EXIM THAILAND
ธนาคารเพื่อการส่งออกและนำเข้าแห่งประเทศไทย
EXPORT-IMPORT BANK OF THAILAND

Thailand's Economic and Export Outlook for 2017

By Business Research Department,
Export-Import Bank of Thailand (EXIM Thailand)

Thai economy in 2017 is predicted to expand continuingly at 3.4%, up from 3.3% in 2016 according to the latest Fiscal Policy Office data. Key supporting factors include:

Economic indicators	2016 Forecast	2017 Forecast
GDP	3.3%	3.4%
Export value	-0.5%	1.8%
Private sector consumption	2.1%	3.2%
Private sector investment	1.6%	1.7%
Public sector investment	10.7%	6.2%
Foreign exchange rate	35.3 Baht/US dollar	35.5 Baht/US dollar

Source: Fiscal Policy Office and Economist Intelligence Unit

- **The government's mega projects are key drivers of private sector investment.** Several public infrastructure projects due to begin construction in 2017 are motorway, urban electric train and dual-track train systems, etc. They will have crowding-in effect on the overall economy, creating job opportunities in the near term and subsequently stimulating certain linkage business sectors like construction contracting, construction material, machinery and equipment, and so on. In the longer term, such infrastructure investments should help lower logistics cost and enhance confidence of investors both at home and overseas to make investment in Thailand.
- **Agricultural product prices have gathered pace.** A continued recovering signal is seen in rubber, sugarcane and fruit prices, pushing up purchasing power of farmers who are the majority of Thai population and in turn growing private sector consumption. However, we still have to keep abreast of possible eruption of natural disasters and fluctuations in global commodity prices which could hurt farmers' income.
- **Mandatory possession period under the first-car scheme will come to an end.** First-car buyers under the scheme launched in 2011 are required to hold possession of their cars for at least five years to be eligible for the excise tax refund. As such period is about to end from the end of 2016 onward, car buyers are allowed to sell their cars and buy new ones. The liquidity earlier drained into the scheme for hire-purchase repayments can then be used to spend for consumer goods, hence an increase in private sector consumption.
- **Tourism remains to be a major economic impetus.** The year 2017 is anticipated by many to record more than 37 million inbound foreign tourists, up from 33 million in 2016. Chinese tourists will still represent the largest proportion of total tourist inflows, although a short-term decline has been anticipated due to the crackdown on inbound zero-dollar tour packages.

/2

➢ **Credit lending will contribute to the economic recovery.** There is ample liquidity in the system as reflected by the L/D ratio of 96.9% in quarter 3 of 2016, which is a level available to support expansion in business and household loan financing.

As for Thai exports, better prospects are expected for 2017 compared with 2016. Export growth should be recorded for the first time in five years underpinned by the following:

- **Oil prices have bottomed out.** Oil oversupply witnessed in 2016 due to increases in production capacity of several oil-producing countries, particularly Iran and Iraq, should be relieved to a significant extent following the fall in the US's production of shale oil. Coupled with the gradual revival of global economy, oil demand and consumption should go up. The IMF has recently forecast global oil prices in 2017 to average 50.6 USD per barrel, an increase from 43 USD barrel in 2016. These are contributing factors to Thai exports of such oil-related goods as refined oil, plastic resins, chemical products and rubber, the combined proportion of which is more than 13% of total Thai export value.
- **Exports to emerging markets, i.e. CLMV and New Frontiers, have continued the growth pace,** reaping the following advantages:
  - <u>CLMV</u> comprises countries among the world top in economic growth posted at around 7-8%. Thai exports to CLMV (roughly 10% of total export value) have already outpaced those to the EU and Japan. Major goods with high prospects in CLMV include consumer goods and construction materials.
  - <u>New Frontiers</u> are also Thailand's potential markets. The average growth of Thai export value to the said markets for the past 10 years has been 10.5% per year, higher than that of the total export value of 6.8% per year.
- **Thailand's export value base in 2016 has been small.** Thailand's export value has contracted for the past consecutive years since 2013. The 2016 export value growth trend of 0% or a possible turnaround to a minute positive growth is still considered low. Therefore, with such small export value base in 2016, export value in 2017 is predicted to expand to some extent.

However, **certain concerns prevail for Thai exports in 2017 as below:**

- **Trade protectionist policies of the new US President may pose impacts on Thai exports, both positive and negative.**

  \+ <u>The US's withdrawal from TPP free trade deal</u> This would help relieve Thailand's tax disadvantages against its major trade competitors that are in the TPP, especially Vietnam which is Thailand's main competitor in exports of such products as electronics, textiles, shoes, canned sea-foods, air-conditioners, etc.

  +/- <u>Increase of tariffs on imports from China</u> This will be *an opportunity* for Thai exports to win back some market share from China as Thai goods, e.g. automobile tires and air-conditioners, have been in competition with Chinese goods in the US market. However, such US measure may affect Thai exports of raw materials and semi-raw materials to China for the latter's production and exports of finished products to the US. Some of these products are parts and accessories for smartphones and computers.

/3

- **Persisting Brexit uncertainties** There remain uncertainties as to when the UK's withdrawal would be triggered and in what way the arrangement would be made. Many say it is very likely for the UK to take the Soft Brexit option (by which the UK would still have full access to the EU single market with eligibility for tariff privileges). In such scenario, no material impact is expected on Thai exports to the EU and the UK.
- **Private sector debts and excess production capacity in China**, particularly in heavy industries like steel and coal, have continued to hinder the Chinese economic growth. Nevertheless, multiple monetary and fiscal instruments have been devised by its government to tackle the problems, hence soft landing of its economy despite the persistent sluggishness. The IMF has forecast the Chinese economy to expand by 6.2% in 2017, slowing from 6.6% in 2016. Therefore, Thai exports to China in 2017 are anticipated to remain uncertain.
- **Increasing foreign exchange volatility** Divergent monetary policies have been adopted by economic powers at present. The US Federal Reserve is likely to gradually raise the Fed fund rate while the central banks of Japan, the EU and China tend to continue implementing their monetary accommodative policies. Moreover, we have to keep a close watch of the nationalism tide, and whether as well as how much it will determine the outcome of the German and French elections in 2017. If there is a switch in the ruling political parties, money market and foreign exchange fluctuations will be seen from time to time. Therefore, Thai exporters should get prepared to cope with such challenges with the use of risk hedging tools.

November 24, 2016
Public Relations Division
Office of Top Management

For further information, please contact Public Relations Division, Office of Top Management
Tel. 0 2271 3700, 0 2278 0047, 0 2617 2111 ext. 1141-6