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Thailand's Economic Projections 2016 and 2017

**“The Thai economy is forecast to expand by 3.2 percent in 2016
and likely to continuously grow by 3.6 percent in 2017”**

Mr. Krisada Chinavicharana, the Director-General of the Fiscal Policy Office (FPO) stated that the FPO economic projections as of January 2017 anticipate the Thai economy to grow by 3.2 percent in 2016, higher than 2.8 percent growth last year. This economic expansion originates mainly from a continuous growth of government expenditure, which is caused by expediting disbursement policy and moderate disbursement performance from infrastructure development on transportation projects (2016 plan). Moreover, private consumption sector is prone to recover from the previous year on account of low inflation, low oil prices, and many government projects such as government transfer program for low income people and economic stimulus policies in the last quarter of 2016. Besides, private investment has a tendency to recover from the previous year from low interest rate and an apparent progress in public investment. For export of goods and services, FPO expects a higher growth, compared to the previous year, from a decent recovery of export of goods sector in the second half of 2016. With regard to internal stability, headline inflation is slightly positive at 0.2 percent, which is due mainly to an increase in food and beverages prices.

In 2017, the Thai economy is projected to grow at an annualized rate of 3.6 percent (or within a range of 3.1 – 4.1). Public expenditure would still be the main driver of the economy especially the new extra budget of fiscal year 2017 (190,000 million baht) as well as several new transportation infrastructure projects which could be launched this year such as double-track railway system, sky-train, motorway and airport development. Furthermore, farm income is likely to improve following increasing commodity prices. This would support a continuous growth in private consumption sector. For external demand, export of goods is estimated to have a positive growth rate from higher forecast rate of global economic growth. Export of services would also grow moderately from higher number of foreign tourists. Finally, headline inflation is predicted to be 1.8 (or within a range of 1.3 – 2.3) consistent with the upside trend of energy prices.

The Director-General also added that “For the economic projections, several risk factors should be elaborately considered such as a fragile recovery of trading partners’ economies and the US economic policies under the new president, Donald Trump”.

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

	2014	2015	2016f	2017f	Range
			As of Jan17	As of Jan17	
			Avg.	Avg.	
Major Assumptions					
<u>Exogenous Variables</u>					
1) Average Economic Growth Rate of Major Trading Partners (percent y-o-y)	3.66	3.48	3.28	3.40	2.90 to 3.90
2) Dubai Crude Oil Price (U.S. dollar per Barrel)	96.7	51.2	41.3	53.7	48.70 to 58.70
3) Export price in U.S. dollar (percent y-o-y)	-1.0	-2.3	-0.1	1.7	0.70 to 2.70
4) Import price in U.S. dollar (percent y-o-y)	-1.8	-10.8	-2.7	4.5	3.50 to 5.50
<u>Policy Variables</u>					
5) Exchange Rate (Baht per U.S. dollar)	32.48	34.25	35.30	35.75	34.75 to 36.75
6) Policy rate at year-end (percent y-o-y)	2.00	1.50	1.50	1.50	1.00 to 2.00
7) Public Expenditure(Trillion Baht)	2.92	3.20	3.31	3.52	3.48 to 3.56
8) Number of foreign tourists (Million)	24.8	29.9	32.6	35.0	34.00 to 36.00
Projections					
1) GDP Growth Rate (percent y-o-y)	0.8	2.8	3.2	3.6	3.1 to 4.1
2) Real Consumption Growth (percent y-o-y)					
- Real Private Consumption (percent y-o-y)	0.6	2.1	3.2	3.0	2.5 to 3.5
- Real Public Consumption (percent y-o-y)	2.1	2.2	0.5	3.2	2.7 to 3.7
3) Real Investment Growth (percent y-o-y)					
- Real Private Investment (percent y-o-y)	-1.0	-2.0	0.0	2.7	2.2 to 3.2
- Real Public Investment (percent y-o-y)	-7.3	29.8	8.0	9.0	8.5 to 9.5
4) Export Volume of Goods and Services (percent y-o-y)	0.2	0.2	3.3	2.1	1.6 to 2.6
5) Import Volume of Goods and Services (percent y-o-y)	-5.3	-0.4	-1.1	2.8	2.3 to 3.3
6) Trade Balance (USD billion)	17.3	26.8	36.2	30.2	29.7 to 30.7
- Export Value of Goods in USD (percent y-o-y)	-0.3	-5.6	0.0	2.5	2.0 to 3.0
- Import Value of Goods in USD (percent y-o-y)	-7.9	-10.6	-5.0	6.4	5.9 to 6.9
7) Current Account (billion U.S.)	15.1	32.1	46.4	37.9	37.4 to 38.4
- Percentage of GDP	3.7	8.1	11.6	9.2	8.7 to 9.7
8) Headline Inflation (percent y-o-y)	1.9	-0.9	0.2	1.8	1.3 to 2.3
Core Inflation (percent y-o-y)	1.6	1.1	0.7	0.8	0.3 to 1.3

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

1. The Thai economy in 2016

1.1 Economic Growth

The FPO expects that the Thai economy in 2016 would expand by 3.2 percent, higher than 2.8 percent in the previous year. This expansion is supported by a continuous growth of public expenditure from expediting disbursement policy and moderate disbursement performance from infrastructure development on transportation projects (2016 plan). This leads to a forecast of 0.5 and 8.0 percent growth rate in public consumption and public investment sector consecutively. Moreover, private consumption sector is inclined to expand by 3.2 percent, recovering moderately from the previous year, on the grounds of low inflation, low oil prices and improved farm income following higher agricultural prices as well as many supportive government projects such as government transfer program for low income people and economic stimulus policies in the last quarter of 2016. In addition, private investment is expected to improve from the preceding year supported by low interest rate and the advancement of several public infrastructure investment projects. For export of goods and services sector, FPO expects a higher growth of 3.3 percent, compared to the previous year, from a decent recovery of export of goods in the second half of 2016 and a notable increase in number of foreign tourists. However, import of goods and services is projected to decrease at the rate of -1.1 percent.

1.2 Economic Stability

Overall, Thailand's economic stability remains robust. For internal stability, headline inflation is 0.2 percent due primarily to higher food and beverages prices. However, inflation is still at the low rate following the global oil price trend. In regard to external stability, trade surplus is forecast to be USD 36.2 billion thanks to a slight export value growth of 0.04 percent, compared to import value reduction rate of -5.0 percent. Current account is expected to be a surplus of USD 46.4 billion or 11.6 percent of GDP.

2. The Thai economy in 2017

2.1 Economic Growth

The Thai economy in 2017 is forecast to grow by 3.6 percent (or within a range of 3.1 – 4.1). Public expenditure would still be the main driver of the economy especially continued projects of transportation infrastructure investment (2015 plan) and another transportation infrastructure investment (2016 plan), which has a budget of 890,000 million baht, including many projects such as double-track railway system, sky-train, motorway and airport development. Besides, the new extra budget of fiscal year 2017 (190,000 million baht) and higher government investment framework would result in public investment and consumption growth of 9.0 (or within a range of 8.5 - 9.5) and 3.2 (or within a range of 2.7 - 3.7), respectively. In regard to private consumption sector, FPO anticipates 3.0 percent growth rate (or within a range of 2.5 - 3.5) as farm income is likely to rise well from higher global commodity prices; similarly, non-farm income would increase too from the overall economic expansion.

Private investment is estimated to grow by 2.7 percent (or within a range of 2.2 - 3.2) in consequence of better economic environment, continuous easing monetary policy, and the new extra budgetary fund in parts of village fund and SMEs development fund. In case of external demand, export of goods and services is estimated to grow by 2.1 percent (or within a range of 1.6 - 2.6) as a result of a good tendency of global economic expansion in 2017 combined with an increase in export of services sector from higher foreign tourists. Import of goods and services is predicted to increase by 2.8 percent (or within a range of 2.3 - 3.3), caused by a good trend in private consumption and a recovery of exporting sector as well as many public investment projects.

2.2 Economic Stability

With regard to internal stability, headline inflation is expected to be 1.8 (or within a range of 1.3 - 2.3), higher than that of the preceding year, from higher energy prices and improved domestic demand. For external stability, current account would be USD 37.9 billion or 9.2 percent of GDP (or within a range of 8.7 – 9.7 % of GDP). While trade balance is estimated to be USD 30.2 billion (or within a range of 29.7 – 30.7), lower than that of previous year since the FPO projects that import of goods value is incline to grow faster than export of goods value. Import value in USD term in 2017 is projected to grow by 6.4 percent (or within a range of 5.9 – 6.9), whereas export value in USD term is forecast to expand by 2.5 (or within a range of 2.0 – 3.0).

Bureau of Macroeconomic Policy, Fiscal Policy Office

Tel. 0 2273 9020 ext. 3224 and 3279

Fax. 0 2298 5602