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Thailand

Political & policy issues to watch

Muted politics in 2017 A year-long mourning period for the late King (due to be cremated in Q4'17) and the forceful suppression of political debate should keep politics muted this year. Still, a gap has emerged between the military-run government and the new monarch, with King Vajiralongkorn rejecting elements of PM Prayut's new constitution that would have trimmed his role. Incorporating the King's amendments in the new constitution will delay general elections until 2018. Meanwhile, the decades-long tension between rural Thais and an urban elite and middle class remains subdued, as PM Prayut accelerates rural development programs. The success of this strategy needs watching, as it will influence consumer confidence, which has been muted in recent years.

... yet political tensions need watching

Public works headline revival efforts

While years of political instability have undermined confidence in the economy, Prayut's government has a more developed policy agenda than prior military governments. His pro-growth drive is headlined by a large infrastructure program, including some 36 projects worth Baht 896bn (US\$25bn) scheduled for 2017. Prayut is also boosting consumer spending, with income tax cuts and higher minimum wages taking affect this year. Together with some semblance of political stability, these efforts have won Prayut's administration some conditional support from citizens and local firms.

Outlook for the market

Growth edges up in 2017-18

The Thai economy is on mild recovery path, with GDP growth likely improving to 3.2% in 2016, making it the best year since 2012. For 2017-18, the key developments to watch include the strength of the export recovery and tourism, whether private investment recovers after a four-year slump, and whether consumer demand lifts despite a year of official mourning. Provided political calm is maintained, we expect these factors to be supportive over the outlook period, lifting GDP growth to 3.5-4.0% in 2017 and 2018.

Better exports for 2017

After falls of 5.8% in 2015 and another 0.7%ytd for the first nine months of 2016, Q4'16 saw export growth lift to 2.8%yoy (all US\$ basis). Given the strength of the global demand recovery, we expect the upturn to build in 2017, with full-year growth rising by 7-8% with a similar pace possible in 2018. That should lift real or volume growth for manufacturing by 4% in both 2017 and 2018 after four years of about 1% annual growth.

A modest capex recovery

Fixed investment likely grew 2.5-3.0% in 2016, down from 4.7% in 2015, as private capex likely languished for a fourth year, having contracted since 2013. Yet, we expect better capex growth in 2017-18, with private construction likely to grow a mild 2-4%pa for the next two years from 1-2% in 2016, and plant & equipment capex likely to lift 3-4%pa as factories respond to firmer demand. Together with Prayut's major infrastructure projects, these factors should see capex growth improve to 3-5%pa in the next two years.

Mild lift in consumer demand to 2018

While the one-year period of mourning will dampen conspicuous spending (growth of luxury goods imports have slumped since October), a number of factors point to consumer demand growth of 3.0-3.5%pa in 2017-18, from a likely rise of 3% last year. These include higher farmer incomes, lower personal income taxes, an increase in the minimum wage, and the end of the five-year ownership requirement of the first-car buyer scheme (2011-12). Retail sales are gradually lifting, although mourning has affected spending patterns.

Inflation ticking up on a softer Baht

Inflation picked up to 28-month high of 1.6%yoy in January, with year-average inflation of around 2% likely in 2017, well within the Bank of Thailand's 1-4% target range. A large current account surplus (up 44% to US\$46bn in 2016) limited the Baht's fall on a rising US\$ to 2.9% last year, and that pattern should continue with another mild 2.5% fall in 2017.

	2014	2015	2016	2017	2018
GDP, real growth, %	0.8	2.8	3.2	3.6	3.8
CPI (2002 index), year average, %	1.9	-0.9	0.2	2.1	2.4
Central bank, policy rate, year end, %	2.00	1.50	1.50	1.50	2.00
Baht to US\$1, year average	32.5	34.2	35.3	36.2	35.8

Source: 2013-2015 data from the IMF and CEIC; 2016-2018 forecasts by IMA Asia.

The above forecast is by IMA Asia. Companies seeking local advice and forecasts should contact:

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