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MF Concludes 2013 Article IV Mission to Thailand

An International Monetary Fund (IMF) mission visited Bangkok during May 29 – June 13, to conduct the 2013 Article IV consultation discussions. At the conclusion of the mission, Mr. Luis E. Breuer, mission chief, issued the following statement in Bangkok:

“The Thai economy has shown an impressive resilience to shocks, including the global financial crisis, supply-chain disruptions following the tsunami in Japan, and the devastating 2011 floods. Economic fundamentals are strong, including a track record of growth, stability and fiscal discipline, healthy balance sheets of commercial banks and corporations, high international reserves, and manageable public debt. Notwithstanding a correction in growth in the first quarter of 2013, the mission expects real GDP to expand by 4¾ percent in 2013, and further by 5¼ percent in 2014—supported by strong private demand and an acceleration of public spending. However, risks to the outlook are tilted to the downside, mainly due to external factors. Political stability has strengthened in Thailand, and markedly improved market sentiment, although downside risks remain. The volatility of capital flows has added uncertainty to the outlook.

“Against the backdrop of the global financial crisis and the devastating 2011 floods, the expansionary fiscal policy pursued in recent years was justified, aimed at supporting aggregate demand and reconstruction activities. But now, the strength of the ongoing economic recovery provides an opportunity to gradually withdraw the fiscal stimulus, create fiscal space for priority infrastructure spending, and rebuild policy buffers to address future possible shocks.

“The mission welcomes the authorities’ commitment to fiscal discipline, including their objectives of keeping the public debt ratio under 50 percent of GDP and balancing the central government budget by 2017. The authorities are taking actions to improve tax compliance and expand the tax base, reduce tax incentives for consumption, and revamp excises, while confirming their strict control over current spending. The mission discussed additional measures that would support the authorities’ goals of increasing public spending on infrastructure, while also preserving fiscal discipline.

“The Bank of Thailand’s accommodative monetary stance is appropriately supporting the economy. However, the Bank of Thailand should continue to be vigilant to demand and wage pressures, and stand ready to normalize interest rates if overheating pressures emerge or inflation picks up. In an era of volatile capital flows and rapid shifts in investors risk appetite, the inflation targeting regime and the credibility of the central bank have served Thailand well. The policy response to the recent episode of capital flows was appropriate, including exchange rate flexibility and the preparation of contingency measures.

“The financial sector has benefited from the strong recovery. Nonetheless, vulnerabilities are rising, including from the expansion of specialized financial institutions (SFIs) and rising household debt. The mission supports the authorities’ intention to strengthen the operating environment of SFIs, including their management and mandates. The regulatory and prudential frameworks of SFIs, including disclosure requirements, should also be gradually aligned with those of commercial banks, even as they continue to pursue social mandates under the current scheme of public sector accounts. Increasing household debt--impacted by reconstruction needs and temporary policies to stimulate consumption--is another source of concern, which the authorities are monitoring closely.

“Building on Thailand’s remarkable record of economic development in recent decades, the mission supports the authorities’ intention to raise growth and to make growth more inclusive. The implementation of infrastructure projects, in particular in the transportation sector, is expected to raise economy-wide productivity. A medium-term fiscal framework that includes fiscal targets on a broader public sector basis and enhances transparency, including on operations of extra-budgetary funds, state-owned enterprises, and SFIs, could contribute to further strengthening investor confidence. Finally, enhancing social protection mechanisms, such as conditional cash transfer programs, in particular, those linked to access to education and health care, would allow for growth with equity.

“The mission would like to express its deep appreciation for the hospitality and fruitful discussions held with the authorities, official counterparts, and representatives of the private sector.”