



Thailand Monthly Economic Monitor

24 May 2022

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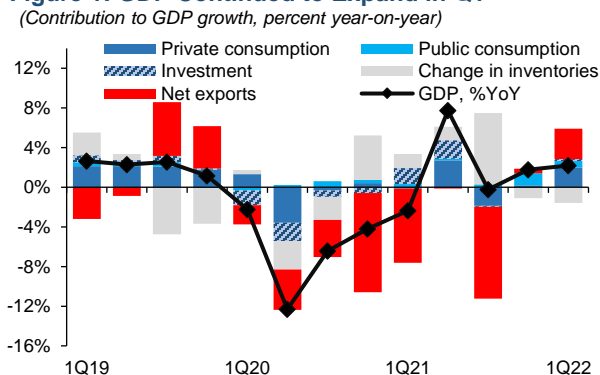
The continued recovery of domestic demand and a supportive global environment induced the economy to grow by 2.2% in Q1 2022. However, the combined impact of the Ukraine war on prices and the global economy and the lockdown in China will set back the recovery in the second quarter. Inflation remained above the Bank of Thailand's (BOT) target range, driven by energy and food prices, dragging consumer confidence to an eight-month low. The government continued to ramp up emergency spending to counter the impact of the pandemic and the Ukraine war. As a result, the deficit remained large, despite higher fiscal revenue. Foreign tourist arrivals continued to improve in March due to the lifting of entry restrictions but remained well below pre-COVID levels. The Thai baht depreciated in May as investor confidence waned and the current account deficit persisted.

The economy grew faster than expected in Q1 2022, supported by loosening COVID-19 restrictions, continued stimulus measures and strong exports (Fig. 1).

The economy posted 2.2% (yoy) growth, up from 1.8% in the previous quarter. On a quarterly basis, output increased by 1.9% (qoq, sa). Private consumption grew 3.9% (yoy), up from 0.4% in Q4 2021, amid the easing of COVID-19 containment measures and continued fiscal measures to stimulate consumption. Net exports of goods and services also contributed positively to growth, with the continued expansion of goods export and international tourism receipts, as well as slower import growth. However, overall output remained below pre-pandemic levels and lagged behind regional peers (Fig. 2) due to the sluggish tourism recovery. Tourism-related output stayed subdued at 31% below its pre-COVID-19 level. Despite this higher-than-expected output in Q1, the impact of the Ukraine war on prices and the softening of global growth means that Thailand's pace of economic recovery in 2022 will remain slow.

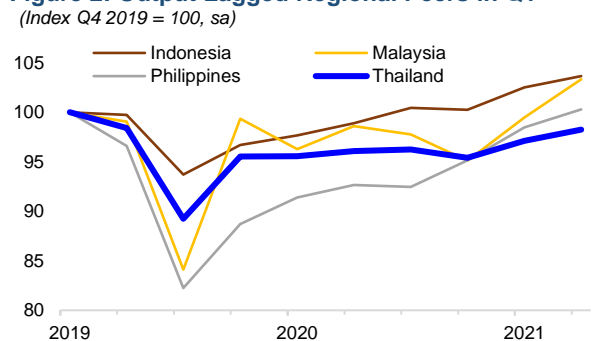
Indicators of economic activity in the second quarter show signs of a slowdown. The private consumption index fell 0.9% (mom, sa) in March, while the consumer confidence index in April declined for the fourth consecutive month to 40.7 pts, down 1.3 pts from the previous month (Fig. 3). Survey results show that the rising cost of living—in particular the rising energy costs due to the Ukraine war, and remaining COVID-19 concerns have affected consumer spending. The mobility index remained unchanged in April and May at -16pts, despite the decline in new COVID-19 case to an average of 8,193 cases per day during the first two weeks of May, down from above 20,000 cases in March and April. In contrast, the mobility index of regional peers improved substantially as new cases dropped. The mobility indices in Indonesia and the Philippines have surpassed their pre-pandemic levels.

Figure 1: GDP Continued to Expand in Q1



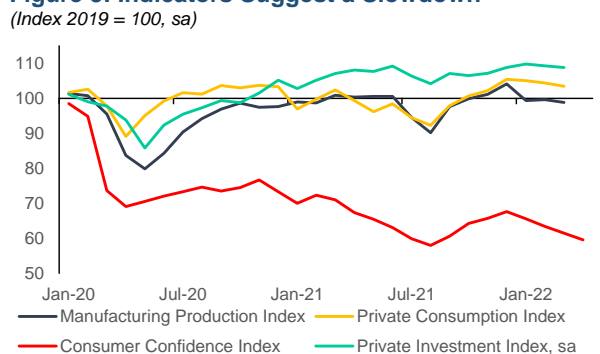
Source: NESDC; World Bank staff calculations

Figure 2: Output Lagged Regional Peers in Q1



Source: NESDC; CEIC; World Bank staff calculations

Figure 3: Indicators Suggest a Slowdown



Source: CEIC; World Bank staff calculations

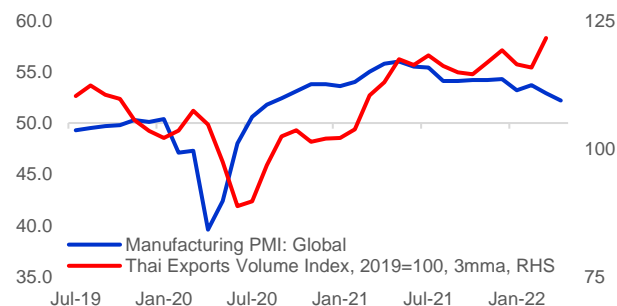
Goods exports expanded in March but weakening global demand weighs on the outlook. Goods exports increased by 18.9% (yoy), up from 16.0% in the previous month due to higher exports of gold, agricultural and agro-manufacturing goods, as well as electronics, boosted by surging shipments of hard disk drives. However, the global purchasing manager index (PMI) in April indicates a weakening outlook for Thai exports due to disrupted supply chains and exports as a result of the lockdown in China and the war in Ukraine. The global manufacturing PMI dropped to 52.2 pts, its lowest level in 20 months (Fig. 4), leading to a decline in the business sentiment and causing a slowdown in manufacturing production and private investment.

The tourism sector maintained its gradual recovery path as the government eased border restrictions. Tourist arrivals stood at 210,836 in March, up from 152,954 in the previous month. Tourism volume reached 7.7% of the same period prior to the pandemic in 2019. Although arrivals from Russia declined, tourist arrivals from other European countries continued to increase; tourist arrivals from Asian countries, especially ASEAN and India, rose substantially as their border restrictions were relaxed (Fig. 5). Tourist arrivals are projected to increase to around 6 million in 2022 or 16% of arrivals in 2019. However, the recovery is likely to be gradual due remaining COVID concerns, continued travel restrictions by China, and the Ukraine–Russia war impact on travel sentiments.

Inflation continued to stay above the BOT’s target range, driven by energy and food prices. Headline inflation fell slightly to 4.7% in April, after rising to a 13-year high in March (5.7%) and remained higher than in regional peers (Fig. 6). Inflation continued to breach the BOT’s target range of 1-3% for the fourth consecutive month. Energy price inflation declined slightly in April as global oil prices edged lower. In contrast, raw food prices continued to rise to 3.5% (yoy), while core inflation stayed at 2.0%. Rising energy prices are expected to continue to be the major contributors to higher headline inflation (Fig. 7), as the prices of electricity and cooking gas are scheduled to increase further in May and June. Though the cap on diesel price at THB 30 per liter was removed on May 1, the government has raised the price to only THB 32 per liter and plans to subsidize half of the diesel price above THB 30 per liter. However, inflation expectations remain well-anchored, with expectations below 2% over the short-term (1-year ahead) and medium-term (5-year ahead), according to the BOT survey of businesses and the consensus forecast.

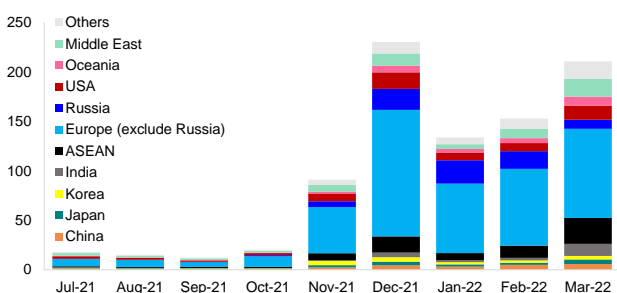
The fiscal deficit remained large as the government ramped up spending targeted at vulnerable groups. The central government deficit narrowed slightly from 10.6% of

Figure 4: Falling Global PMI Points to a Weaker Exports Outlook
(Index, sa)



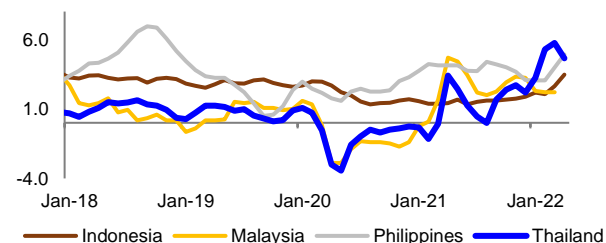
Source: CEIC; World Bank staff calculations

Figure 5: Tourist arrivals from Asian Countries Started to Rise in March as Their Borders Reopened
(Thousand people)



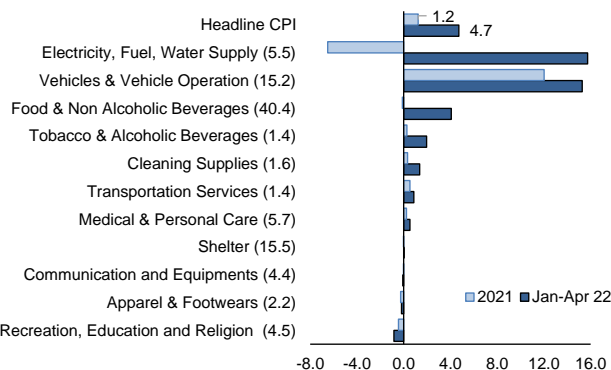
Source: MOTs, CEIC; World Bank staff calculations

Figure 6: Inflation Surged Ahead of Peers
(Percent year-on-year)



Source: CEIC; World Bank staff calculations

Figure 7: Inflation Was Driven by Energy and Food Prices
(Percent year-on-year)

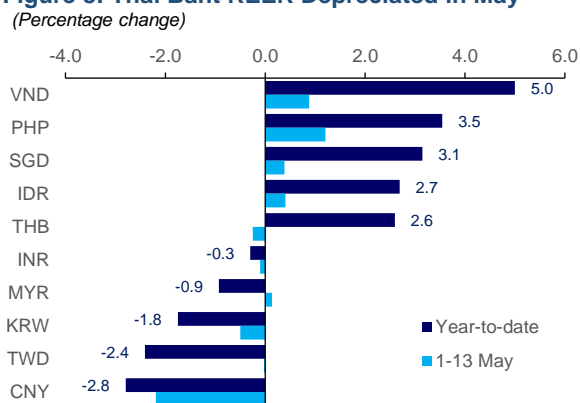


Source: MOC; CEIC; World Bank staff calculations

GDP in the first half of FY21 (Oct 2020-March 2021) to 9.3% of GDP in the first half of FY22. The deficit remained large, despite higher fiscal revenue as the government continued to ramp up emergency spending to counter the impacts of the pandemic and the Ukraine war. These measures include the extension of the co-payment scheme which was announced in January, cuts to employers' and employees' contributions to the Social Security Fund, welfare subsidies targeting lower-income groups, and subsidies on diesel and cooking gas prices. Public debt rose to 60.6% of GDP at the end of March 2022, up from 58.3% at the end of FY21, although it remained well below the debt ceiling of 70% of GDP. In the first half of FY21, the government borrowed THB 254 billion (0.7% of GDP) as part of the authorized off-budget borrowing of THB 500 billion for the COVID-19 response, bringing the total borrowing for the COVID response during FY20-FY22 to THB 1.3 trillion (7.8% of GDP).

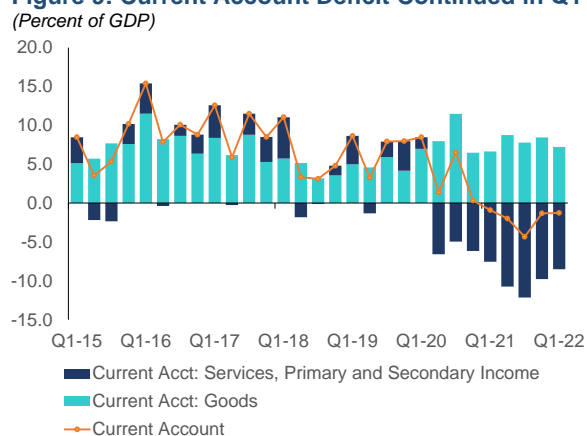
The Thai baht depreciated in May amid fragile risk sentiment and a continued current account deficit. The Real Effective Exchange Rate (REER) weakened by 0.2% during the first two weeks of May, after appreciating by 2.9% in the first four months of 2022 (Fig. 8). The Thai baht fell due to global investor concerns regarding the possibility that the Fed would aggressively tighten its monetary policy amid a global economic slowdown. The continued current account deficit at 1.2% of GDP in Q1, also weighed on the Thai baht (Fig. 9).

Figure 8: Thai Baht REER Depreciated in May



Source: J.P. Morgan; Haver Analytics; World Bank staff calculations

Figure 9: Current Account Deficit Continued in Q1



Source: SET; Thai BMA; CEIC; World Bank staff calculations

Issues to Watch:

- **Inflation:** Will rising prices derail the private consumption recovery?
- **Tourism:** Will the removal of border restrictions attract large inflows of foreign tourists, amid the ongoing Omicron wave?
- **COVID-19:** Will new COVID-19 cases and death continue to decline?

News Highlights:

- NESDC cut its economic growth target to 2.5% to 3.5%, down from the 3.5% to 4.5% (Nikkei Asia, [Link](#))
- Thailand Pass registration requirement will be retained but the procedure will be streamlined. (Bangkok Post, [Link](#))
- The government will continue to cap the diesel price at 32 baht, thanks to the increased diesel excise tax cut (Bangkok Post, [Link](#))

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Selected Economic and Financial Indicators

	2021	2021			2022	2021	2022			
		Q2	Q3	Q4	Q1	Dec	Jan	Feb	Mar	Apr
GDP and Inflation (%YoY)										
GDP growth (real)	1.5	7.7	-0.2	1.8	2.2					
Contribution to GDP growth:										
Private consumption	0.2	2.7	-1.9	0.2	2.0					
General Government consumption	0.5	0.2	0.3	1.2	0.6					
Gross fixed capital formulation: Private	0.6	1.6	0.4	-0.2	0.5					
Gross fixed capital formulation: Public	0.3	0.3	-0.5	0.1	-0.3					
Net Exports of goods and services	-4.1	-0.1	-9.2	0.5	3.1					
Change in Inventory	0.0	1.4	7.2	-1.1	-1.6					
Residual and errors	4.1	1.8	3.5	1.0	-2.1					
GDP, nominal (USD Billion)	506	125	119	129	130					
GDP, nominal (THB Billion)	16,179	3,914	3,918	4,294	4,302					
Consumer Prices Index: Headline	1.2	2.4	0.7	2.4	4.7	2.2	3.2	5.3	5.7	4.7
Consumer Prices Index: Core	0.2	0.4	0.1	0.3	1.4	0.3	0.5	1.8	2.0	2.0
Output Indicators										
Manufacturing Production Index (%YoY)	6.5	21.0	-0.3	4.7	1.5	6.7	2.0	2.4	-0.1	
Capacity Utilisation (%)	63.0	62.7	58.5	64.5	66.3	65.2	65.7	64.6	68.8	
Farm Production Index (%YoY)	1.4	2.3	4.1	-1.1	5.0	0.9	0.9	8.7	5.3	
Service Index (%YoY)	-2.3	-0.6	-1.8	4.0	14.7	5.7	12.4	16.5	15.2	
Labor Market										
Unemployed workers (Thousand Persons)	748	732	871.3	631.9	-					
Unemployment rate (%)	2.0	1.9	2.3	1.6	-					
Underemployment/1 (Thousand Persons)	584	469	778	438	-					
Underemployment (%)	1.5	1.2	2.1	1.2	-					
Balance of Payments (USD million)										
Current account	-10,582	-2,478	-5,173	-1,709	-1,611	-1,611	-2,204	-652	1,245	
Current account (% of GDP)	-2.1	-2.0	-4.4	-1.3	-1.2	-3.8	-5.2	-1.5	3.0	
Trade Balance	39,955	10,929	9,264	10,876	9,153	2,835	596	3,391	5,166	
Exports of goods (%YoY)	19.6	36.4	15.7	21.3	14.6	23.0	7.9	16.0	18.9	
Imports of goods (%YoY)	24.5	39.0	31.8	20.6	16.5	28.2	18.4	14.2	16.7	
Service, primary and secondary Income	-50,537	-13,407	-14,437	-12,586	-10,765	-4,446	-2,801	-4,043	-3,921	
Tourist Arrivals (Thousand Persons)	428	20	45	342	498	231	134	153	211	
Financial account	-2,140	-1,927	2,636	2,293	-					
Financial account (% of GDP)	-0.3	-1.5	2.2	1.8	-					
Foreign direct Investment, net	-5,881	-1,726	-763	-4,495	-					
Portfolio flows	-11,284	-3,757	158	2,012	-					
Others Investments	16,181	4,160	3,410	5,062	-					
Central Government Budget (Fiscal Year, THB billion)/2										
Revenue	2,857	852	805	671	240	260	262	192	240	-
Expenditure	4,124	936	1,124	1,232	374	414	311	244	374	-
Central Government balance	-1,266	-84	-319	-561	-133	-154	-48	-52	-133	-
Central Government balance (% of GDP)	-7.9	-2.2	-8.1	-13.1	-5.4					
Public debt (% of GDP)	58.75	56.1	58.31	59.61	60.64	59.61	59.88	60.17	60.6	-
Financial Markets Indicators										
Policy rate (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
M2 (%YoY)	6.0	4.2	4.9	5.4	5.9	4.9	5.4	5.6	6.7	-
SET Index	1,658	1,588	1,606	1,658	1,695	1,658	1,649	1,685	1,695	1,667
Thai government bond yield, 10 year (%)	1.90	1.57	1.89	1.90	2.26	1.90	2.11	2.15	2.26	2.72
Foreign exchange reserve and FX forward position (USD billion)	258	263	257	258	251	258	255	255	251	239
USD/THB, end of period	33.42	32.05	33.92	33.42	33.30	33.42	33.43	32.73	33.30	34.35
THB NEER, average	117.4	119.3	114.8	114.5	116.7	114.4	115.5	117.6	117.1	116.4

1/ Underemployment account for workers who work less than 35 hours per week and available for additional work (defined by BOT)

2/ Fiscal Year 2021 starts in October 2020 to September 2021, 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