

Slowly recovering

General Information



GDP	USD373.804bn (World ranking 32, World Bank 2014)
Population	67.22mn (World ranking 20, World Bank 2014)
Form of state	Constitutional Monarchy
Head of government	Prayuth Chan-ocha
Next elections	2016, legislative



Strengths

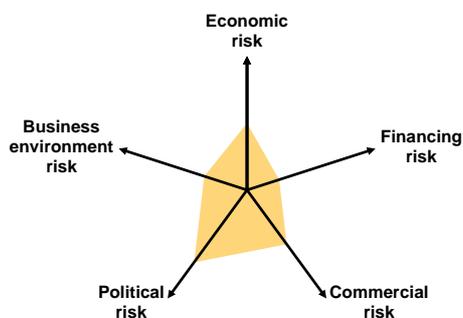
- Moderate public debt and acceptable fiscal deficit
- Appropriate monetary policy management
- Solid commercial banks with high level of provision and capital
- Favourable external debt burden
- Regional trade hub
- Well diversified economy

Weaknesses

- Chronic political instability since 2006, with the replacement of the elected government in a military coup in May 2014
- Asset quality of specialized financial institution is weaker than that of commercial banks
- Dependent on Chinese trade links

Country Rating

B2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	11.0% 1	16.9% China
United States	10.5% 2	15.7% Japan
Japan	9.6% 3	6.4% United States
Malaysia	5.6% 4	5.6% Malaysia
China, Hong Kong	5.5% 5	5.6% United Arab Emirates

By product (% of total)

Exports	Rank	Imports
Road vehicles	11% 1	16% Petroleum
Electrical machinery	9% 2	10% Electrical machinery
Office machines	8% 3	6% Iron and steel
Petroleum	6% 4	5% Road vehicles
Other industrial machinery	4% 5	5% Other industrial machinery

Source: UNCTAD

Modest recovery ahead

The economy is recovering but at a moderate pace with growth significantly below its potential (+5.0% p.a. over 2000-2007). During a decade of political unrests, the policymaking has been hampered and the economic performance weakened. While the military coup in May 2014 brought some stability, GDP growth continued to weaken (+0.9% in 2014 from +2.8% in 2013). In 2015, the economy shows signs of revival but the trend is still fragile. Domestic consumption is recovering, supported by lower fuel prices and further public spending. Private investment is still lacking momentum. In the short-run, a pro-growth policy stance would allow further growth in domestic demand. Exports should gain traction but at a slow pace supported by higher demand from high-income economies. Risks to the outlook are tilted somewhat to the downside. First, private sector confidence is fragile due to ongoing political uncertainty. Second, economic headwinds are elevated, stemming from high households' debt (above 80% GDP) and lower demand growth from China.

Policy mix is accommodative

The policy mix is clearly accommodative to support a fledgling economic recovery. The Bank of Thailand cut the policy rate by 25 basis points both in March and April 2015 to 1.5%. Credit growth increased (+5% y/y in Q3 2015 from +4% in Q1 2015) but a moderate pace, limited by weak economic conditions and by large households' debt burden. With still negative headline inflation and moderate core inflation, further easing may be justified especially if private investment continues to disappoint.

In 2014, the fiscal position weakened in response to the political unrest and earlier approved tax cuts (corporate income tax has been reduced from 30 to 20% between 2012 and 2013). In 2015, the trend continued as the government unveiled new measures to support SMEs (through cheap loans and tax breaks) and rural areas (through soft loans). In the long run, a broadly accommodative stance will probably be maintained. In particular, infrastructure investment will likely increase (Eight-year Infrastructure Plan) to enhance connectivity with neighbouring countries and reduce logistic costs. The fiscal deficit may deteriorate (-0.6pps of GDP) between 2015 and 2017 and public debt will remain at around 44% of GDP.

External position: still solid

Import cover is strong at more than 6 months. External debt is at an acceptable level (around 40% GDP). The current account surplus is large reflecting a timid export recovery and an import contraction. Despite the political instability, FDI inflows remain a significant source of financing. Downward pressures on the currency are elevated because of tighter monetary policy in the U.S. and a difficult rebalancing in China.

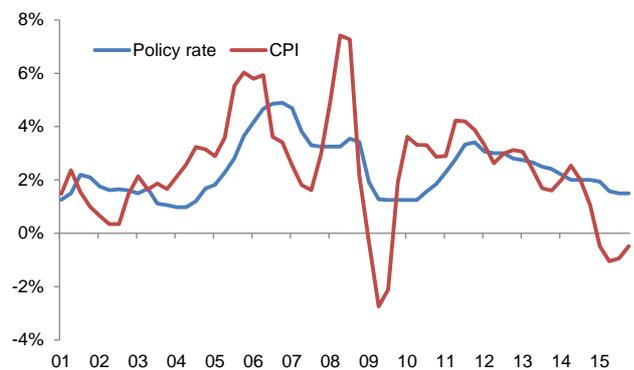
Key economic forecasts

	2014	2015f	2016f	2017f
GDP growth (% change)	0.9	2.7	3.0	3.5
Inflation (% average)	1.9	-0.8	1.5	2.5
Fiscal balance (% of GDP)*	-0.8	-1.3	-1.6	-1.8
Public debt (% of GDP)*	43.5	43.7	43.9	44.1
Current account (% of GDP)	3.3	6.0	5.0	4.0
External debt (% of GDP)	35.3	35.5	39.2	39.4

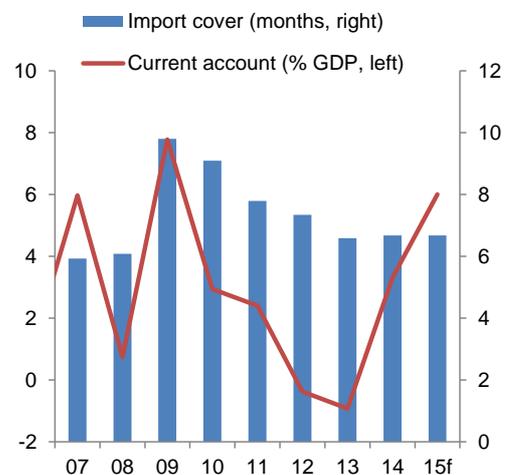
* Fiscal balance and public debt refer respectively to general government net lending and general government debt as defined by the IMF.

Sources: National sources, IHS, Euler Hermes

Monetary policy interest rate (%), inflation rate (y/y, %)



Import cover and current account balance



Sources: National sources, IHS, Euler Hermes

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