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Regional Connectivity for Shared Prosperity

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THAILAND

Country briefing notes

The economy faltered amidst political unrest

- Economic growth slowed notably to 2.9% in 2013 from a high base of 6.5% in 2012 when it benefited from post-flood reconstruction and revived business activities. The economy was already weak prior to the political unrest that began in late 2013, as it struggled on both domestic and external fronts.

- Private consumption growth moderated, as fiscal support schemes such as waived excise tax for first-car purchases expired. Delays in government subsidy payments to rice farmers and rising household debt, which surpassed 80% of GDP in 2013, also held back consumer spending.

- Private investment was sluggish. The capacity utilization rate fell from 65.7% in the first half of 2013 to 62.1% in the fourth quarter. Tepid merchandise exports partly accounted for an investment slowdown. Shipments of key items, such as electronics products, auto vehicles and rice, stalled against weak external demand.

- On the supply side, GDP growth was driven primarily by the services sector, as manufacturing activity faltered in line with exports.

- Political unrest put an additional damper on consumer confidence and investor sentiment in late 2013, delayed major public investment projects in water management and infrastructure, and raised uncertainty over planned public spending.

- In line with weak macroeconomic conditions, employment growth contracted by 1.2% in 2013 relative to 2012, with a loss of some 466,000 jobs.

- Economic growth is expected to remain subdued at 2% in 2014. Poor growth performance in the first half of the year is expected to be offset by a rebound in the second half, supported by higher exports from improved external environment and accelerated public spending.

- Political uncertainty eased in recent months and helped revive macroeconomic conditions somewhat. For example, the University of Thai Chamber of Commerce’s consumer confidence index jumped in June 2014 to the highest level in 8 months. The stock market index also rebounded notably.

Inflation was low

- Despite higher minimum wage rates in 2013, the annual inflation fell to 2.2%, from 3% in 2012. Slower price rises were in line with weak domestic demand and moderating global food and fuel prices.

Flat export growth

- Shipments of electronics products and rice declined in 2013, while auto vehicle exports expanded only marginally. Sluggish goods exports were partly offset by strong tourist arrivals, which grew by almost 20%. Meanwhile, imports also fell in line with weak domestic demand and given the high import intensity of electronics exports. This resulted in a trade surplus.

- The current account deficit nonetheless widened slightly to 0.6% of GDP in 2013, as trade surplus was offset by a deficit in the income and transfers account. FDI inflows increased to $12.9 billion in 2013, from $10.7 billion in 2012.

Policy developments and challenges

- Against the weak economy and low inflation, the policy interest rate was cut by 50 basis points to 2.25% in 2013, followed by another cut to 2% in March 2014.

- Political uncertainty led to low disbursement rate of budget in 2013. The fiscal deficit thus narrowed to 1.8% of GDP, from 2.6% of GDP in 2012.

- Large-scale infrastructure programmes, which had been expected to drive growth, were either delayed by legal challenges or ruled as unconstitutional. Large investments by state-owned enterprises were also on hold, while the delayed approval of investment privileges held back private sector investments.