Thailand Monthly Economic Monitor

20 January 2023

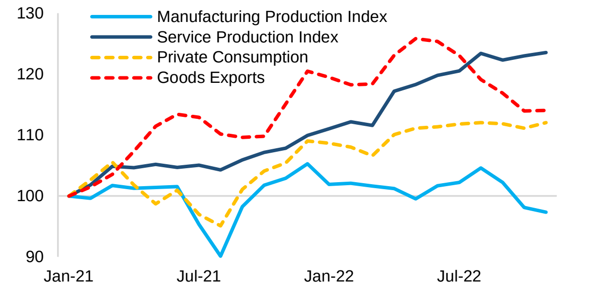
Strong private consumption and further tourism recovery, especially after the reopening of China's border, will continue to support economic growth but falling goods exports have weighed down manufacturing production and clouded the outlook. Headline inflation remained the second highest among major ASEAN economies. Despite some moderation in global energy prices, domestic price pressures persist, and the Bank of Thailand is expected to continue monetary policy normalization. The fiscal deficit narrowed to pre-pandemic levels, and the Thai baht strengthened due to strong portfolio inflows on the back of a stronger current account outlook and the decline of the US dollar.

The economy expanded with support from strong private consumption and tourism, but faced headwinds from falling goods exports (Fig 1). In November, the service production index grew by 14.3% (yoy), supported by strong private consumption and improving consumer confidence as the labor market and tourism continue to recover. In contrast, manufacturing production contracted for the second consecutive month at 5.6% (yoy), due to the fall in goods exports. Goods exports growth contracted by 5.5% (yoy) in November, in line with other major Asian exporters alongside the falling global manufacturing Purchasing Manager Index (PMI) (Fig. 2).

Tourism outlook has improved due to continued foreign tourist arrivals and the reopening of the Chinese border. The number of foreign tourists in November reached 52% of its pre-pandemic level. Most arrivals in November came from ASEAN countries and Europe, while arrivals from China remained subdued as China's zero-covid policy remained in place (Fig 3). However, the recent reopening of the Chinese border may support a stronger-than-expected tourism recovery due to the removal of the quarantine requirement and resumption of passport issuance for Chinese residents on January 8. In 2019, Chinese arrivals accounted for the largest share of total arrivals at 28% or 11 million visitors. The full recovery of travel receipts from Chinese tourists is estimated to boost GDP by as much as 3 percentage points, providing a significant upside surprise to growth in 2023.

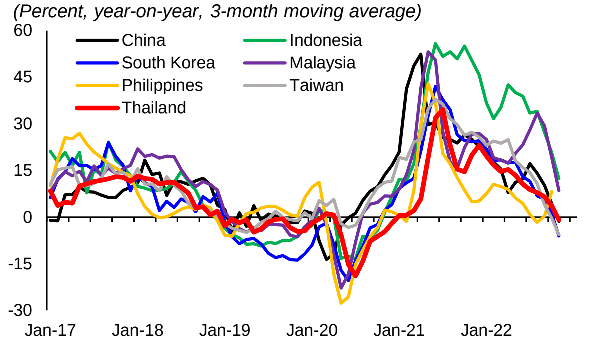
Inflation remains stubbornly high, driven mainly by rising pressures from energy, raw food, and other food prices. Inflation picked up marginally in December at 5.9% (yoy), up from 5.5% in the previous month, and continued to stay second highest among the major ASEAN countries, behind only the Philippines. This reflects a broad-based increase in all major categories of the CPI basket (Fig. 4). Overall, in 2022, inflation surged to 6.1%, up from 1.2% in the previous year, the highest level in 24 years.

Figure 1: Manufacturing Output Declined Due to Falling Goods Exports
(Index, Q1 2021 = 100, seasonally adjusted)



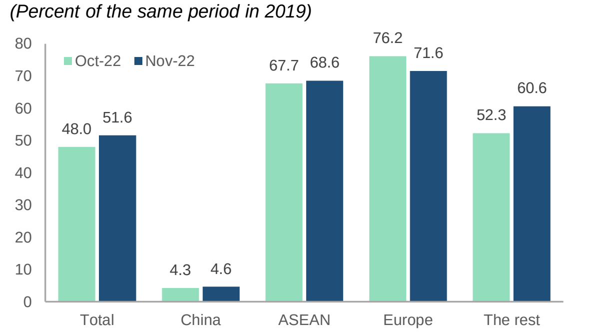
Source: Haver analytics; World Bank staff calculations.

Figure 2: Export Growth Slowed in Tandem with Asian Peers
(Percent, year-on-year, 3-month moving average)



Source: Haver Analytics; World Bank staff calculations.

Figure 3: Tourist Arrivals Continued to Climb
(Percent of the same period in 2019)



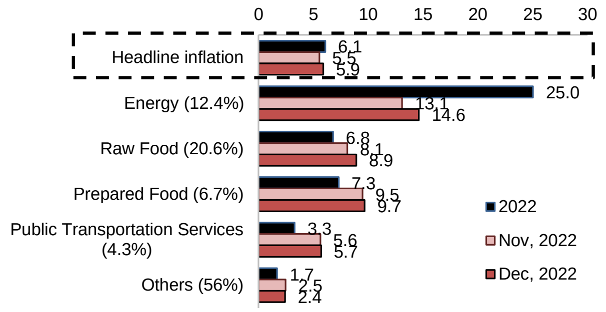
Source: Haver Analytics; World Bank staff calculations.

Going into 2023, inflation is likely to moderate as global energy prices ease but the second-round effects remain, partly due to lifting of price support measures. Headline inflation is expected to decelerate to 3.2% as global crude oil and food prices moderate. But core inflation (excluding raw food and energy) is expected to remain elevated, reflecting the pass-through of higher input costs, such as energy costs, to overall prices. The price of electricity has risen by 30% to THB 4.7 per unit in 2022 and is expected to rise further in 2023, despite the government deciding to maintain the current price for the first 4 months of 2023. Additionally, the price of diesel is expected to stay high, despite falling global oil prices, in order to bolster the State Oil Fund, which continues to run at a deep deficit of THB 121 billion (0.7% of GDP). Public transportation tariffs, including skytrain and taxi fares, are set to increase in January. As a result, the BOT is likely to continue its monetary policy normalization, following three rounds of 25bps policy rate hikes in 2022 to 1.25% by the end of 2022. Though the pace has been slower than those of ASEAN peers (Fig. 5)

The fiscal deficit narrowed, reaching the pre-pandemic path, but the slow recovery of revenue will delay consolidation. The central government's deficit narrowed to 9.1% of GDP in the first two months of FY23 (October-November 2022), down from 14.9% of GDP in the same period last year and close to pre-pandemic figures (Fig 6). However, the government expects the fiscal deficit in FY 23 (cash basis) to widen to 3.7% of GDP, up from 3.5% of GDP in FY22, due to the projected decline in revenue, despite falling expenditures. In December, the government rolled out tax expenditure measures for FY23 of THB 18.6 billion (0.1% of GDP). The measures include (1) a tax rebate scheme on purchases of up to THB 40,000, (2) a land and building tax cut of 15% with cuts on property transfer and mortgage registration fees for assessed property values of no more than THB 3 million, and (3) an excise tax reduction on jet fuel for domestic flights until June 30. An excise tax cut on diesel has also been extended until January 20. Over the medium term (FY2024-2027), the fiscal deficit is expected to fall below 3% of GDP, in line with the fiscal consolidation effort under the medium-term fiscal framework (Table. 1).

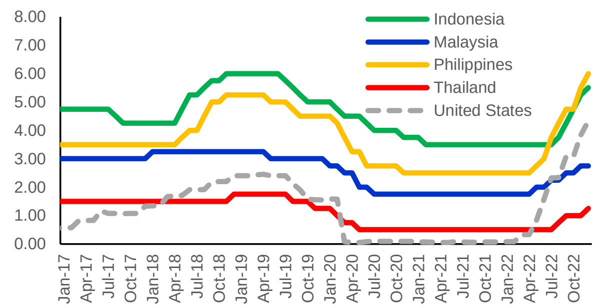
The Thai baht strengthened in Q4 amid the falling US dollar, an improved current account balance, and stronger portfolio inflows. The current account moved into deficit in November at 1.1% of GDP, as the goods trade balance declined, though improved tourism receipts and eased pressure on freight payments continue to support the current account (Fig. 7). In Q4, the Nominal Effective Exchange Rate (NEER) appreciated by 2.0% from the previous quarter, as expectations of a slower Fed tightening and the relaxation of China's travel restrictions boosted the outlook for the current account. The appreciation was the second strongest in Asia after the Singaporean dollar (Fig. 8). Overall, in 2022, The Thai baht NEER appreciated by 1.0%. Due to both equity and bond flows, portfolio flows to Thai

Figure 4: Headline Inflation Declined Since August due to Easing Fuel Prices
(Percent, year-on-year)



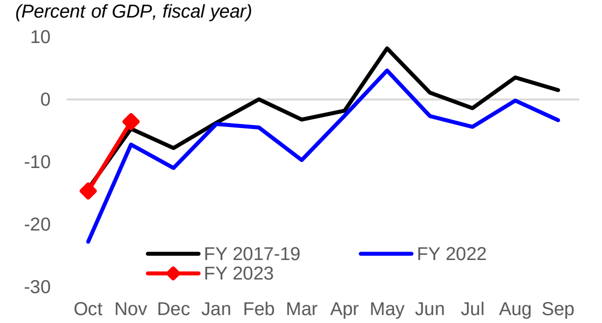
Note: Numbers in parentheses indicate shares in the CPI basket.
Source: MOC; CEIC; World Bank staff calculations.

Figure 5: Path of Monetary Policy Normalization Stayed Slow
(Percent)



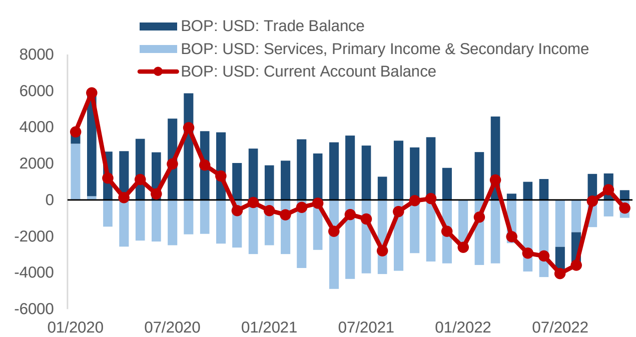
Source: CEIC; World Bank staff calculations.

Figure 6: The Central Government Budget Deficit Narrowed in the First Two Months of FY23
(Percent of GDP, fiscal year)



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

Figure 7: The Current Account Deficit Remained Substantial
(USD million)

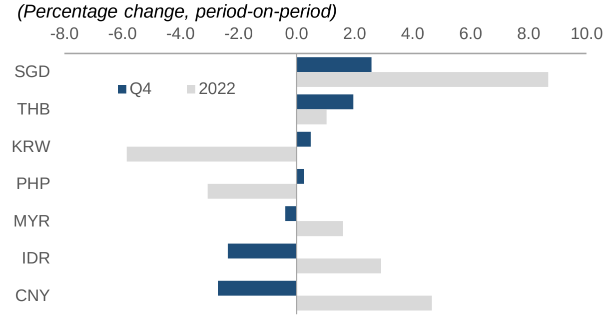


Source: Haver Analytics; World Bank staff calculations.

markets saw net inflows of USD 5.6 billion, recording the largest net inflows since 2017 (Fig. 9). However, risks to the capital market are tilting to the downside, reflecting the introduction of the financial transaction tax on securities, which may come into effect in 2023. Going forward, global economic uncertainty may weigh on the Thai equity market.

Figure 8: Thai Baht NEER Appreciated in Q4

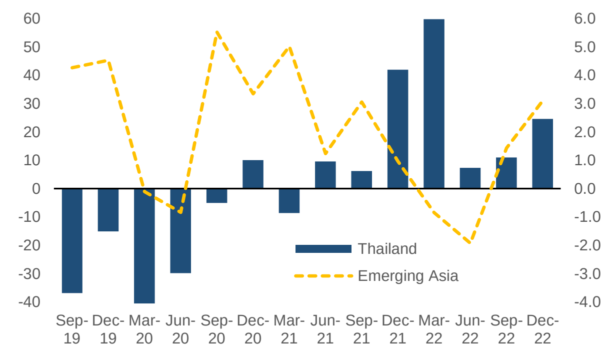
(Percentage change, period-on-period)



Source: Haver Analytics; World Bank staff calculations

Figure 9: Portfolio Flows to Bond and Equity Markets Increased

(USD billion)



Source: IIF; Haver Analytics; World Bank staff calculations

Table 1: Fiscal budget for FY23 and the Medium-Term Fiscal Framework (MTFF) for FY 2024-2027

(% of GDP)	Actual	Budget	Medium Term Fiscal Framework (FY 2024-2070)			
	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27
Net revenue	14.9	13.3	13.9	13.8	13.5	13.2
Fiscal budget expenditure	18.3	17.0	16.9	16.6	16.3	16.0
Fiscal budget balance	**-3.47**	**-3.70**	**-3.00**	**-2.84**	**-2.81**	**-2.79**
Outstanding public debt	60.67	60.64	61.35	61.78	61.69	61.25

Source: Various Newspapers; World Bank staff calculations

News Highlights:

- The cabinet approved the medium-term fiscal policy for fiscal years 2024-2027 (Bangkok Post, Link).
- China's reopening will speed up a rebound in Thai bonds into 2023 (Bloomberg, Link).
- Thailand approves tax breaks to boost public consumption (Reuters, Link).

Issues to Watch:

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

Prepared by Warunthorn Puthong (Macro Trade and Investment team), under the guidance of Kiatipong Ariyapruchya and Ekaterine T. Vashakmadze. For further questions, please email wputhong@worldbank.org

Selected Economic and Financial Indicators

	2021	2022	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2022 Sep	2022 Oct	2022 Nov	2022 Dec
GDP and Inflation (%YoY)										
GDP growth (real)	1.5		2.3	2.5	4.5					
Contribution to GDP growth:										
Private consumption	0.2		1.8	3.9	5.1					
General Government consumption	0.5		1.0	0.4	-0.1					
Gross fixed capital formulation: Private	0.6		0.5	0.4	1.9					
Gross fixed capital formulation: Public	0.3		-0.3	-0.7	-0.6					
Net Exports of goods and services	-4.1		3.5	-0.7	0.6					
Change in Inventory	0.0		-2.0	1.1	0.3					
Residual and errors	4.1		-2.1	-2.0	-2.7					
GDP, nominal (USD Billion)	506		130	123	119					
GDP, nominal (THB Billion)	16,179		4,308	4,230	4,339					
Consumer Prices Index: Headline	1.2	6.1	4.7	6.5	7.3	5.8	6.4	6.0	5.6	5.9
Consumer Prices Index: Core	0.2	2.5	1.4	2.3	3.1	3.2	3.1	3.2	3.2	3.2
Output Indicators										
Manufacturing Production Index (%YoY)	6.5		1.6	-0.7	8.2		3.3	-4.0	-5.6	
Capacity Utilisation (%)	63.0		66.5	61.1	62.6		63.3	59.8	62.6	
Farm Production Index (%YoY)	1.9		2.3	2.4	-4.0		-2.0	3.3	2.4	
Service Index (%YoY)	-0.7		9.0	13.2	16.2		15.3	15.0	14.3	
Labor Market										
Unemployed workers (Thousand Persons)	748		607.6	546.6	491.4					
Unemployment rate (%)	2.0		1.5	1.4	1.2					
Underemployment/1 (Thousand Persons)	584		319	264	235					
Underemployment (%)	1.5		0.8	0.7	0.6					
Balance of Payments (USD million)										
Current account	-10,646		-2,447	-8,027	-7,688		-56	562	-445	
Current account (% of GDP)	-2.1		-1.9	-6.5	-6.5		-0.1	1.3	-1.1	
Trade Balance	32,354		7,186	2,509	-1,851		1,431	1,466	542	
Exports of goods (%YoY)	20.0		14.2	9.6	6.7		8.4	-3.6	-5.5	
Imports of goods (%YoY)	28.8		16.5	22.7	23.2		19.1	3.1	8.2	
Service, primary and secondary Income	-43,000		-9,633	-10,536	-5,837		-1,487	-903	-987	
Tourist Arrivals (Thousand Persons)	428		498	1,582	2,413		1,309	1,475	1,748	
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		632	883	855		362	240	204	
Expenditure	4,124		840	892	968		410	452	256	
Central Government balance	-1,266		-208	-9	-113		-48	-212	-52	
Central Government balance (% of GDP)	-7.9		-4.8	-0.2	-2.6					
Public debt (% of GDP)	58.8		60.6	60.9	60.8		60.7	60.6	60.47	
Financial Markets Indicators										
Policy rate (%)	0.50	1.25	0.50	0.50	1.25	1.25	1.00	1.00	1.25	1.25
M2 (%YoY)	6.0	-	5.9	6.1	4.7	-	4.2	4.0	4.3	-
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	1,590	1,609	1,635	1,669
Thai government bond yield, 10 year (%)	1.90	2.45	2.26	2.81	3.08	2.45	3.08	3.10	2.52	2.45
Foreign exchange reserve and FX forward position (USD billion)	279	246	273	251	228	246	228	229	239	246
USD/THB, end of period	33.42	34.56	33.30	35.30	37.91	34.56	37.91	38.03	35.37	34.56
THB NEER, average	117.4	115.5	116.7	116.0	113.5	115.8	113.6	113.0	115.9	118.4

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.