Thailand

Respectable Growth in 2016

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Highlights

- Thailand's economy grew by 3.0% on a year-on-year basis (+0.4% qoqsa) in 4Q16, bringing full-year growth to 3.2%, up from 2.8% seen in 2015. This was in line with official expectations for growth to print at a 3.2% clip, though slightly lower than market (and OCBC's) expectation of 3.3%. Importantly, NESDB's growth estimate for the year ahead is penciled at a 3.0 – 4.0%, compared with BOT's 3.2% made in Dec 2016.
- The engines of growth in 2016 remains to be tourist arrivals (accounting 10% of GDP), continued expansion in private consumption and investment, as well as accommodative monetary & fiscal policies. Exports growth also turned positive in 2016, suggesting that Thailand's external environment may once again play its part in supporting overall GDP growth.
- Our outlook for growth to accelerate to 3.3 – 3.5% in 2017 remains unchanged. Elsewhere, given the low base seen in domestic prices last year amid some recovery in oil prices seen for some time now, we look for headline inflation to pick up to 1.5% in 2017 as well.
- We opine that the Bank of Thailand may eventually lift its benchmark rate to 1.75% in the later part of the year, especially if domestic indicators continue to point north amid rising inflationary pressures.

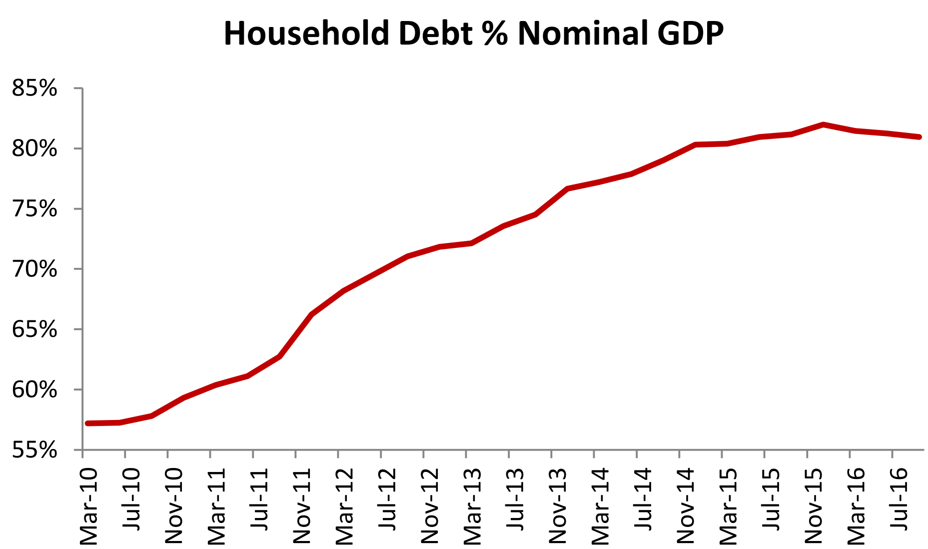
Respectable growth at the very least

Given the prolonged weakness in Thailand's external environment and relatively higher household debt levels, an economic growth acceleration to 3.2% on a year-on-year basis (+0.4% on a quarterly seasonally-adjusted growth basis) is definitely a respectable growth print at the very least. The growth acceleration suggests that Thailand's economic growth remains resilient, given the robust tourist industry, coupled with the continued expansion of private consumption and accommodative monetary policy. More importantly, the National Economic and Social Development Board (NESDB) penciled a 3.0 – 4.0% growth forecast for 2017, higher than Bank of Thailand's outlook of 3.2%, thus suggesting that a rosier economic backdrop will likely present itself for the year ahead.

Looking at the specifics, Thailand's key engines of growth were revving with activities. On the expenditure side, the biggest good news came from Thailand's external environment, where exports reverted back to positive growth territories in 2016, the highest in four years. Exports growth printed its second consecutive month of advance at 6.2% yoy in December and bringing full-year export growth to a four-year high at +0.5% yoy. Meanwhile, import growth grew for its fourth consecutive month (+10.3%) in December, accelerating from a 3.0% growth print in the previous month. In our opinion, the recovery seen in Thailand's external environment is definitely an encouragement, given that exports account for two-thirds of the country's GDP.

Source: Bloomberg, OCBC Bank

Moreover, growth in other areas including household consumption, public & private investment, and tourist arrivals also supported overall economic performance. Notably, private consumption expenditure was supported by government stimulus measures, especially seen from tax enhancements targeting the domestic tourism sector which led to the higher value-added tax (VAT) in hotels and restaurants (+9.6%). Importantly, consumer confidence (economic) had continued to grow since Jun '16 (60.6) to Jan '17's print of 63.1, suggesting that domestic consumption is likely to support growth into the year ahead. The recovery in domestic confidence is also coupled with international approval of Thailand's economic backdrop. Empirically, foreign investment applications reportedly exceeded targets made by the Board of Investments (BOI) in 2016, totaling THB 584 billion. Of these, 925 projects were approved, amounting to THB 358 billion of foreign investments, while the rest were made up of franchising agreements and mergers and acquisitions (M&A).



Source: CEIC, OCBC Bank

However, the growth prints does come with some areas of concern as well, thus explaining the slightly lower-than-expected 4Q16 growth print of 3.2% vis-à-vis OCBC's call of 3.3%. Notably, sales of passenger cars fell by 10.3% in 4Q16, after rising for two consecutive quarters. Elsewhere, private investment contracted, due to declines seen in both machinery & equipment investment (-0.4%) and construction investment (-0.5%). In-all, the Business Sentiment Index (BSI) at 49.7 is a tat below the expansionary mark of 50.0, suggesting that business confidence is still rather lukewarm at this juncture. Elsewhere, household debts remains to be at the top of our concerns, with 3Q16 total loans to household standing at 81.0% of nominal GDP, up from 2010's average of 57.9%.

Looking out in 2017

Similar to our Thailand 2017 outlook[1], we continue to look for three key pillars, namely (1) infrastructure spending, (2) tourist arrivals and (3) continued growth in investment to further support economic growth in the next year. Given the recovery in Thailand's external environment of late, positive export growth may well surface to be the fourth growth pillar as well. These growth drivers are emphasized by the NESDB as well, given its outlook for further expansion of the export sector, which should subsequently support the recovery of manufacturing production and private investment.

Indeed, infrastructure spending should continue to play a pivotal role in lifting growth, in line with the government and SOEs budget of THB 546 billion and THB 580 billion, respectively. Key infrastructure supports include the progress of the transport infrastructure plan, with already THB 45.5 billion worth in investment value already in construction, while another THB532.7 billion in the bidding pipeline. Elsewhere, should we take cues from the recent Thailand 4.0 framework, an investment at US$15.4 billion by the National Broadcasting and Telecommunications Commission (NBTC) to promote the digital economy will likely develop Thailand towards a value-based & innovation-driven economy as well as supporting overall economic growth over foreseeable horizon.

Incentives

Tax Incentives	Non-Tax Incentives
· Exemption/reduction of import duties on machinery (Sections 28/29) · Reduction of import duties for raw or essential materials (Section 30) · Exemption of corporate income tax and juristic person income tax. (Section 31 and 34) · A 50 percent reduction of the corporate income tax (Section 35(1)) · Double deduction from the costs of transportation, electricity and water supply (Section 35 (2)) · Additional 25 percent deduction of the cost of installation or construction of facilities (Section 35 (3)) - Exemption of import duty on raw or essential materials imported for use in production for export (Section 36)	· Permit for foreign nationals to enter the Kingdom for the purpose of studying investment opportunities. (Section 24) · Permit to bring into the Kingdom skilled workers and experts to work in investment promoted activities (Section 25 and 26) · Permit to own land. (Section 27) - Permit to take out or remit money abroad (Section 37)

Source: A Guide to the Board of Investment 2015

[1] OCBC Global Outlook 2017, 5 January 2017

Private investments are likely to take headlines as well this year. Following 2016's favourable investment prints, a rosier global economic backdrop and improving external environment should provide a platform for Thailand to garner foreign investments into 2017. Moreover, the investment incentives already in place, coupled with Thailand's 4.0 framework, should continue to place Thailand as one of the top spots of investment in Asia.

Lastly, the tourism industry has always been one of the bright spots, and should remain as such in 2017. Tourist arrivals exceeded official expectations at 32.6 million arrivals (vs official est: 32.4 million) in 2016. Tourist arrivals are expected to grow to 37.0 million arrivals into 2017, while receipts are expected to reach THB 1.93 trillion, or 9.8% yoy growth from 2016. Importantly, tourism revenue accounts for a sizable 10% of Thailand's nominal Gross Domestic Product (GDP), and a growing tourism industry will be effective cushion against any negative exogenous shocks for the year ahead.

As with risks that is faced by Asia, including Thailand, the caveat to a positive growth outlook may present itself from policy uncertainties out from the new US president's administration especially on tax and trade, Europe-centric political uncertainties notably from upcoming French and Netherland elections as well as Britain's triggering of Article 50 of the Lisbon Treaty, and continued slowdown in Asia's growth especially China's. Regardless, our outlook for growth to accelerate to 3.3 – 3.5% in 2017 remains unchanged should our caveats turn into naught. Elsewhere, given the low base seen in domestic prices last year amid some recovery in oil prices seen for some time now, we look for headline inflation to pick up to 1.5% in 2017 as well. We opine that the Bank of Thailand may eventually lift its benchmark rate to 1.75% in the later part of the year, especially if domestic indicators continue to point north amid rising inflationary pressures.