

The impact of housing loan regulation is limited, solid domestic demand to be maintained in Thailand

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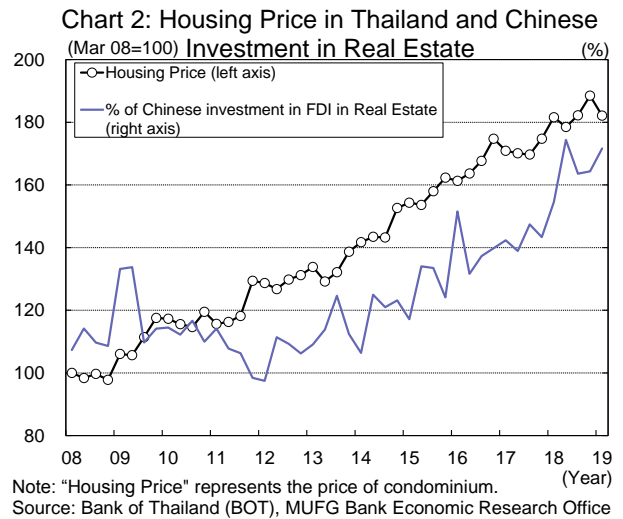
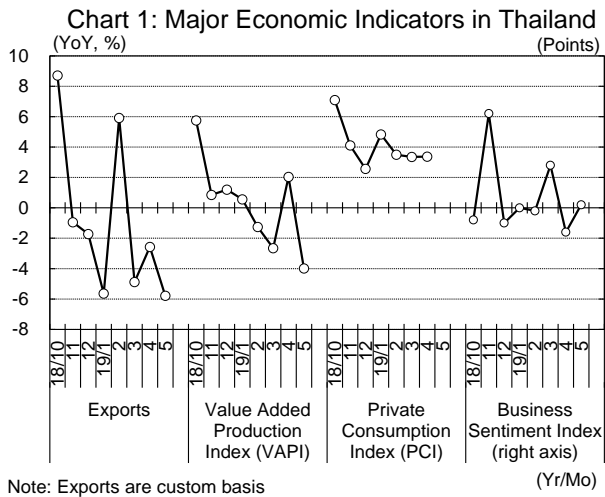
29 JULY 2019

(ORIGINAL JAPANESE VERSION RELEASED ON 27 JUNE 2019)

In Thailand, solid domestic demand on the back of favourable employment and income environment is supporting the economic growth while external demand remains sluggish. Looking at the recent monthly economic indicators, exports have been recording negative growth YoY since November last year except for February when logged a spike in export to the US and showed -5.8% YoY in May, remaining soft (see chart 1). Value Added Production Index (VAPI) also remained weak mainly due to sluggish exports and recorded -4.0% YoY in May, the biggest decline since August 2014. Business Sentiment Index which indicates business sentiment recorded 50.1 points in May, seesawing around 50 where indicates increased confidence or pessimism towards future business performance. Meanwhile, Private Consumption Index (PCI), one of major domestic demand related indicators, was +3.4% YoY in April, maintaining firm increase.

Looking at the housing market, the Bank of Thailand (BOT) introduced the new loan-to-value (LTV) requirements in April. The requirements are to set a minimum down payment for mortgage lending, such as 20% for the first home valued more than THB10 million and 10-30% for the second and subsequent home. It appears that this home loan regulation intends to curb high-priced home purchase for investment purposes in the country where soaring prices is becoming an issue with housing prices increased almost double in the last ten years (see chart 2). There are concerns that this regulation might lead to a substantial decrease in home purchase and could affect private consumption.

It has been pointed out, however, that soaring housing prices in the recent years is mainly due to an increase in Foreign Direct Investment (FDI), particularly the investment from China (the amount of Chinese investment in real estate was around THB40 billion in 2018). Furthermore, it appears that the regulation will have little impact on home purchase by general household considering that the regulation aims to curb purchase of high-priced home and investment properties and demand for low-priced home remains robust, therefore it will have a limited impact on consumer spending on durable goods such as consumer electronics which is associated with home purchase. Hence, the situation where solid domestic demand mainly driven by private consumption supports the economic growth is likely to remain. It can be said that this regulation will enable to prevent bigger risks of emerging and bursting of housing bubbles to increase and will contribute to the ongoing stable growth of Thai economy.



(Translated by Makiko Stokes)

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