 3/	-7.9	-5.2	-5.8		-18.6	35.5	-2.5
NFCs 4/	-0.3	-0.7	14.1	18.6			16.9
HHs	-1.7	-0.1	-16.9	-35.5			0.0
ROW	-4.7	42.1	-9.8	2.5	-16.9	0.0	

Sources: Bank of Thailand; and IMF staff calculations.
1/ Includes central government and local governments.
2/ Includes all depository corporations excluding the Bank of Thailand.
3/ Includes all other financial corporations.
4/ NFCs Includes SOEs.

***Gross* BSA positions reveal a more complex transformation of risks**. First, the decrease in banks' net liabilities to households results from a massive increase in banks' gross claims on households (of 27 percent of GDP); thus most of the risk from high household debt remains on bank balance sheets, which have been strengthened recently. Second, banks continued to receive deposits, which rose by 12 percent of GDP, and their liquidity position remains adequate. Third, NBFIs experienced a large increase in gross liabilities to households, who sharply increased holdings of financial products to pick up yield. The latter could represent an increase in systemic liquidity risk, as the short maturity of NBFIs products results in maturity mismatches and in rollover risks for corporate borrowers. While NBFIs net claims on corporates rose only 4 percent of GDP, suggesting this risk remains moderate, NBFIs may be less able to manage this increase in risk than banks. This highlights the need to strengthen NBFI regulatory oversight to ensure such risks are adequately priced in lending margins, which could help shift some of this financing back to banks, and to better target the buildup of NBFIs risks with macroprudential measures.

Bank and Non-Bank Financial Institution Exposure to Households



Note: Percent of GDP (data and relative size of pie charts)
Sources: Authorities; and IMF staff calculations.

[1] Prepared by Sean Craig (APD), based on data collection by Ken Kashiwase (OAP).

Appendix VI. Public Sector Debt Sustainability

Figure 1. Thailand: Public Sector Debt Sustainability Analysis

(In percent of GDP unless otherwise indicated)

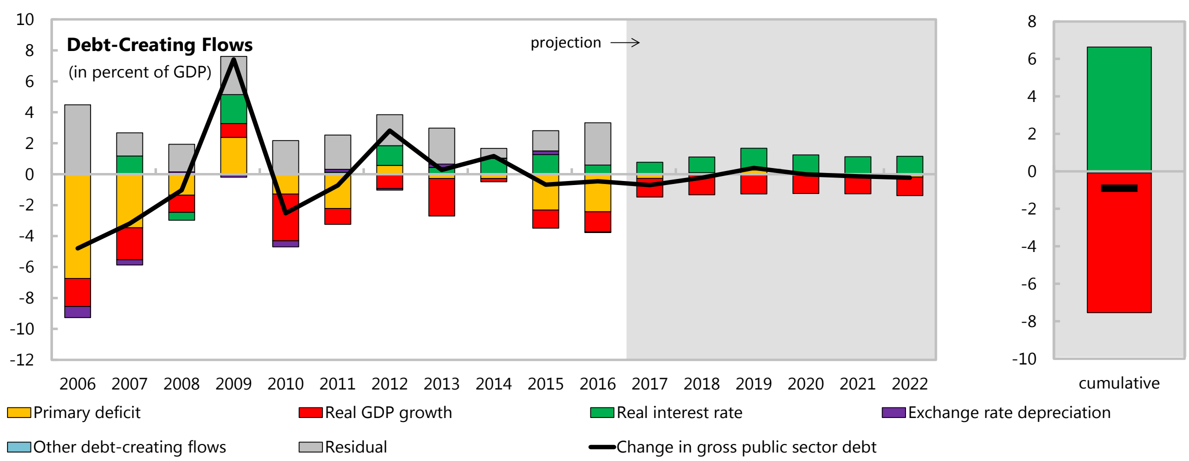
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	39.9	42.7	42.2	41.5	41.3	41.7	41.7	41.6	41.3
Of which: guarantees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public gross financing needs	6.0	5.4	4.9	7.3	7.9	8.2	8.1	8.0	7.9
Real GDP growth (in percent)	3.5	2.8	3.2	3.0	3.4	3.2	3.2	3.0	3.0
Inflation (GDP deflator, in percent)	3.0	0.4	1.4	1.9	2.1	1.5	2.3	2.5	2.5
Nominal GDP growth (in percent)	6.6	3.2	4.7	5.0	5.6	4.8	5.5	5.6	5.6
Effective interest rate (in percent) [4/]	4.7	3.5	2.9	3.9	4.8	5.1	5.3	5.4	5.5

As of March 24, 2017		
Sovereign Spreads		
EMBIG (bp) 3/		20
5Y CDS (bp)		87
Ratings	Foreign	Local
Moody's	Baa1	Baa1
S&Ps	BBB+	BBB+
Fitch	BBB+	BBB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-0.1	-0.7	-0.5	-0.7	-0.2	0.4	0.0	-0.1	-0.2	-0.9	
Identified debt-creating flows	-2.2	-2.0	-3.2	-0.7	-0.2	0.4	0.0	-0.1	-0.2	-0.9	
Primary deficit	-1.4	-2.3	-2.4	-0.3	0.1	0.3	0.1	-0.1	-0.2	-0.1	0.0
Primary (noninterest) revenue and grants	23.9	25.1	24.8	24.8	24.9	25.1	25.1	25.1	25.1	150.0	
Primary (noninterest) expenditure	22.5	22.8	22.3	24.5	25.0	25.4	25.2	25.0	24.9	150.0	
Automatic debt dynamics [5/]	-0.8	0.3	-0.8	-0.4	-0.3	0.1	-0.1	-0.1	0.0	-0.8	
Interest rate/growth differential [6/]	-0.7	0.1	-0.7	-0.4	-0.3	0.1	-0.1	-0.1	0.0	-0.8	
Of which: real interest rate	0.6	1.3	0.6	0.8	1.0	1.4	1.2	1.1	1.2	6.6	
Of which: real GDP growth	-1.3	-1.2	-1.3	-1.2	-1.3	-1.3	-1.3	-1.2	-1.2	-7.5	
Exchange rate depreciation [7/]	-0.1	0.2	-0.1	…	…	…	…	…	…	…	
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	
Please specify (1) (e.g., drawdown of dep	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	
Please specify (2) (e.g., ESM and Euroare	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	2.2	1.3	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	



Source: IMF staff.

1/ On fiscal year basis. Public sector debt includes central government debt, nonfinancial SOEs' debt, and SFI guaranteed debt.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = 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).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

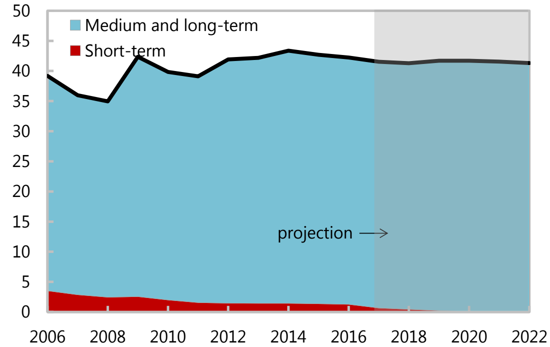
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Thailand: Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

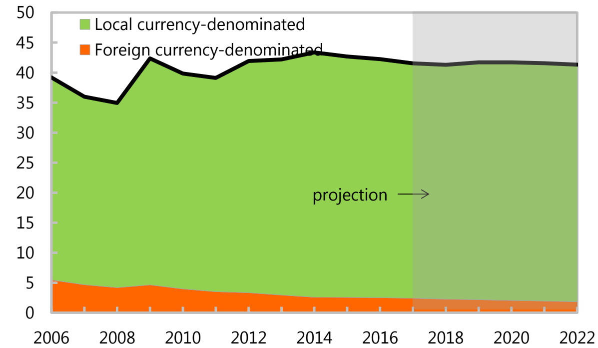
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

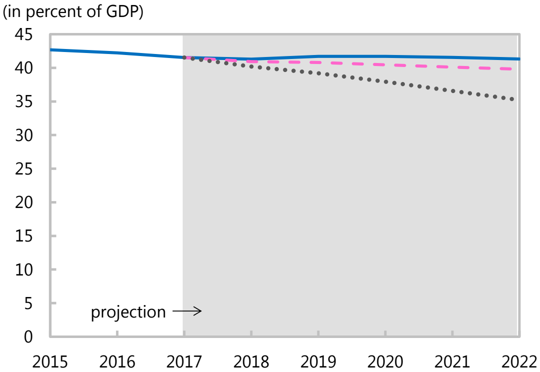


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

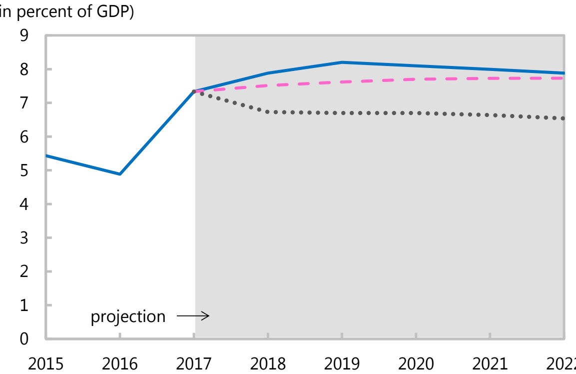
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	3.0	3.4	3.2	3.2	3.0	3.0
Inflation	1.9	2.1	1.5	2.3	2.5	2.5
Primary Balance	0.3	-0.1	-0.3	-0.1	0.1	0.2
Effective interest rate	3.9	4.8	5.1	5.3	5.4	5.5
Constant Primary Balance Scenario						
Real GDP growth	3.0	3.4	3.2	3.2	3.0	3.0
Inflation	1.9	2.1	1.5	2.3	2.5	2.5
Primary Balance	0.3	0.3	0.3	0.3	0.3	0.3
Effective interest rate	3.9	4.8	5.1	5.3	5.4	5.5

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	3.0	3.3	3.3	3.3	3.3	3.3
Inflation	1.9	2.1	1.5	2.3	2.5	2.5
Primary Balance	0.3	1.1	1.1	1.1	1.1	1.1
Effective interest rate	3.9	4.8	5.0	5.1	5.0	5.0

Source: IMF staff.

Appendix VII. Public Investment, Growth, and Debt Sustainability[1]

Model simulations show that while public investment may significantly boost growth, revenue mobilization is warranted to address rising age-related spending and secure public debt sustainability.

The analysis relies on the "Debt, Investment and Growth" (DIG) model that is especially designed to assess the public investment-growth nexus together with debt sustainability.[2] The main advantage of the model (compared to a standard debt-sustainability analysis framework) is that it explicitly links public investment, private investment, and growth. Infrastructure investment increases the productivity of private capital and labor, crowding in private investment. DIG allows financing fiscal gaps via debt, taxes or a combination of the two.

The model is calibrated to the Thai economy and simulated macroeconomic times series are produced under three alternative scenarios:

- *Initial scenario*. The working age population declines about 0.5 percent per year while age-related spending increases by 2 percent of GDP by 2030. Public investment increases from around 6.5 percent of GDP to nearly 8 percent of GDP, and then stabilizes at about 7 percent of GDP. Tax rates remain unchanged and fiscal gaps are financed with external debt.

- *Higher public investment*. This scenario differs from the initial one in the public investment path, which is assumed to be more ambitious: it reaches 8 percent of GDP in the medium term and then stabilizes at 7 percent of GDP in the long run.

- *Higher public investment and increase in VAT*. This scenario combines the more ambitious public investment path of the scenario above, but fiscal gaps are financed partly by government debt, and partly by a gradual increase the in the VAT rate from 7 percent to 14 percent.

Under the initial scenario, absent fiscal policy adjustments, public debt is sustainable in the medium term but not in the long term. In this scenario, growth slows down over the long term, the primary balance deteriorates steadily, and public debt becomes unsustainable. The public investment scale-up crowds in private investment, but fails to stop the decline in growth, given the continued drag in the contribution from labor. The growth slowdown has a negative effect on tax revenues, and makes the interest rate growth differential progressively less favorable, while age-related expenditures weigh increasingly more on public finances.

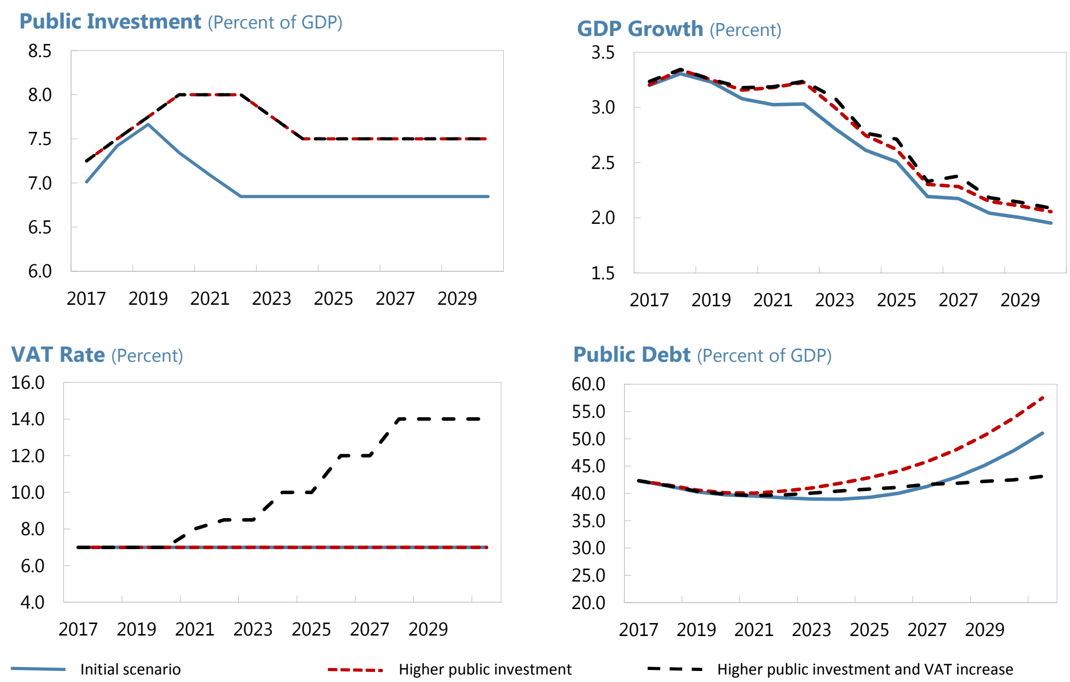
A more ambitious public investment plan, coupled with a gradual increase in the VAT rate, shifts the growth path upwards and secures public debt sustainability over the long run. A bolder public investment scaling-up shifts the growth path upward, but—if implemented alone—is insufficient to stabilize public debt dynamics beyond the medium term. A gradual increase in the

[1] Prepared by Giovanni Melina (RES) and Pablo Lopez Murphy (APD).

[2] For technical details on the model see Berg, A., Buffie, E., Patillo, C., Portillo, R., and Zanna, F. (2012). "Public, Investment, Growth, and Debt Sustainability: Putting together the Pieces," IMF Working Paper WP/12/144.

VAT rate to 14 percent stabilizes the primary balance at about 1 percent of GDP, induces lower consumption and higher investment (and hence higher growth), and public debt stabilizes.

Thailand: Public Investment, Growth, and Debt Sustainability



Sources: Thai authorities; DIG model simulations; and IMF staff estimates.

INTERNATIONAL MONETARY FUND

THAILAND

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 2, 2017

Prepared By Asia and Pacific Department

CONTENTS

FUND RELATIONS

(As of March 31, 2017)

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	2,751.54	85.67
Reserve position in Fund	460.36	14.33
Lending to the Fund		
New Arrangements to borrow	58.91	

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	970.27	100.00
Holdings	974.98	100.49

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):

	2017	2018	2019	2020	2021
Principal					
Charges/interest	0.03	0.03	0.03	0.03	0.03
Total	**0.03**	**0.03**	**0.03**	**0.03**	**0.03**

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:

Thailand is on the standard 12-month Article IV consultation cycle. The previous Article IV consultation was concluded on May 23, 2016. Copy of the Staff Report could be downloaded from this link.

Recent Technical Assistance:

FAD: A mission in March 2017 focused on strengthening the performance of the personal income tax (PIT) and progressing the implementation of recommendations on the value-added tax (VAT).

STA: A mission in February–March 2017 conducted a workshop and provided technical assistance on government finance statistics, aiming at improving the estimates of local governments' operations and the proper economic treatment of complex government operations and schemes based on international macroeconomic statistical standards.

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	On-going	Continuous
	Thailand Economic Monitor	Bi-annual	May 2017 and November 2017
	Thailand Country Systematic Diagnostic Report	Completed	November 2017
	Implementation of Secured Transactions and improving Ease of Doing Business	On-going	June 2017
	Technical assistance for a guided self-assessment of insurance practices	On-going	November 2017
	Strengthening corporate governance of State Owned Enterprises and State Financial Institutions	On-going	TA – Just in time
IMF work program	2017 Article IV mission	February 2017	Board discussion expected in May 2017
	2017 Staff Visit	Fall 2017	
B. Request for work program inputs			
Fund request to Bank	Assessment of economic developments and structural policies	Semi-annual or more frequent	Ongoing
	Public Investment Management Assessment		Completed
	Information sharing	Semi-annual or more frequent	Ongoing
Bank request to Fund	Assessment of macroeconomic developments and policies	Semi-annual or more frequent	Ongoing
	Information sharing	Semi-annual or more frequent	Ongoing
	Share information on Technical Assistance work on Medium Term Fiscal Framework, State Financial Institutions	Semi-annual	Ongoing

STATISTICAL ISSUES

(As of April 19 2017)

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 2015 Socio-Economic Survey since January 2017. 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*, 2014 (GFSM 2014). 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 and the authorities publish monthly data for key GFS-based numbers for the general government on their website. In addition, the authorities compile GFSM 2001-based data for the nonfinancial state enterprises (SOEs), although there are delays for selected SOEs. The authorities also publish public sector debt data in their website, including debt of nonfinancial 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, particularly 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 2016: Q3 (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 28, 2017

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]	Memo Items:	
						Data Quality – Methodological Soundness[7]	Data Quality – Accuracy and Reliability[8]
Exchange Rates	4/28/2017	4/28/2017	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	2/29/2017	3/22/2017	W	W	W		
Reserve/Base Money	2/2017	3/22/2017	M	M	M	O, O, LO, O	O, O, O, O, O
Broad Money	2/2017	3/22/2017	M	M	M		
Central Bank Balance Sheet	2/2017	3/22/2017	M	M	M		
Consolidated Balance Sheet of the Banking System	2/2017	3/22/2017	M	M	M		
Interest Rates[2]	4/28/2017	4/28/2017	D	D	D		
Consumer Price Index	3/2017	4/1/2017	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	2016	2/2017	A	A	A	O,LO,O,LO	LO, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	2/2017	4/2017	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2/2017	4/2017	M	M	M		
External Current Account Balance	12/2016	2/2017	M	M	M	O, LO,LO,LO	LO, O, O, O, LO
Exports and Imports of Goods and Services	12/2016	2/2017	M	M	M		
GDP/GNP	2016: Q4	2/2017	Q	Q	Q	LO, LO, O, LO	O, O, LO, O, O
Gross External Debt	12/2016	3/2017	M	M	M		
International Investment Position	2016: Q4	3/2017	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.

Statement by the Staff Representative on Thailand

May 17, 2017

The information below has become available following the issuance of the staff report (SM/17/100). It does not alter the thrust of the staff appraisal.

Inflation

Headline inflation decelerated to 0.4 percent year-on-year in April, somewhat weaker than projected by staff, given low fresh food prices and a further slide in core inflation (to 0.5 percent). Staff's projection of 1 percent average headline inflation for 2017 requires timely execution of the fiscal stimulus and a pickup in private domestic demand. Staff continues to see substantial downside risks to inflation.

External Sector

- The current account balance in the first quarter of 2017 reached US$13.3 billion (3.0 percent of GDP), in line with staff's projection. The trade balance reached US$8.8 billion (2.0 percent of GDP), with rising goods imports (15.9 percent over the same quarter of 2016) exceeding the increase in exports (6.6 percent).

- Gross international reserves as of end-March stood at US$207.5 billion (including a net forward position of US$26.6 billion), nearly US$10 billion higher than at end-2016. This reflects mainly a still favorable current account balance during the first quarter, together with significant capital inflows in January.

- The baht appreciated in real effective terms by 2.6 percent in the first quarter of 2017 relative to 2016.

Statement by Mr. Juda Agung, Executive Director for Thailand, and Mr. Kaweevudh Sumawong, Senior Advisor to the Executive Director
May 17, 2017

1. The Thai authorities would like to express their sincere appreciation to the IMF mission team for the constructive policy discussions. They are encouraged by the staff's acknowledgement of Thailand's highly resilient macroeconomic fundamentals, ample buffers, and sound financial system. The authorities broadly share staff's view on risks to growth especially from external headwinds, as well as on the medium-term structural challenges that would require timely reform policies.

Recent Developments and Near-Term Outlook

2. The momentum of economic recovery has continued, driven mainly by exports of goods and services, public investment and private consumption. Exports of goods showed signs of broad-based improvement, consistent with the steady recovery of global demand, while the tourism sector rebounded sooner than anticipated. Private consumption gained traction supported by improved household income and greater consumer confidence. Public spending continued to drive the economy, especially in public infrastructure investment, which should also crowd-in private investment going forward. For 2017, the authorities expect the Thai economy to expand by 3.4-3.6 percent under the baseline projection.

3. The overall balance of risks to the economic outlook is tilted to the downside in light of heightened uncertainty. An important downside risk is the uncertainty surrounding U.S. trade policies which clouds the global economic outlook and holds back the growth of Thailand's trading partners. Other developments that warrant close monitoring include political events in Europe and the Brexit process. On the other hand, the authorities agree with the upside risk in staff's assessment that the recent momentum in global growth could be sustained, provided that the U.S. economy achieves stronger growth from its domestic stimulus policies.

Monetary Policy

4. The authorities believe that the monetary policy stance remains appropriate in supporting a robust economic recovery and steering inflation back to the midpoint of the target in the medium term. The Monetary Policy Committee views the policy rate of 1.5 percent to be sufficiently accommodative to the economic recovery, and complementary to fiscal stimulus in promoting domestic consumption and investment. The authorities stand ready to utilize an appropriate mix of available policy tools to ensure that monetary conditions are conducive to economic growth while safeguarding financial stability.

5. In view of staff's recommendation, the authorities believe that further monetary easing at this juncture can be time inconsistent. Since late last year, the global disinflationary shock has dissipated and global reflation has gained traction. The Thai economy has been on

the recovery path and headline inflation has continued to trend upward to the target range of 2.5 ± 1.5 percent, while medium-term inflation expectations continue to be well anchored. The authorities stress that the remaining interest rate policy space should be preserved and used wisely in times of adverse shocks to achieve maximum impact, given the lower effectiveness of transmission channels in the low interest rate environment.

6. Staff's advice to allow exchange rates to adjust flexibly and act as a shock absorber is in line with the authorities' foreign exchange practice. Market intervention has been conducted only to curb excessive volatility especially during periods of sizable capital movements caused by changing external sentiments, while policies to promote the private sector's FX risk management and continued liberalization of the capital account should help ensure more balanced flows of capital.

7. On the external balance assessment, it is evident that Thailand's large current account surpluses in recent years were driven mainly by an import collapse following plunges in oil prices and low investment. The authorities agree with staff that the large current account surplus is temporary in nature and should decline over the medium term. They appreciate the SIP's acknowledgement that the EBA does not fully capture Thailand's specificities, including high oil intensity, fast-aging population, high precautionary savings due to political uncertainty and inadequate social safety nets, as well as accelerated growth in the service sector, thereby contributing to the large residual in 2016. As such, the authorities call for careful interpretation of the result and believe that further refinement to the model could be done to better explain the remaining residual.

Financial Sector Developments

8. The authorities welcome staff's assessment that the Thai financial system remains sound and resilient amidst heightened volatility in global financial markets. Indeed, the banking sector has been profitable with adequate capital buffers and provisions. Nevertheless, the authorities are mindful of vulnerabilities and the risk that shadow banking activities could arise from regulatory loopholes. Measures have been undertaken to address some of the emerging issues, such as more stringent regulations for credit and saving cooperatives as well as additional requirements for daily fixed income funds. Notwithstanding, the authorities view that macroprudential policy tools should be used to complement the broader monetary policy stance and that the preventive tightening of macroprudential regulations in the low interest rate environment might not be most effective. Excess liquidity will always find its way through loopholes and shadow banking activities could emerge outside the regulation and control of the authorities. As such, it would take time and effort to build up the institutional capacity of financial regulators and to formulate the optimal choice and calibration of macroprudential policy tools. The authorities continue to step up efforts on capacity development in the areas of macro-financial risk monitoring, inter-agency data sharing and crisis preparedness. In this light, the Fund's technical assistance on financial stability has been highly appreciated.

Fiscal Policy and Structural Reforms

9. The authorities continue to press ahead with major infrastructure projects that would play a vital role in ensuring economic growth momentum and address the supply-side bottlenecks. A large scale investment in transportation should anchor market confidence and help crowd-in private investment. While the authorities believe that Thailand has ample fiscal space to undertake the necessary reform initiatives, they are aware that the existing space must be utilized efficiently and in a well-targeted manner. The authorities adhere to the rules of fiscal discipline and transparency, and are committed to overhauling the fiscal related legal framework in order to catch up with the fast changing world and new business practices. For instance, the SOEs governing law to enhance their governance and operational effectiveness and the new Fiscal Responsibility Act have already been approved by the Cabinet and are now under consideration by the Council of the State.

10. The authorities recognize that age-related spending will increase over the medium to long-term horizon, which can have a significant bearing on the fiscal burden as Thai society ages. The government has pursued the reinforcement of the retirement safety net by setting up the National Savings Fund (NSF), a voluntary pension fund for non-formal workers, and allowing provident fund members to make higher contributions than their employers. Moreover, the authorities are undertaking a feasibility study on the reverse mortgage scheme, a loan for senior citizens which would allow them to convert their housing equity into cash. They affirm that the review of the pension system would be undertaken through the National Reform Committee in a comprehensive and holistic manner to ensure equity, efficiency and sustainability. In this connection, the Fund's technical assistance and cross-country experience would help facilitate the reform efforts.

11. The authorities agree with staff that structural issues can become potential barriers to achieving inclusive and sustainable growth in the long-run in line with the national 20-year strategy and the 12th National Economic and Social Development Plan (2017-2021). Efforts have been made with strong commitment on structural reforms towards a high-value and innovation-driven economy under the Thailand 4.0 agenda. A number of reform policies and measures are underway to accommodate structural adjustments in various perspectives, such as implementation of the National e-Payment strategic plan and promotion of higher value added industries in the special economic corridor. The authorities are also focusing on developing human capital and reducing skill mismatches in the labor market. Vocational education and related laws are under review to meet the demands of businesses. The government is currently implementing a registration program for low-income earners in order to identify the most vulnerable groups and appropriately provide better targeted subsidies.

Final Remarks

12. In addition to the complementary policy mix, the Thai authorities are firmly committed to the structural reform agenda that would lead to higher, sustained, and inclusive

growth over the medium term. The relevant authorities are cognizant of the challenges from population aging and are considering several measures to deal with this structural issue, for instance the reform of social safety net, the extension of the retirement age, and productivity enhancement. Moreover, continued efforts are being made to enhance government efficiency, reduce costs of doing business, as well as improve the quality of education to align with business needs.

13. Amidst a rising trend in trade protectionism, Thailand continues to promote regional connectivity to facilitate trade and investment as well as participate in trade negotiations with dialogue partners. The authorities believe that the Thai economy's strong fundamentals provide a solid foundation to meet the challenges ahead. The effective and timely implementations of reform in certain areas will lead to sustainable and inclusive growth for the Thai economy in the long-run. The authorities look forward to the continued support of the Fund to help achieve the stated reform goals.