Thailand Monthly Economic Monitor

25 November 2022

Growth accelerated to 4.5 percent in the third quarter of 2022 fueled by resurgent private consumption and strong tourism inflows. As a result, output surpassed its pre-pandemic level earlier than expected. However, the outlook is clouded by weakening global demand, tightening financing conditions, and stubbornly high global inflation. In Thailand, headline inflation eased somewhat, but remained the second highest among major ASEAN economies. Domestic price pressures persisted, despite some moderation in global energy and food prices, and broadened to core inflation. In the face of persistent price pressures, the authorities have chosen to maintain cost-of-living support measures and energy subsidies. The fiscal deficit remained larger than its pre-pandemic levels and it is expected that the pace of the fiscal consolidation will slow.

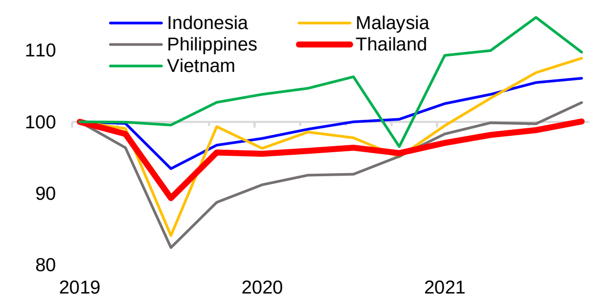
GDP growth picked up in the third quarter, driven by stronger private consumption and tourism sector recovery. The economy expanded 4.5% (yoy), up from 2.5% in the previous quarter. As a result, output surpassed its pre-pandemic level in Q3, one quarter earlier than projected. Thailand's path to recovery, however, continues to lag behind its ASEAN peers (Fig. 1). On a quarterly basis, GDP rose 1.2% (seasonally adjusted).

The expansion was supported by strong pent-up demand and recovering labor markets which boosted private consumption. Private consumption expanded 4.5% (yoy) in Q3, up from 2.5% in the previous quarter (Fig. 2). Consumer confidence continued to improve. The solid consumption recovery was supported by reopening and stronger labor markets. The unemployment rate declined to 1.2% in Q4, approaching its pre-pandemic level of 1.0% in 2019.

Growth benefited from accelerated tourism arrivals. Exports of services, which are largely driven by tourism receipts, expanded by 87.0% (yoy) in Q3. Tourism arrivals reached 45 percent of their pre-pandemic level in September, surpassing Indonesia and the Philippines. Most arrivals came from ASEAN, India, and Europe. Arrivals from China remained subdued and are expected to stay low at least in the next quarter, reflecting China's continued zero-covid policy (Fig. 3).

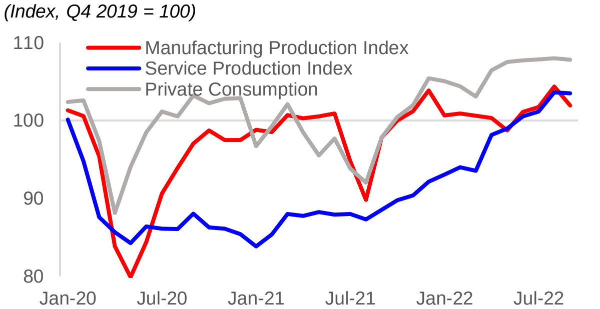
Exports of goods remained a drag on growth. The slowdown in growth of goods exports was similar to regional peers and consistent with the contraction in global manufacturing Purchasing Manager Index (PMI) (Fig. 4). Exports to China and Hong Kong SAR contracted, while exports to other major markets, such as the US, EU, and ASEAN, continued to expand. Going forward, recovery of the tourism sector is expected to continue to support growth, but the global economic slowdown will weigh on the outlook.

Figure 1: GDP in Q3 Surpassed its Pre-pandemic Level
(Index seasonally adjusted, Q4 2019 = 100)



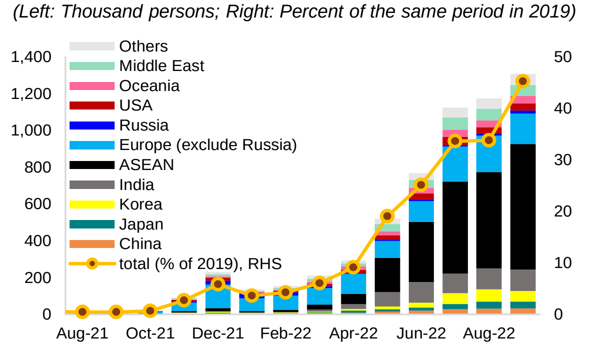
Source: CEIC; World Bank staff calculations.

Figure 2: Private Consumption and Services Fueled the Recovery
(Index, Q4 2019 = 100)



Source: Haver analytics; World Bank staff calculations.

Figure 3: Tourist Arrivals Continued to Climb
(Left: Thousand persons; Right: Percent of the same period in 2019)



Source: Haver Analytics; World Bank staff calculations.

Headline and core inflation diverged. In October, the headline inflation fell further from 6.4% (yoy) to 6.0% but remained the second highest among the major ASEAN countries. Energy price inflation declined as pressure from global markets eased amid rising global economic uncertainty, but food-related prices stayed elevated due to flooding (Fig. 5). However, core inflation (excluding raw food and energy) has increased steadily since the beginning of 2022, reaching 3.2% in October, its highest rate in 14 years, indicating rising risk of second-round inflation. The World Bank projects headline inflation to remain slightly above the Bank of Thailand's inflation target range of 1-3% until at least early 2023.

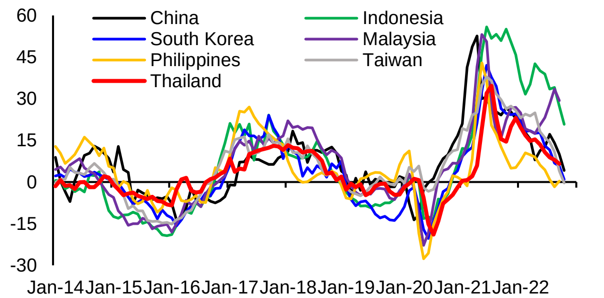
The fiscal deficit narrowed in FY22 amid continued fiscal consolidation. The central government's deficit narrowed to 5.6% of GDP in FY2022 (Oct 2021-Sep 2022), down from 7.9% in the same period last year, as emergency spending for COVID relief declined while revenues stayed close to the previous year (Fig. 6). Expenses on interest and capital increased marginally. Nonetheless, the fiscal deficit remained larger than the pre-pandemic average of 2.2% in FY 2017-19. Public debt to GDP rose to 60.7% at the end of FY22, almost 20 percentage points higher than the pre-COVID period. The path of fiscal consolidation is expected to remain slow, largely owing to the energy subsidies and relief measures to mitigate the cost-of-living crisis. Between October and December 2022, households that use up to 500 units of their electricity a month will be given discounts on electricity bills, welfare card holders will receive an additional THB 100 subsidy for the purchase of cooking gas, and the diesel price will remain capped at THB 35 per liter. The excise tax cut on diesel of THB 5 per liter has been extended until January 2023.

The Thai baht strengthened amid the weakening U.S. dollar and the expectations of a stronger current account balance. In the first 2 weeks of November, the Nominal Effective Exchange Rate (NEER) appreciated by 2.0% from the previous month. Expectations of slower Fed tightening and some relaxation of China's travel restriction rules boosted the outlook for the current account. However, the current account deficit remained wide at 5.7% of GDP in September, as the goods trade balance deteriorated (Fig. 7). International reserves stayed at 9 months of imports in October. However, it remained well below the average of 14 months over the past 3 years, due to valuation change from the U.S. dollar strength as well as foreign exchange intervention to stabilize the baht.

The Thai banking system remains resilient with sufficient capital and liquidity buffers in the third quarter. System-wide regulatory capital to risk-weighted assets (CAR) remained adequate as of Q3, at 19.2%, above the minimum regulatory requirements (Fig. 8). Thai commercial banks also maintained adequate liquidity, with a liquidity coverage ratio of 186.5% as of Q3, well above the minimum regulatory requirement of 100

Figure 4: Export Growth Slowed in Tandem with Asian Peers

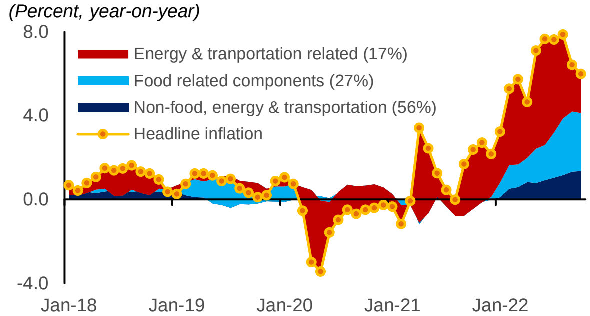
(Percent, year-on-year, 3 month moving average)



Source: Haver Analytics; World Bank staff calculations.

Figure 5: Headline Inflation Declined Since August due to Easing Fuel Prices

(Percent, year-on-year)

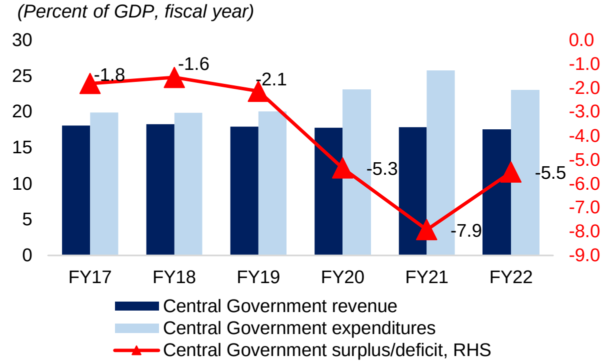


Note: Numbers in parentheses indicate shares in the CPI basket.

Source: MOC; CEIC; World Bank staff calculations.

Figure 6: The Central Government Budget Deficit Narrowed in FY22

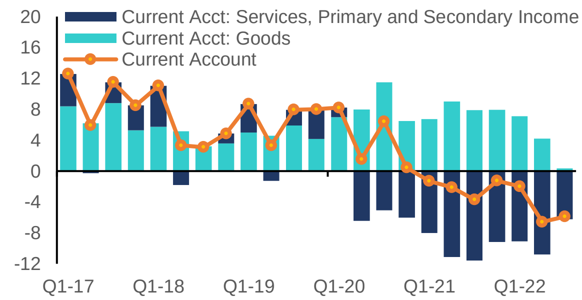
(Percent of GDP, fiscal year)



Source: MOF; CEIC; World Bank staff calculations.

Figure 7: The Current Account Deficit Remained Substantial

(Percent of GDP)

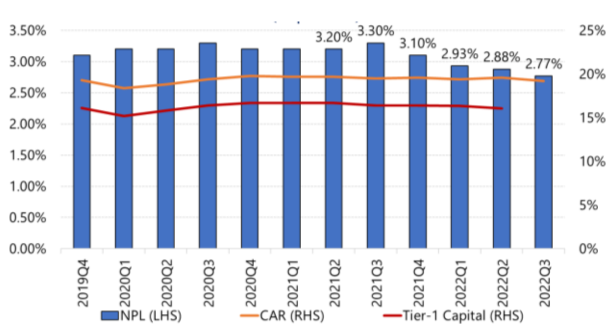


Source: Haver Analytics; World Bank staff calculations.

percent. The loan-to-deposit ratio also increased to 94.5%, as loans expanded at a higher rate than deposits.

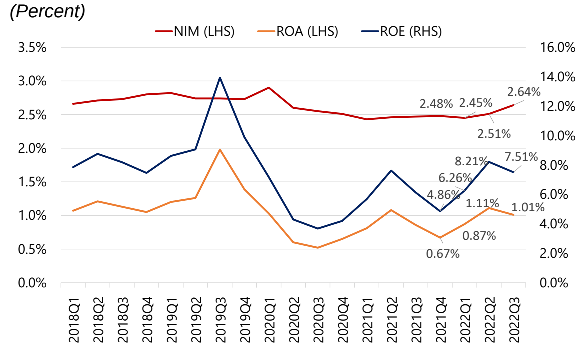
Additionally, both asset quality and profitability have continued to improve relative to their pre-pandemic levels in recent quarters. Banking sector profitability has stabilized after a significant decline from pre-pandemic levels with return on assets and return on equity at 1.0% and 7.5% respectively in Q3 (Fig. 9). Loans from commercial banks registered a 4.6% growth (yoy) in Q3, compared to 3.9% in the previous quarter. Nonperforming loans (NPL) to total gross loans decreased to 2.8% in Q3 from 3.1% at the end of 2021. The NPL coverage ratio also increased to 171.6% in the third quarter of 2022, showing that banks have continued to set aside enough provisions as a cushion against potential loan quality deterioration. Other forward-looking indicators such as special-mention loans improved. However, protracted forbearance measures, some only expiring at the end of 2023, may continue to mask vulnerabilities in asset quality.

Figure 8: The Banking System Remains Resilient With Sufficient Capital and Liquidity Buffers
(Percent)



Note: NPL: Non performing loans, CAR: Capital Adequacy ratio
Source: Bank of Thailand; IMF FSI; World Bank staff calculations.

Figure 9: Banking Sector Profitability has Stabilized
(Percent)



Note: NIM: Net Interest Margin, ROA: Return on Assets, ROE: Return on Equity
Source: Bank of Thailand; IMF FSI.

News Highlights:

- Thai economy posts fastest growth in a year, global risks cloud outlook (Reuters, Link).
- Tax cut on diesel extended to Jan 20 (Bangkok Post, Link).
- The Excise Department is mulling a subsidy to support the production of EV batteries (Bangkok Post, Link).

Issues to Watch:

- Inflation: Will rising demand add pressure to core inflation?
- Exports: How much will the global economic slowdown affect goods exports?
- Tourism: Will foreign tourist inflows continue to accelerate in 2023?

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Selected Economic and Financial Indicators

	2021	2021		2022			2022				
		Q3	Q4	Q1	Q2	Q3	Jun	Jul	Aug	Sep	Oct
GDP and Inflation (%YoY)											
GDP growth (real)	1.5	-0.2	1.8	2.3	2.5	4.5					
Contribution to GDP growth:											
Private consumption	0.2	-1.9	0.2	1.8	3.9	5.1					
General Government consumption	0.5	0.3	1.2	1.0	0.4	-0.1					
Gross fixed capital formulation: Private	0.6	0.4	-0.2	0.5	0.4	1.9					
Gross fixed capital formulation: Public	0.3	-0.5	0.1	-0.3	-0.7	-0.6					
Net Exports of goods and services	-4.1	-9.2	0.5	3.5	-0.7	0.6					
Change in Inventory	0.0	7.2	-1.1	-2.0	1.1	0.3					
Residual and errors	4.1	3.5	1.0	-2.1	-2.0	-2.7					
GDP, nominal (USD Billion)	506	119	129	130	123	119					
GDP, nominal (THB Billion)	16,179	3,918	4,294	4,308	4,230	4,339					
Consumer Prices Index: Headline	1.2	0.7	2.4	4.7	6.5	7.3	7.7	7.6	7.9	6.4	6.0
Consumer Prices Index: Core	0.2	0.1	0.3	1.4	2.3	3.1	2.5	3.0	3.1	3.1	3.2
Output Indicators											
Manufacturing Production Index (%YoY)	6.5	-0.3	4.7	1.6	-0.7	8.2	-0.2	6.4	14.9	3.4	
Capacity Utilisation (%)	63.0	58.5	64.5	66.5	61.1	62.6	62.5	60.8	63.7	63.2	
Farm Production Index (%YoY)	1.1	5.9	-2.4	6.5	8.0	-1.5	6.6	-0.5	-4.9	0.8	
Service Index (%YoY)	0.3	1.5	5.6	9.0	13.2	16.9	14.6	15.1	18.8	16.6	
Labor Market											
Unemployed workers (Thousand Persons)	748	871.3	631.9	607.6	546.6	490.0					
Unemployment rate (%)	2.0	2.3	1.6	1.5	1.4	1.2					
Underemployment/1 (Thousand Persons)	584	778	438	319	264	-					
Underemployment (%)	1.5	2.1	1.2	0.8	0.7	-					
Balance of Payments (USD million)											
Current account	-10,345	-4,392	-1,610	-2,573	-8,093	-7,022	-3,126	-4,153	-3,492	623	
Current account (% of GDP)	-2.1	-3.7	-1.3	-2.0	-6.6	-5.9	-7.5	-9.9	-8.4	1.5	
Trade Balance	39,885	9,391	10,225	9,282	5,170	423	2,059	-401	-1,027	1,851	
Exports of goods (%YoY)	20.0	16.1	22.3	14.4	9.7	6.7	11.1	3.4	8.2	8.4	
Imports of goods (%YoY)	25.0	32.0	23.1	16.3	22.4	23.2	24.3	25.3	23.8	20.5	
Service, primary and secondary Income	-50,230	-13,782	-11,835	-11,855	-13,263	-7,445	-5,185	-3,752	-2,465	-1,227	
Tourist Arrivals (Thousand Persons)	428	45	342	498	1,582	2,413	767	1,124	1,175	1,309	
Financial account	-5,980	2,640	752	3,738	891	-					
Financial account (% of GDP)	-1.1	2.2	0.6	2.9	0.7	-					
Foreign direct Investment, net	-4,511	-1,402	-4,019	1,964	-189	-					
Portfolio flows	-11,894	27	1,873	2,650	1,813	-					
Others Investments	11,581	4,182	3,185	-734	-656	-					
Central Government Budget (Fiscal Year, THB billion)/2											
Revenue	2,857	805	643	632	883	855	339	233	260	362	
Expenditure	4,124	1124	1188	840	892	968	376	295	263	410	
Central Government balance	-1,266	-319	-545	-208	-9	-113	-37	-62	-3	-48	
Central Government balance (% of GDP)	-7.9	-8.1	-12.7	-4.8	-0.2	-2.6					
Public debt (% of GDP)	58.8	58.4	59.6	60.6	60.9	60.8	60.9	60.8	60.7	60.7	
Financial Markets Indicators											
Policy rate (%)	0.50	0.50	0.50	0.50	0.50	1.00	0.50	0.50	0.75	1.00	1.00
M2 (%YoY)	6.0	4.9	5.4	5.9	6.1		6.3	5.1	4.9	4.2	-
Household Debt (sa, % of GDP)	89.7	89.9	89.7	89.2	88.3						
SET Index	1,658	1,606	1,658	1,695	1,568	1589.51	1,568	1,576	1,639	1,590	1,609
Thai government bond yield, 10 year (%)	1.90	1.89	1.90	2.26	2.81	3.08	2.81	2.50	2.43	3.08	3.10
Foreign exchange reserve and FX forward position (USD billion)	279	277	279	273	251	228	251	248	242	228	230
USD/THB, end of period	33.42	33.92	33.42	33.30	35.30	37.91	35.30	36.81	36.48	37.91	38.03
THB NEER, average	117.4	114.8	114.5	116.7	116.0	113.64	115.3	112.7	114.3	113.6	113.0

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 2022 begins in October 2021 and ends in September 2022, 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.