Thailand Monthly Economic Monitor

20 September 2023

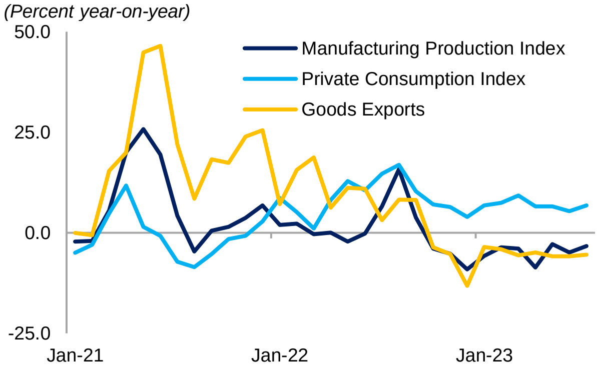
The economy maintained a gradual recovery, led by private consumption. Weak global demand continued to exert downward pressure on goods exports and is beginning to impede the tourism recovery. Inflation remained significantly below peers with energy subsidies containing the pressure on living costs and supporting private consumption. Forthcoming energy subsidies and stimulus plans are expected to provide a short-term boost to economic growth but would likely delay fiscal consolidation. In August, the nominal effective exchange rate appreciated due to optimism regarding formation of the new government, despite the current account deficit and portfolio outflows.

Private consumption remained robust, buoyed by a strong labor market and the gradual tourism recovery (Fig. 1). However, tourism arrivals declined slightly in July, with figures reaching 77 percent of their pre-pandemic levels, down from 80 percent the previous month (Fig. 2). While the number of Chinese visitors increased, tourist arrivals from Europe (excluding Russia), India, and ASEAN countries, particularly Malaysia and Singapore, have declined. Additionally, travel revenue per person per trip remained 18 percent lower than pre-pandemic levels.

Goods exports continued to decline, driven by a contraction in both manufacturing and agricultural exports. In July, goods exports shrank by 5.5 percent (year-on-year), marking ten consecutive months of contraction. Nonetheless, this contraction was the second smallest among major ASEAN exporters after the Philippines. Manufacturing exports declined sharply, due to the contractions in agro-manufacturing products, electronics, and petroleum products. Agricultural exports contracted for the second consecutive month, falling by 6.0 percent. Exports to China and ASEAN weakened notably, whereas exports to the US improved (Fig. 3). However, the August Manufacturing Purchasing Index (PMI) indicates a more optimistic outlook for exports to China even as the global PMI continued to contract (Fig. 4).

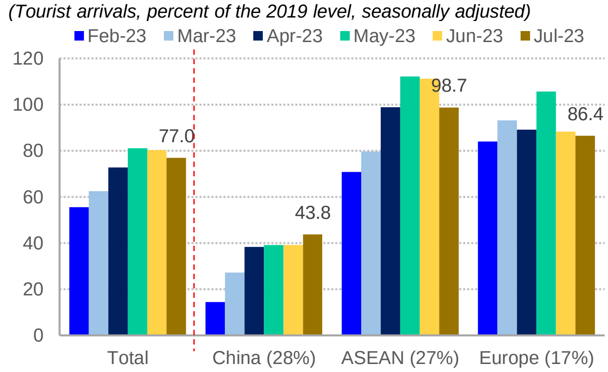
The outlook for Foreign Direct Investment (FDI) has been bolstered by the economic recovery and investment promotion efforts. In Q1 2023, net FDI inflows stood at 1.5 percent of GDP, a decline from 4.4 percent of GDP the same period last year. However, during the first half of 2023, FDI applications indicated stronger future FDI inflows. The value of these applications increased 141 percent (year-on-year), which accounting for 7 percent of GDP. This growth is primarily attributed to heightened investment interest in targeted industries, particularly electronics, food processing and the automotive sector, especially in the electric vehicles (EV) supply chain. The uptick in applications in electrical appliances and electronics (E&E) industry partly stemmed from ongoing

Figure 1: Goods Exports Weighed on Manufacturing Production
(Percent year-on-year)



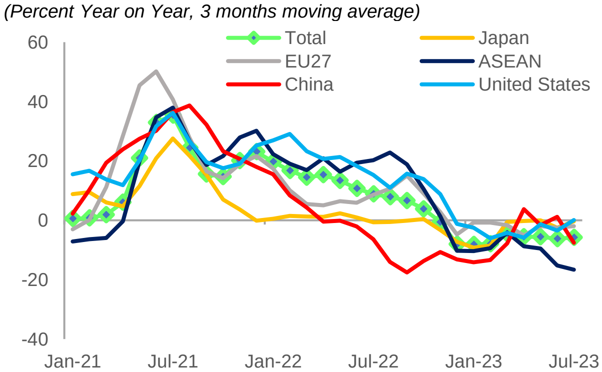
Source: Haver Analytics, CEIC; World Bank staff calculations.

Figure 2: Tourism Recovery Slowed in July
(Tourist arrivals, percent of the 2019 level, seasonally adjusted)



Source: CEIC; World Bank staff calculations.

Figure 3: Exports Continued to Contract
(Percent Year on Year, 3 months moving average)



relocation of supply chains to reduce risk associated with trade tensions.

Inflation remains very low while increasing slightly in August, driven by rising energy and food prices. In August, headline inflation increased to 0.9 percent (year-on-year), up from 0.4 percent the previous month (Fig. 5). However, among emerging markets, Thailand's inflation rate remained the second lowest after China, due to declining energy prices and limited transmission of producer prices to consumer prices. Meanwhile, core inflation continued to decrease, reaching 0.8 percent. In contrast, the energy prices rose for the first time in three months, following the higher global crude oil prices. Looking ahead, pressure on domestic energy prices is expected to reduce, reflecting a reduction in electricity prices from THB 4.7 per unit to THB 3.99 per unit, starting September. However, fresh food prices are likely to rise due to El Niño. In the first week of September, the price of white rice surged to its highest level in over three years, amid increased rice hoarding over concerns of drought.

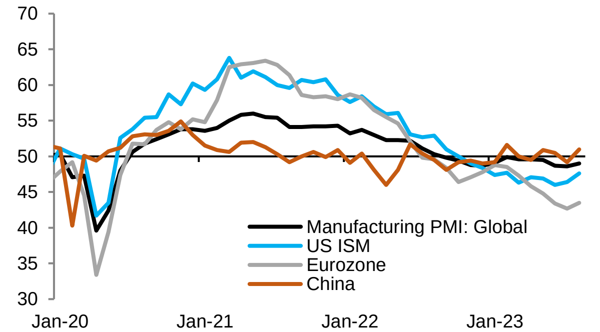
Fiscal consolidation has been progressing slowly, primarily due to persistent energy subsidies. In the first ten months of fiscal year 2023 (October 2022 - July 2023), the central government's fiscal deficit decreased to 4.3 percent of GDP, compared to 6.2 percent in the same period last year (Fig. 6). This reduction was attributed to a combination of reduced total expenditure and increased revenue, with tax revenue reaching its highest level since 2019. Public debt remained stable at 61.7 percent of GDP as of July. The implementation of energy subsidies, including caps on diesel oil, cooking gas, and electricity prices, helped alleviate living costs but also slowed the pace of consolidation. As of August 13, the State Oil Fund deficit widened to THB 59.1 billion (0.4 percent of GDP). This marked the largest deficit in four months, attributed to the increased cost of the diesel price subsidy, driven by the rising global oil prices (Fig. 7).

The newly formed government has unveiled economic stimulus plans that are expected to come at a significant fiscal cost. The policy priorities focus on implementing short-term measures aimed at stimulating household spending. These measures include providing a one-time transfer of THB 10,000 (US$286) via digital wallets to individuals aged 16 and above, reducing the cost of living further through additional cuts on energy prices, and suspending debt repayments for farmers, SMEs, and individuals for three years. Additionally, the government is focused on efforts to enhance tourism revenue and restore traveler confidence, with policy priorities such as implementing a visa-free policy for Chinese and Kazakhstan visitors. These policies are expected to have a positive impact on short-term economic activity by boosting private consumption spending and strengthening the economic recovery. However, some of these policies will incur substantial fiscal costs, most

Source: Haver Analytics; **World Bank staff calculations.**

Figure 4: Manufacturing PMI Contracted Among Major Trading Partners, but Expanded in China

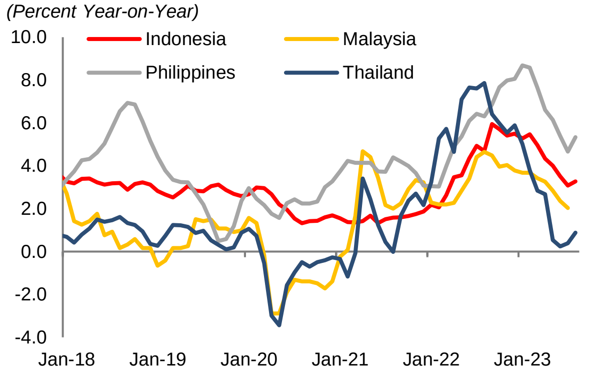
(Diffusion Index)



Source: CEIC; **World Bank staff calculations.**

Figure 5: Inflation Remained the Lowest in ASEAN

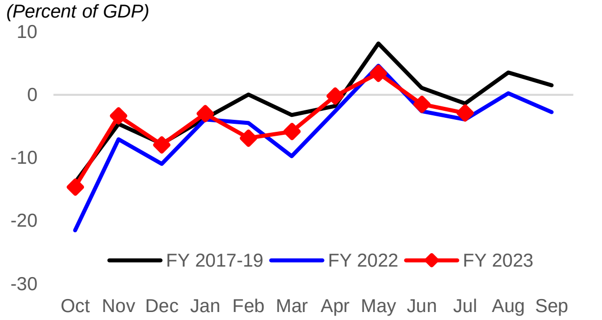
(Percent Year-on-Year)



Source: CEIC; **World Bank staff calculations.**

Figure 6: The Fiscal Deficit Narrowed but Remained Above the Pre-Pandemic Period

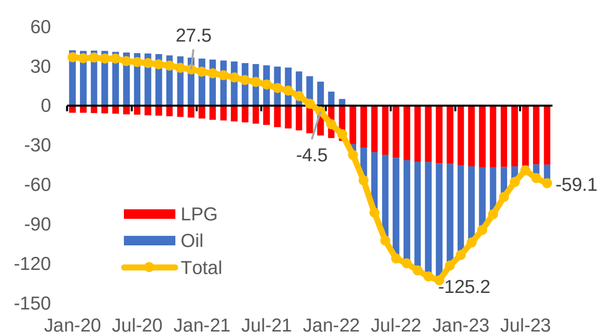
(Percent of GDP)



Source: Haver Analytics; **World Bank staff calculations**

Figure 7: The State Oil Fund Deficit Widened Again

(THB billion)



Note: Number in August was as of September 10, 2023

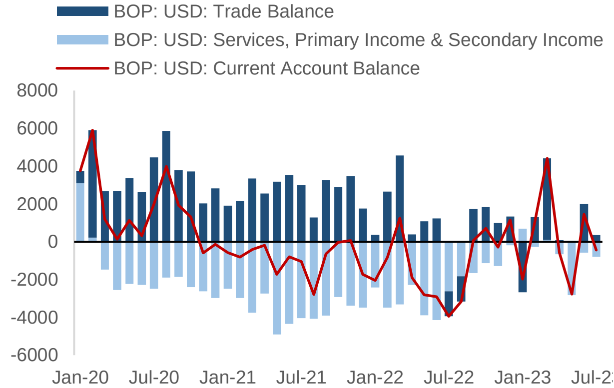
Source: Oil Fuel Fund Office (OFFO); **World Bank staff calculations.**

notably the digital wallet which is estimated to cost THB 560 billion (3.0 percent of GDP).

The current account turned negative mainly due to the narrowing goods trade balance. In July, the current account recorded a deficit of 1.1 percent of GDP, reflecting a diminished goods trade surplus and deeper deficits in services, primary and secondary income (Fig. 8). Overall, during the first seven months of 2023, the current account saw a small surplus of THB 1.1 billion or 0.4 percent to GDP. In August, the Nominal Effective Exchange Rate (NEER) appreciated slightly by 0.45 percent. This appreciation was attributed to heightened political optimism following increased clarity in the political situation, despite the current account deficit and portfolio outflows observed in both debt and equity markets.

Figure 8: The Current Account Balance Turned Negative in July

(USD million)



Source: CEIC; World Bank staff calculations

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News Highlights:

- The government is targeting annual GDP growth of at least 5 percent. (Bangkok Post, Link).
- Prime Minister's policy statement highlights debt, energy costs, digital handout. (Bangkok Post, Link).
- Thai rice price surges amidst drought concerns. (The Nation, Link).

Issues to Watch:

- Tourism: Will Chinese tourists recover as fast as projected in 2023?
- Inflation: Will inflation continue to decline, despite elevated demand?
- Politics: How long will the government transition process take, and will it lead to substantial delay to the budget disbursement in FY 24 (Oct 23 to Sep 24)?

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Selected Economic and Financial Indicators

	2022	2022		2023		2023				
		Q3	Q4	Q1	Q2	Apr	May	Jun	Jul	Aug
GDP and Inflation (%YoY)										
GDP growth (real)	2.6	4.6	1.4	2.6	1.8					
Contribution to GDP growth:										
Private consumption	3.4	5.2	2.9	3.1	4.6					
General Government consumption	0.0	-0.3	-1.2	-0.9	-0.7					
Gross fixed capital formulation: Private	0.9	1.9	0.8	0.5	0.2					
Gross fixed capital formulation: Public	-0.3	-0.5	0.1	0.3	-0.1					
Net Exports of goods and services	1.8	-0.8	2.7	2.0	2.3					
Change in Inventory	-0.6	1.7	-1.3	-0.2	-1.7					
Residual and errors	-2.6	-2.6	-2.7	-2.1	-2.8					
GDP, nominal (USD Billion)	496	119	125	133	125.7					
GDP, nominal (THB Billion)	17,370	4,337	4,533	4,519	4,330					
Consumer Prices Index: Headline	6.1	7.3	5.8	3.9	1.1	2.7	0.5	0.2	0.4	0.9
Consumer Prices Index: Core	2.5	3.1	3.2	2.2	1.5	1.6	1.5	1.3	0.8	0.8
Output Indicators										
Manufacturing Production Index (%YoY)	0.6	7.9	-6.0	-3.7	-5.6	-8.7	-3.0	-5.0	-4.4	
Capacity Utilisation (%)	62.8	62.8	60.3	63.8	57.7	53.6	60.3	59.2	58.2	
Farm Production Index (%YoY)	2.1	-1.6	1.7	4.1	0.9	7.3	-5.5	1.0	2.7	
Service Index (%YoY)	12.8	16.3	12.6	13.4	9.6	9.5	10.5	8.9	10.5	
Labor Market										
Unemployed workers (Thousand Persons)	527.0	491.4	462.5	421.1	429.1					
Unemployment rate (%)	1.3	1.2	1.2	1.1	1.1					
Underemployment/1 (Thousand Persons)	273	235	275.9	227.9	202.6					
Underemployment (%)	0.7	0.6	0.7	0.6	0.5					
Balance of Payments (USD million)										
Current account	-14,706	-7,028	1,567	3,469	-1,899	-581	-2,766	1,449	-445	
Current account (% of GDP)	-3.0	-5.9	1.3	2.6	-1.5	-1.4	-6.6	3.5	-1.1	
Trade Balance	13,543	-918	4,180	2,945	2,153	80	55	2,018	355	
Exports of goods (%YoY)	5.7	6.5	-7.5	-4.5	-5.6	-4.9	-5.9	-5.9	-5.5	
Imports of goods (%YoY)	14.3	21.4	-2.3	2.0	-5.0	-3.6	-1.9	-9.3	-12.0	
Service, primary and secondary Income	-28,249	-6,111	-2,613	524	-4,051	-662	-2,821	-569	-800	
Tourist Arrivals (Thousand Persons)	9,971	2,425	5,465	6,478	6,437	2,182	2,014	2,241	2,491	
Financial account	3,168	-3,496	3108.6	-2454.1	-					
Financial account (% of GDP)	2.3	-2.9	2.5	-1.8	-					
Foreign direct Investment, net	2,607	87	918.0	-843.1	-					
Portfolio flows	5,768	-756	1963.4	-5860.5	-					
Others Investments	-5,410	-3,225	196.4	4129.8	-					
Central Government Budget (Fiscal Year, THB billion)/2										
Revenue	2,992	833	694	675	938	261	307	370	244	
Expenditure	3,845	925	1,076	907	912	264	257	392	287	
Central Government balance	-852	-91	-382	-232	26	-3	51	-22	-43	
Central Government balance (% of GDP)	-3.9	-2.1	-8.4	-5.1	0.6					
Public debt (% of GDP)	61.0	60.5	61.0	61.3	61.7	61.8	62.0	61.7	61.7	
Financial Markets Indicators										
Policy rate (%)	1.25	1.00	1.25	1.75	2.00	1.75	2.00	2.00	2.00	2.25
M2 (%YoY)	5.20	4.7	4.10	3.23	1.43	1.9	1.4	1.0	0.9	-
Household Debt (% of GDP)	91.4	91.5	91.4	90.6						
SET Index	1,669	1,590	1,669	1,609	1,503	1,529	1,534	1,503	1,556	1,566
Thai government bond yield, 10 year (%)	2.45	3.08	2.45	2.23	2.48	2.47	2.48	2.48	2.53	2.73
Foreign exchange reserve and FX forward position (USD billion)	246	228	246	252	249	252	249	249	252	
USD/THB, end of period	34.56	37.91	34.56	34.10	35.59	34.14	34.73	35.59	34.25	34.94
THB NEER, average	115.5	113.5	115.8	120.3	119.8	119.5	120.6	119.3	120.2	120.4

1/ Underemployment accounts for workers who are occupied less than 35 hours per week and are available for additional work (defined by BOT).
2/ Fiscal Year 2023 begins in October 2022 and ends in September 2023, Fiscal Balance according to GFS.

Source: Office of the National Economic and Social Development Council, Bank of Thailand, Office of Industrial Economics, Ministry of Industry
National Statistical Office of Thailand, Fiscal Policy Office, Public Debt Management Office, Haver Analytics.