The economy showed better-than-expected signs of improvement in Q2 2022 due to stronger domestic demand, a rebound in the tourism sector, and continuing expansion of goods exports. However, rising inflationary pressure and slowing global demand are creating significant headwinds to the outlook. The economy is expected to grow at 2.9% in 2022 and 4.3% in 2023. Inflation surged to a 14-year high in June, prompting the Bank of Thailand (BOT) to signal interest rate normalization. The fiscal deficit remained large as the government continued to ramp up measures to counter the impact of the rising cost of living and the pandemic, including through support for the tourism sector and lower-income groups as well as subsidies on energy prices. The Thai banking system remains resilient, despite deteriorated asset quality. The Thai baht continued to depreciate in July as investor confidence waned and the current account deficit persisted.

The economy showed signs of a better-than-expected rebound in Q2 2022, supported by private consumption, tourism recovery, and goods exports. The private consumption index increased 0.6% (month-on-month, seasonally adjusted) in May, and has stayed above the pre-pandemic level since November 2021 (Fig. 1). However, consumer confidence declined in Q2, mainly due to the rising cost of living. The mobility index reached its highest level since February as new COVID-19 cases declined, but lagged behind regional peers (Fig. 2). Goods exports continued to increase in May at 10.5% (yoy), up from 9.9% in the previous month, supported by agricultural and agro-manufacturing goods exports. In contrast, manufacturing exports growth slowed due to supply chain disruptions, especially in the automotive industry. A weakening global environment could weigh on the exports outlook. Manufacturing production declined for the third month in May at 1.9% (mom, sa) and global manufacturing PMI dropped to its lowest level in 22 months, at 52.2 pts in June (Fig. 3).

Tourist arrivals continued to surge as border restrictions in Thailand and other countries were relaxed. Tourist arrivals reached 521,410 in May, up from 293,350 in the previous month, reaching 19% of the same period in 2019. Tourists from Asian countries, especially ASEAN and India, continued to rise substantially as border restrictions were relaxed; European visitors (excluding Russia) remained the main source of inbound tourists (Fig. 4). Tourist arrivals are projected to increase to around 6 million in 2022 or 16% of arrivals in 2019. However, the recovery is expected to be gradual due to remaining COVID concerns, continued travel restrictions by China, the slowing global economy, and the impact of the war in Ukraine on travel costs.

Economic growth is projected to expand by 2.9% in 2022, up from 1.5% in the previous year. The economy is expected to reach pre-pandemic levels in Q4 2022 and...
expand further by 4.3% in 2023, given the decline in COVID-19 cases and the expectation of tourism sector recovery. However, spillovers from the war in Ukraine on domestic energy prices, the downward revisions to growth in major trading partners, and China’s zero-COVID policy are expected to weigh on the outlook. Also, the uncertain trajectory of the pandemic remains an important risk to domestic activity and the projected recovery in tourism arrivals. Though confirmed COVID-19 cases in the first 10 days of July declined to a 15-month low at 30 cases per million population, reported ATK cases were as high as 20,955 per day on average in the first two weeks of July (293 cases per million population). There is a risk that the confirmed case count may significantly underestimate the actual extent of infections as (i) not all ATK cases may be reported and (ii) not all ATK results are reflected in confirmed COVID-19 cases, which are based on those requiring hospitalization.

Headline inflation rose to a 14-year high, prompting the BOT to signal rate normalization. Inflation rose to 7.66% in June, up from 7.1% the previous month, driven by increases in energy and raw food prices (Fig. 5). Both producer price and consumer price inflation rates surpassed those of regional peers (Fig. 6), stemming from higher imported energy dependency and relaxation of price controls. The government further increased the diesel price cap to THB 35 per liter in June, up from THB 32 per liter in May. The cap on LPG was also raised by THB 15 to THB 363 per 15kg. Core inflation (ex. energy and raw food) also picked up to 2.2%, well above the 0.5%, on average, of the past five years. Headline inflation has remained above the upper limit of the target range (1-3%) for the sixth consecutive month; inflation expectations increased to 2.5% over the short-term (1-year ahead), but they remain below 2.0% over the medium-term (5-year ahead), according to the consensus forecast. The Monetary Policy Committee (MPC) signaled a shift toward policy normalization in its June meeting for the first time since the pandemic, citing that a very accommodative monetary policy will be less vital going forward as the economic recovery has gained more traction, while inflationary risks continue to increase.

The government continued to ramp up fiscal measures to mitigate the impact of the rising costs of living and the pandemic. The government extended the cash handout and subsidy measures to support lower-income groups from July to September after the previous set of measures expired in June. These measures include cashback for purchases of fuel oil for motorcycle taxi drivers, a cap on NGV prices for taxi drivers, and a cooking gas price subsidy for state welfare cardholders and street vendors. To support domestic tourism, the government also extended the measure to subsidize hotel accommodation at 40% of normal room rates for Thai tourists. For broader measures, the cap on the diesel price will further...
deepen the State Oil Fund deficit. In the first six months of 2022, the oil price subsidy had already withdrawn THB 83 billion (0.5% of GDP) from the Oil Fund (Fig. 7); the cap on diesel prices from July to September is estimated to incur an additional cost of THB 44 billion (0.3% of GDP). Apart from the subsidy, the excise tax cut on diesel by THB 4.65 per liter is running at a loss to government revenue of THB 9 billion (0.05% of GDP) per month.

The fiscal deficit remained large. The central government deficit narrowed to 7.0% of GDP in the first eight months of FY22 (Oct 2021-May 2021), down from 8.5% of GDP in the same period last year. Public debt rose to 60.9% of GDP at the end of May 2022, up from 58.3% at the end of FY21, although it remained well below the debt ceiling of 70% of GDP.

The Thai banking system remains resilient, although asset quality has deteriorated since the pandemic. The system-wide regulatory capital to risk-weighted assets (CAR) remained stable as of Q4 2021, at 19.6%, above the minimum regulatory requirements. Thai commercial banks also maintained adequate liquidity with a liquidity coverage ratio of 189.2% during the same period, well above the minimum regulatory requirement of 100 percent. In terms of credit, gross loans from commercial banks grew by 6.2% in Q4 2021, as loans from corporates expanded, while SME loans have been declining since Q2 2020, and continued to decline by 0.4% in Q4 2021. Overall asset quality improved, with nonperforming loans (NPLs) to total gross loans declining to 3.1% in Q4 2021, down from 3.3% in the previous quarter (Fig. 8). However, forward-looking indicators such as special mention loans (SMLs) remained high at 6.4% of the total loans in the same period, compared with 2.8% at the end of 2019.

The Thai baht depreciated in July due to a flight to safety and a continued current account deficit. The Real Effective Exchange Rate (REER) weakened further by 1.4% during the first two weeks of July, after depreciating by 0.6% in June, second only to the Philippine peso (Fig. 9). The Thai baht fell due to global investor concerns over the global economic slowdown as the Fed continued to aggressively tighten its monetary policy. The Thai bond and equity markets registered large net outflows of THB70.9 billion in June, the largest outflows since March 2020. The continued current account deficit (8.8% of GDP in May), also weighed on the Thai baht (Fig. 10).
Issues to Watch:
- **Inflation**: Will rising prices derail the private consumption recovery?
- **Tourism**: Will the inflows of foreign tourists surpass the projected 6 million in 2022 as border restrictions are removed?
- **Exports**: Will goods exports be significantly affected by the global economic slowdown?

News Highlights:
- The tourism council targets 10 million foreign arrivals in the second half of the year. (Bangkok Post, [Link](#))
- Lack of flights and rising fuel are challenging the recovery of the tourism industry. (Bangkok Post, [Link](#))
- The Bank of Thailand Governor signals to gradually increase interest rates to tackle rising inflation and ensure an uninterrupted economic recovery. (Reuters, [Link](#))

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### Selected Economic and Financial Indicators

#### GDP and Inflation (%YoY)

<table>
<thead>
<tr>
<th>Year</th>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth (real)</td>
<td>1.5</td>
<td>-0.2</td>
<td>1.8</td>
<td>2.2</td>
<td>1.5</td>
<td>-0.2</td>
<td>1.8</td>
<td>2.2</td>
<td>1.5</td>
</tr>
</tbody>
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#### Contribution to GDP growth:

- Private consumption: 0.2
- General Government consumption: 0.5
- Gross fixed capital formation: Private: 0.6
- Gross fixed capital formation: Public: 0.3
- Exports of goods and services: 0.5
- Change in Inventory: 0.0
- Residual and errors: 0.1
- GDP, nominal (USD Billion): 506
- GDP, nominal (THB Billion): 16,179

#### Output Indicators

- Manufacturing Production Index (%YoY): 6.5
- Capacity Utilisation (%): 63.0
- Farm Production Index (%YoY): 0.9
- Service Index (%YoY): 0.4

#### Labor Market

- Unemployed workers (Thousand Persons): 748
- Unemployment rate (%): 2.0
- Underemployment/1 (Thousand Persons): 584
- Underemployment (%): 1.5

#### Balance of Payments (USD million)

- Current account: -11,018
- Trade Balance: 39,885
- Service, primary and secondary Income: -50,903
- Tourist Arrivals (Thousand Persons): 428
- Financial account: -2,126
- Foreign direct Investment, net: -5,651
- Portfolio flows: -11,468
- Others Investments: 16,149

#### Central Government Budget (Fiscal Year, THB billion)/2

- Revenue: 2,857
- Expenditure: 4,124
- Central Government balance: -1,266
- Public debt (% of GDP): 58.75

#### Financial Markets Indicators

- Policy rate (%): 0.50
- Household Debt (sa, % of GDP): 89.6
- SET Index: 1,658
- Thai government bond yield, 10 year (%): 1.90
- USD/THB, end of period: 33.42
- THB NEER, average: 117.4


1/ Underemployment account for workers who work less than 35 hours per week and available for additional work (defined by BOT)
2/ Fiscal Year 2022 starts in October 2021 to September 2022, Fiscal Balance according to GFS