Thailand Monthly Economic Monitor

21 March 2023

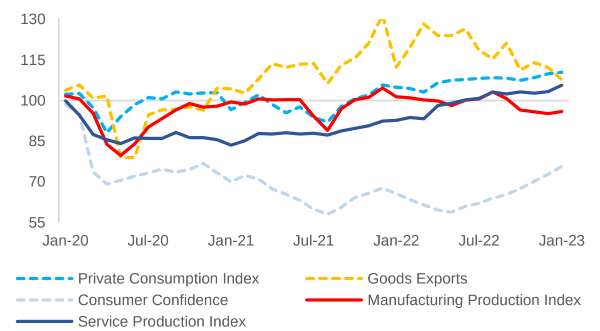
The economy resumed moderate expansion as private consumption and tourism improved at the beginning of 2023, after a disappointing Q4 outturn. However, lingering soft global demand continued to weigh on goods exports, manufacturing, and private investment. Inflation slowed amid easing global energy prices but remained above the Bank of Thailand's target range of 1-3 percent. As a result, authorities extended energy-related subsidies while maintaining monetary policy normalization. The Thai baht depreciated the most among major ASEAN currencies in February as the current account turned deficit due to slowing export of goods while substantial portfolio flows exited the equity and bond markets.

The economy picked up modestly in January as private consumption and tourism picked up, despite a contraction in goods exports. In January, services increased by 14.0% (year-on-year), supported by strong private consumption and improving consumer confidence as the labor market and tourism continued to recover (Fig. 1). Private consumption growth rebounded in January and consumer confidence rose to a three-year high in February, with unemployment reaching its pre-pandemic rate of 1.0 percent in December. Nevertheless, elevated inflation has undermined real wage gains and poses a risk to domestic consumption recovery (Fig. 2). Manufacturing contracted for the fourth consecutive month at 5.3% (year-on-year), remaining below its pre-pandemic level, due to the fall in goods exports.

The tourism recovery reversed slightly due to India's temporary Covid testing requirement. Tourist arrivals reached 57 percent of the pre-pandemic numbers, down from 59 percent in December (Fig. 3). In January, India implemented a Covid testing requirement for tourists returning from Thailand. The requirement was abandoned on February 13. Although January's arrivals from China remained low at just 9 percent of the 2019 level, the number has surged by 70 percent (month-on-month) since the relaxation of travel restrictions and is expected to recover strongly in 2023.

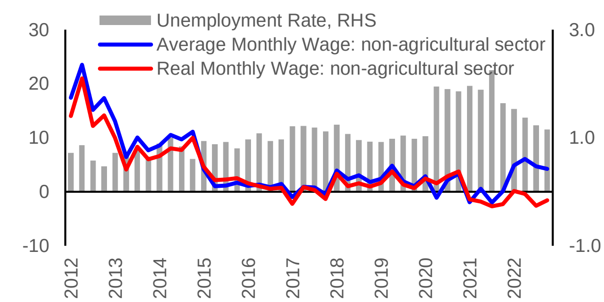
Goods exports remained weak due to falling global demand for manufacturing goods, pushing the current account back into deficit. Goods exports growth contracted for the fourth consecutive month at 4.5 percent (year-on-year) in January. Falling manufacturing exports, especially electronics and steel, contributed to the overall contraction, similar to other major exporters in Asia (Fig. 4). However, February's improved Global Manufacturing Purchasing Manager Index (PMI), on the back of stronger demand from the US and China, signals a positive outlook for the coming months. In contrast, goods imports expanded by 9 percent (year-on-year) boosted by imports of raw materials and intermediate products, especially energy-related imports. As a result, the current account recorded a deficit of

Figure 1: Services and Manufacturing Growth Continued to Diverge
(Index, Q4 2019 = 100)



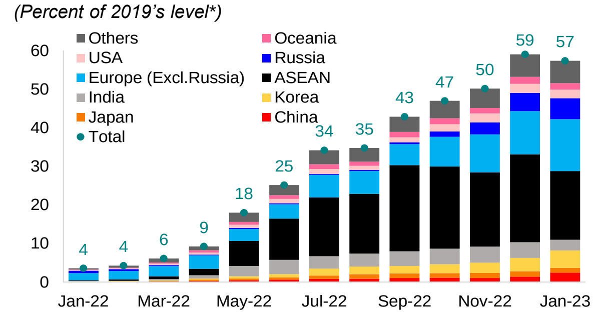
Source: **CEIC; World Bank staff calculations.**

Figure 2: Contracting Real Wages Weighed on Labor Market Recovery
(Left: Percent year-on-year; Right: Percent)



Note: *Real wage is deflated by headline CPI
Source: **CEIC; World Bank staff calculations.**

Figure 3: Tourism Recovery Slowed in January
(Percent of 2019's level)*



*Note: *average of 2019 considered a seasonal factor*
Source: Haver Analytics; **World Bank staff calculations.**

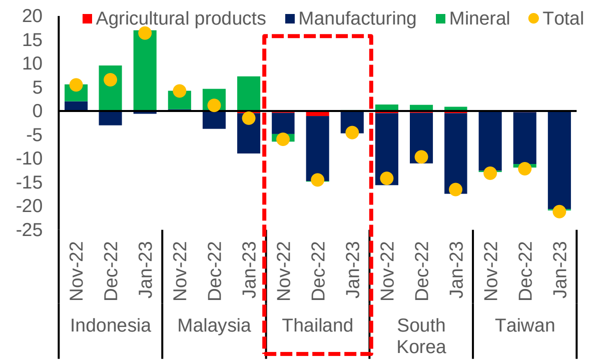
THB 2.0 billion or 4.8 percent of GDP, reflecting the goods trade deficit, while the services and income balance continued to expand (Fig. 5).

Headline and core inflation slowed due to softening energy prices but remained elevated. Energy inflation declined markedly from 11.1 percent to 7.8 percent, due to a cut in the regulated price of diesel in February from THB 35 to THB 34 per liter, the first cut in 7 months as global oil prices eased. With easing input cost pressures, core inflation slowed to 1.9 percent as second-round effect started to level off (Fig 6). Headline inflation eased but remained high at 3.8 percent in February above the Bank of Thailand's target range of 1-3 percent. Consequently, the Bank of Thailand is expected to maintain gradual monetary policy normalization to support the recovery, despite the widening interest rate differential between the US and Thailand (Fig 7).

The fiscal deficit narrowed due to lower spending, but revenue collection has yet to improve due to extended cost-of-living measures. The central government's deficit narrowed to 7.4 percent of GDP in the first four months of fiscal year 2023 (Oct 2022 to Jan 2023) below pre-pandemic levels and down from 11.2 percent of GDP in the same period last year. This reflected a decrease in total expenditures to 24.2 percent, down from 28.7 percent of GDP last year, while revenue remained stable at 15.6 percent. The speed of fiscal consolidation has been constrained by extended cost-of-living support measures (e.g. excise tax cut on diesel until July) and delayed electricity price hikes. The suspended launch of the financial transaction tax will also limit opportunities to raise revenue. The tax, which was previously planned to launch in early 2023, was opposed by the Federation of Thai Capital Market Organizations (FETCO), citing concerns over its impact on the liquidity of the stock market. The Finance Ministry estimated that the tax could generate THB 16 billion - THB 18 billion per year (0.9 - 1.0 percent of GDP) in fiscal revenue. Public debt rose to 61.3 percent of GDP in January 2023.

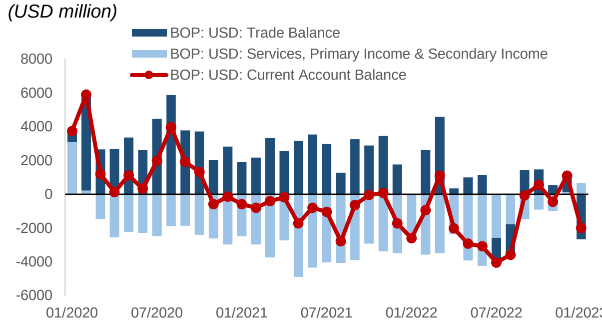
The Thai baht depreciated the most among ASEAN currencies in February, and will remain highly volatile due to uncertainty over US monetary policy. The depreciation of the Nominal Effective Exchange Rate (NEER) at 1.8 percent in February was the deepest among ASEAN peers. The decline was driven by improved confidence in the US dollar on the back of Thailand's current account deficit, expectations of more aggressive Fed tightening, and the weaker-than-expected GDP growth outcomes in Q4 2022. The THB 108.1 billion worth of portfolio outflows from the Thai bond and equity markets in February were the largest since April 2020. However, the collapse of Silicon Valley Bank has lowered expectations about the Fed tightening, causing the US dollar to fall and adding to the volatility of the Thai.

Figure 4: Manufacturing Exports Contraction Dragged Down Goods Exports
(Percent year-on-year contribution to growth)



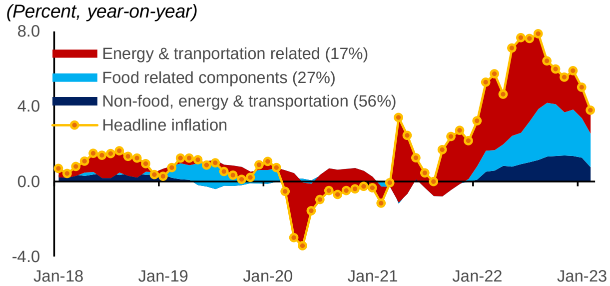
Source: CEIC; World Bank staff calculations.

Figure 5: The Current Account Balance Returned to Deficit in January
(USD million)



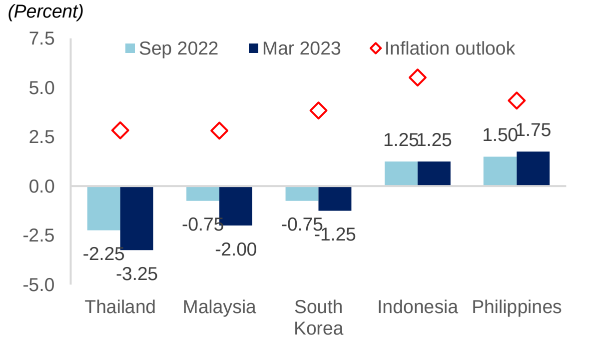
***Source:** Haver Analytics; World Bank staff calculations.*

Figure 6: Headline Inflation Declined due to Easing Fuel and Core Prices
(Percent, year-on-year)



Note: Numbers in parentheses indicate shares in the CPI basket.
Source: MOC; CEIC; World Bank staff calculations.

Figure 7: Thailand's Policy-US Fed Fund Rate Differential Widened
(Percent)



Source: CEIC; IMF WEO; World Bank staff calculations.

News Highlights:

- Thailand's baht currency is likely to remain highly volatile due to external factors (Reuters, Link).
- US banks' collapse was unlikely to have impact on the Thai economy (Bangkok post, Link).
- Commerce, Industry and Banking Committee (JSCCIB) cut its export growth forecast to zero (Bangkok post,, Link).

Issues to Watch:

- Tourism: Will China's reopening boost foreign tourist inflows by more than previously projected in 2023?
- Inflation: Will inflation continue to decline, despite rising demand?
- Exports: How much will the global economic slowdown affect goods exports?

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Selected Economic and Financial Indicators

	2021	2022	2022				2022			2023	
			Q1	Q2	Q3	Q4	Oct	Nov	Dec	Jan	Feb
GDP and Inflation (%YoY)											
GDP growth (real)	1.6	2.6	2.2	2.5	4.6	1.4					
Contribution to GDP growth:											
Private consumption	0.3	3.4	1.8	4.0	5.2	3.0					
General Government consumption	0.6	0.0	1.1	0.4	-0.3	-1.3					
Gross fixed capital formulation: Private	0.5	0.9	0.5	0.4	1.9	0.8					
Gross fixed capital formulation: Public	0.2	-0.3	-0.3	-0.6	-0.5	0.1					
Net Exports of goods and services	-3.7	1.7	4.5	0.3	-0.8	2.6					
Change in Inventory	1.5	-0.6	-2.9	0.4	1.7	-1.1					
Residual and errors	2.1	-2.6	-2.6	-2.4	-2.6	-2.7					
GDP, nominal (USD Billion)	506	496	130	123	119	125					
GDP, nominal (THB Billion)	16,167	17,367	4,286	4,214	4,337	4,530					
Consumer Prices Index: Headline	1.2	6.1	4.7	6.5	7.3	5.8	6.0	5.6	5.9	5.0	3.8
Consumer Prices Index: Core	0.2	2.5	1.4	2.2	3.1	3.2	3.2	3.2	3.3	3.1	1.9
Output Indicators											
Manufacturing Production Index (%YoY)	6.5	0.6	1.5	-1.1	7.9	-6.0	-4.3	-5.3	-8.4	-4.4	
Capacity Utilisation (%)	63.3	62.8	66.8	61.2	62.8	60.3	60.1	61.3	59.6	62.3	
Farm Production Index (%YoY)	2.0	1.0	2.7	3.0	-4.8	3.0	2.0	1.7	5.4	2.6	
Service Index (%YoY)	0.3	12.9	9.0	13.3	16.1	13.1	15.1	13.0	11.2	13.8	
Labor Market											
Unemployed workers (Thousand Persons)	748	527.0	607.6	546.6	491.4	462.5					
Unemployment rate (%)	2.0	1.3	1.5	1.4	1.2	1.2					
Underemployment/1 (Thousand Persons)	584	273	319	264	235	275.9					
Underemployment (%)	1.5	0.7	0.8	0.7	0.6	0.7					
Balance of Payments (USD million)											
Current account	-10,646	-16,942	-2,447	-8,027	-7,688	1,219	562	-445	1,102	-2,002	
Current account (% of GDP)	-2.1	-3.5	-1.9	-6.5	-6.5	1.0	1.4	-1.1	2.7	-4.8	
Trade Balance	32,354	10,814	7,186	2,509	-1,851	2,970	1,466	542	963	-2,670	
Exports of goods (%YoY)	20.0	5.8	14.2	9.6	6.7	-7.5	-3.6	-5.5	-12.9	-3.4	
Imports of goods (%YoY)	28.8	15.5	16.5	22.7	23.2	-0.3	3.1	8.2	-10.5	9.1	
Service, primary and secondary Income	-43,000	-27,756	-9,633	-10,536	-5,837	-1,751	-903	-987	139	668	
Tourist Arrivals (Thousand Persons)	428	9,958	498	1,582	2,413	5,465	1,475	1,748	2,241	2,145	
Financial account	-5,980		3,738	-183	-3,485	-					
Financial account (% of GDP)	-1.1		2.9	-0.1	-2.9	-					
Foreign direct Investment, net	-4,511		1,964	-363	-353	-					
Portfolio flows	-11,894		2,650	1,911	-765	-					
Others Investments	11,581		-734	-1,647	-2,816	-					
Central Government Budget (Fiscal Year, THB billion)/2											
Revenue	2,857	2,992	632	883	833	684	232	205	247	249	
Expenditure	4,124	3,845	840	892	925	1,076	453	259	365	293	
Central Government balance	-1,266	-852	-208	-9	-91	-392	-221	-53	-118	-44	
Central Government balance (% of GDP)	-7.9	-3.9	-4.8	-0.2	-2.1	-8.7					
Public debt (% of GDP)	58.8	60.5	60.6	61.0	60.5	61.0	60.8	60.7	61.0	61.3	
Financial Markets Indicators											
Policy rate (%)	0.50	1.25	0.50	0.50	1.25	1.25	1.00	1.25	1.25	1.50	1.50
M2 (%YoY)	6.0	5.20	5.9	6.1	4.7	4.10	4.0	4.3	4.1	3.2	-
Household Debt (sa, % of GDP)	89.7	-	89.2	88.4	87.0	-					
SET Index	1,658	1,669	1,695	1,568	1,590	1669	1,609	1,635	1,669	1,671	1,622
Thai government bond yield, 10 year (%)	1.90	2.45	2.26	2.81	3.08	2.45	3.10	2.52	2.45	2.45	2.50
Foreign exchange reserve and FX forward position (USD billion)	279	246	273	251	228	246	229	239	246	252	245
USD/THB, end of period	33.42	34.56	33.30	35.30	37.91	34.56	38.03	35.37	34.56	32.79	35.15
THB NEER, average	117.4	115.5	116.7	116.0	113.5	115.8	113.0	115.9	118.4	121.9	119.9

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.