Preface

The Thailand Economic Monitor (TEM) reports on key developments in Thailand’s economy over the past six months, situates these changes in the context of global trends and Thailand’s longer-term economic trajectory, and updates Thailand’s economic and social welfare outlook. Each edition of the TEM also provides an in-depth examination of selected economic and policy issues and an analysis of Thailand’s medium-term development challenges. The TEM is intended for a wide audience, including policymakers, business leaders, financial-market participants, and the community of analysts and professionals engaged in Thailand’s evolving economy.

The TEM is produced by the staff of the World Bank’s Bangkok office, consisting of Kiatipong Ariyapruchya, Kim Alan Edwards, Francesca Lamanna (Task Team Leaders), Warunthorn Puthong, Thanapat Reungsri, Phonthanat Uruhamanon, Nadia Belhaj Hassine Belghith, Charl Jooste, Steven Pennings, Jaffar Al Rikabi, and Wouter Schalken. Birgit Hansl, Lars Christian Moller, Souleymane Coulibaly and Ronald Upenyu Mutasa provided overall guidance. The team is grateful to Andrew Mason, Duong Le, Shafaat Khan, Ugo Gentilini, David Knight and Ekaterine T. Vashakmadze for their constructive peer review comments. Clarissa Crisostomo David, Kanitha Kongrukgreatiyos, Panithida Phongphaew, and Buntarika Sangarun are responsible for external communications related to the TEM, as well as the production and design of this edition.

The findings, interpretations, and conclusions expressed in this report do not necessarily reflect the views of the Executive Directors of the World Bank or the governments they represent. The latest data that inform this report date from July 1, 2021 and the World Bank does not guarantee the accuracy of the data presented in the TEM. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of the World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

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- January 2021: Restoring incomes, recovering jobs
- July 2020: Thailand in the time of Covid-19
- January 2020: Productivity for prosperity
- July 2019: Harnessing fintech for financial inclusion
- January 2019: Inequality, opportunity and human capital
- April 2018: Beyond the innovation paradox
- August 2017: Digital transformation

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## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
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<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>AEC</td>
<td>ASEAN Economic Community</td>
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<td>BOT</td>
<td>Bank of Thailand</td>
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<td>EAP</td>
<td>East Asia and the Pacific</td>
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<td>EMDEs</td>
<td>Emerging markets and developing economies</td>
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<td>FDI</td>
<td>Foreign direct investment</td>
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<td>FPO</td>
<td>Fiscal Policy Office</td>
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<td>FSAP</td>
<td>Financial Sector Assessment Program</td>
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<td>FY</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>GEP</td>
<td>Global Economic Prospects Report</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>NEER</td>
<td>Nominal effective exchange rate</td>
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<td>Office of the National Economic and Social Development Council</td>
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<td>NPI</td>
<td>Non-pharmaceutical interventions</td>
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<td>NPL</td>
<td>Nonperforming loan</td>
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<td>REER</td>
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<td>RCEP</td>
<td>Regional Comprehensive Economic Partnership</td>
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<td>Household socio-economic survey</td>
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<td>The Stock Exchange of Thailand</td>
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<td>SMEs</td>
<td>Small and medium enterprises</td>
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<td>SSF</td>
<td>Social Security Fund</td>
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<td>TEM</td>
<td>Thailand Economic Monitor</td>
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<tr>
<td>UMIC</td>
<td>Upper-middle-income country</td>
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<tr>
<td>UNCTAD</td>
<td>The United Nations Conference on Trade and Development</td>
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<td>UNICEF</td>
<td>The United Nations Children’s Fund</td>
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<tr>
<td>yoy</td>
<td>year-on-year</td>
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</tbody>
</table>
# TABLE OF CONTENTS

Abbreviations ........................................................................................................................................ iv

Part 1. Recent Economic Developments and Outlook: The Long and Uneven Road to Recovery ........................................ 1

1. Recent Economic Developments: A New Wave of COVID-19 .............................................................................. 1
2. Outlook: An Uncertain and Protracted Recovery ....................................................................................... 35

Annex ......................................................................................................................................................... 41

Part 2. Protecting Poor and Vulnerable Households ............................................................................................... 44

1. Before the COVID-19 Pandemic .......................................................................................................................... 44
2. Responding to the impact of COVID-19 by scaling up social assistance ........................................................... 46
3. Lessons from the COVID-19 Response ........................................................................................................... 57

References .................................................................................................................................................. 61

## TABLES

Table 1: A broad-based recovery of goods exports was observed in Q1 2021 .................................................. 9
Table 2: The Private Investment Index showed signs of recovery ...................................................................... 10
Table 3: Impact of COVID-19 on tourism across selected destinations ............................................................... 13
Table 4: The current account and financial account have both deteriorated, but foreign-exchange reserves remain adequate .......................................................................................................................... 18
Table 5: Debt indicators remain well within the established parameters for public debt sustainability .......... 27
Table 6: Thailand Economic Outlook ............................................................................................................... 36
Table 7: Coverage and expenditures for COVID-19 Social Assistance programs in 2020 .................................... 48
Table 8: Summary of COVID-19 Social Assistance Programs in 2021 .............................................................. 50

## BOXES

Box 1: Global Developments ............................................................................................................................. 3
Box 2: Tourism in the Time of COVID-19 .......................................................................................................... 13
Box 3: The potential for income and wealth taxation in Thailand .................................................................. 27
Box 4: Interpreting the cash-based budget ...................................................................................................... 32
Box 5: The effects of social protection measures on economic growth ......................................................... 33
Box 6: Social insurance and labor market measures in response to the COVID-19 crisis in 2020 .............. 49
Box 7: Macro-Micro Simulation Model ............................................................................................................. 54
Box 8: Evidence on Positive Impact of Cash Transfer Around the World ..................................................... 60
**EXECUTIVE SUMMARY**

Recent Developments

Successive waves of COVID-19 disrupted the Thai economy in the first half of 2021, but their impact was mitigated by recovering global demand and substantial fiscal support. After a second wave of COVID-19 infections began in late 2020, the government strengthened public health and social distancing measures to contain the renewed spread of the virus. The shock of the second wave caused the economy to contract by -2.6 percent, year-on-year (yoy), in Q1 2021, following a 6.1 percent drop in GDP in 2020 which was one of the steepest contractions among Association of Southeast Asian Nations (ASEAN) member states. While private investment and manufacturing production recovered to near pre-COVID levels in the first quarter of 2021, weakness in the services and agricultural sector persisted. A third wave of infections that emerged in April 2021 has proven especially severe, and the number of cases surged to over 3,000 per day in May-June 2021. Strict containment measures have reduced mobility and negatively affected consumption and business sentiment. Activity in the tourism sector has remained negligible, and the outlook is clouded by the ongoing impact of COVID-19 across the region, the emergence of new variants, and slow progress on vaccination. However, rebouding goods exports have provided substantial support to the Thai economy, driven by recovering global demand for automotive parts, electronics, machinery, and agricultural products. Cash transfers, public health initiatives, economic recovery programs and other forms of fiscal support have helped shore up private demand while supporting consumption among vulnerable households and attenuating the impact of the crisis on poverty.

The current-account deficit widened further to 1.9 percent of GDP in Q1 2021, as tourism receipts remained minimal and the merchandise trade surplus narrowed. Goods exports continued to rise, supported by resurgent demand among Thailand’s trading partners. Meanwhile, goods imports also expanded, driven by rising global commodity prices and growing domestic demand for intermediate inputs and capital goods imports as the economic recovery accelerated and private investment increased. The combination of a widening current-account deficit and net outflows on the capital and financial accounts have caused both the nominal and real effective exchange rates to depreciate since the end of 2020. International reserves remain ample at around 14 months of imports and four times the level of short-term external debt.

While headline inflation has picked up, core inflation has remained contained, and the Bank of Thailand has maintained the policy rate at 0.5 percent to support the recovery. The headline inflation rate rose to 3.4 percent (yoy) in April 2021, due largely to supply-side factors such as rising global oil prices and the termination of domestic utility-price subsidies. However, the core inflation rate remained low at 0.3 percent, and the surge in headline inflation is expected to be temporary due to a large negative output gap (estimated at around 9 percent of potential output) combined with well-anchored inflationary expectations.

While pockets of vulnerability persist, the Thai financial system remains stable overall, and the central bank continues to provide support to boost liquidity and ensure financial stability. Commercial banks maintain large capital and liquidity buffers, and the capital-adequacy ratio (i.e., the BIS ratio) of the Thai banking system remains high at 20.0 percent. Nevertheless, elevated household debt levels and weaknesses among corporates and small and medium enterprises (SMEs) continue to pose risks. The pandemic-driven slowdown in economic activity has caused immediate liquidity shortages among some firms and households, impairing their ability to service debt. Corporate and household debt levels, which were already high before the pandemic, have risen further, eroding previous deleveraging gains, and increasing financial stability risks. Driven by a decline in labor income, Thailand’s aggregate household debt surged from 79.9 percent of GDP at end-2019 to 89.1 percent at end-2020, the second highest level in East Asia. Commercial banks have responded by tightening loan conditions both for households and for SMEs, reflecting persistent uncertainty around the recovery of the tourism and construction sectors. The central bank has also implemented measures to bolster financial stability and ensure that adequate liquidity is available to banks and nonfinancial corporates. To expand participation in its SME soft-loan program, the
Executive Summary

central bank recently expanded the pool of eligible borrowers, further eased the loan terms offered, and broadened the guaranteed coverage of loans.

The central government fiscal deficit widened to 10.5 percent of GDP in the first half of FY21 due to ongoing weakness in revenue collection and elevated pandemic-response spending. As a share of GDP, the deficit in the first half of FY21 was almost double the size of the FY20 deficit, and was significantly higher than deficits in most regional comparators. Revenue declined to below 15 percent of GDP in the first half of FY21 due to slowing economic activity, the deferral of income-tax deadlines, and the granting of additional deductions. Public expenditures on pandemic-related response measures reached 2.5 percent of GDP in FY20 and 1.9 percent of GDP in the first half of FY21, which combined with the accelerated implementation of capital projects kept total public spending at relatively high levels. The deficit was financed by domestic borrowing, and the public debt stock rose to 54.3 percent of GDP in March 2021—its highest level since 2001, though still below the Fiscal Sustainability Framework ceiling of 60 percent of GDP.

The government earmarked about 1 trillion Thai baht (THB) in public spending for economic stimulus and support to the most vulnerable households, most of which has already been disbursed. In April 2020, the government authorized THB 1 trillion (about 6 percent of GDP) in spending on cash transfers, medical response efforts, and economic and social recovery programs as the centerpiece of its fiscal response to the pandemic. By May 2021, these resources had been almost entirely allocated to specific policy measures, and over two-thirds had already been disbursed, with the remainder expected to be disbursed before the end of September 2021. Around 70 percent of the authorized COVID-19 response spending has been allocated to support households, largely through cash transfers and subsidies, with a smaller share being directed to support the recovery of the private sector. These allocations reflect the impact of the second and third waves of COVID-19, which extended both the economic shock and the need for household relief well beyond what had initially been anticipated. In May 2021, the government announced the approval of an additional THB 500 billion in borrowing, which will fund further support to households and could boost GDP by around 1.5 percentage points over the counterfactual scenario.

Simulations indicate that social protection measures have largely obviated the 1.2 percentage-point increase in poverty that would have occurred during 2020 in the absence of the government’s response. While the economic shock associated with COVID-19 has adversely affected employment, incomes, and poverty indicators, these impacts have been mitigated by a comprehensive social protection response. The government has acted quickly to support vulnerable populations by expanding existing social assistance schemes and has mobilized large new emergency programs for informal workers and farmers who would have not been considered vulnerable prior the pandemic.

Outlook and Risks

Economic activity is not expected to return to its pre-pandemic levels until 2022, and the recovery is projected to be slow and uneven. The growth forecast for 2021 has been revised downward from 3.4 percent in March to 2.2 percent, reflecting the anticipated impact of the third wave of COVID-19 infections on private consumption, and the likelihood that international tourist arrivals will remain very low through the end of 2021. Thailand recorded 40 million tourist arrivals in 2019, but the expected number of tourist arrivals in 2021 has been revised sharply downward from a previous forecast of 4-5 million to just 0.6 million. Goods exports and the ongoing rollout of fiscal support measures are expected to remain important drivers of overall economic activity. The recovery is expected to accelerate in 2022, with the annual GDP growth rate projected to rise to 5.1 percent. However, this forecast relies on three major assumptions: (i) solid progress on domestic vaccination rates; (ii) an improvement in the global trajectory of COVID-19 sufficient to allow international tourism to partially recover; and (iii) the full disbursement of the recently approved...
Executive Summary

THB 500 billion fiscal response package. Between 2020 and 2022, total economic output is now projected to be about 7.7 percent below levels forecast in January 2020, prior to the pandemic.

The government plans to vaccinate 70 percent of the population (50 million people) by the end of 2021, but any delay in the rollout schedule could adversely impact domestic mobility, consumption, and tourism. As of end-May 2021, only 1.6 percent of the population had been fully vaccinated, but vaccination rates picked up in June, with about 200,000-300,000 people receiving a dose of the vaccine each day. By end-June 2021, 4.0 percent had been fully vaccinated. If vaccinations continue at this pace through the rest of the year—as assumed by the forecasts—around 70 percent of the population will have received at least one dose by the end of 2021 and will be fully vaccinated by the first half of 2022. These vaccination rates would be consistent with economic activity returning to pre-pandemic levels by early 2022, the annual growth rate of private consumption increasing from 2.4 percent in 2021 to 3.9 percent in 2022, and tourism arrivals rising from under 1 million in 2021 to 10.8 million in 2022. However, global supply shortages could threaten this vaccination schedule. The government has already procured about 61 million vaccine doses from AstraZeneca and 7 million from Sinovac, but reaching 70 percent coverage in the first half of 2022 will require the timely procurement of additional vaccines, including an expected 10-15 million doses from Sinovac, 5 million from Johnson & Johnson, and 20 million from Pfizer.

While the public debt stock is expected to increase significantly, risks to fiscal sustainability remain manageable. As a result of the COVID-19 relief and recovery efforts, the public debt stock is projected to rise to 62 percent of GDP in 2022, exceeding the government’s current target ceiling of 60 percent. Nevertheless, the debt trajectory remains sustainable: fiscal modelling based on historically reasonable assumptions for growth rates, interest rates, and primary deficits suggests that a temporary breach of the debt ceiling at the level projected would not threaten medium-term fiscal sustainability. Moreover, the debt stock is largely denominated in local currency, and sufficient domestic liquidity is available to absorb the government’s refinancing needs, with new debt generally issued at relatively long maturities. These factors further mitigate fiscal risks.

Risks to growth are skewed to the downside, and the outlook remains fundamentally uncertain. The trajectory of the global pandemic is unpredictable, and the domestic containment of COVID-19 will hinge on the pace of the vaccination rollout, the successful procurement of additional vaccine doses, and the effectiveness of vaccines against new strains of the coronavirus. Meanwhile, the inefficient or incomplete execution of planned fiscal support measures could slow the economic recovery, with deeply negative implications for the most vulnerable segments of the population. In addition, supply disruptions and logistical bottlenecks could impede the ability of Thai firms to fully benefit from the recovery of global trade—though the upside potential for a more robust external recovery could also generate new opportunities for trade and investment. Over the medium term, the pandemic’s detrimental effect on the accumulation of physical, financial, and human capital could inhibit the recovery of economic output while widening socioeconomic disparities.

Structural reforms could support key drivers of growth, mitigating downside risks and positioning Thailand to capitalize on upside potential. Reforms that lower trade costs and barriers could help maximize the benefits of the ongoing recovery of global economic activity. The liberalization of trade in services and other measures to promote economic openness, tighter enforcement of intellectual property rights, and the full implementation of the new competition law could attract knowledge-intensive foreign direct investment (FDI) and facilitate Thailand’s integration into more complex global value chains for higher-value-added goods and services. In addition, further strengthening social safety nets could help improve resilience and foster inclusive growth by encouraging investments in human capital and supporting the movement of labor toward higher-productivity sectors.
Executive Summary

Protecting Poor and Vulnerable Households

Thailand’s social assistance response to the pandemic was unprecedented in scope and scale, standing out in comparison with peer countries. The government expanded what was previously a relatively modest set of cash transfer programs to implement one of the largest such responses to COVID-19 in the world. The total cost of transfers in 2020 was estimated at THB 388 billion baht or about 2.5 percent of GDP bringing total social assistance to about 3.2 percent of GDP, compared to just 0.8 percent in 2019. Preliminary simulations suggest that more than 780,000 additional people could have fallen into poverty in 2020 if the government had not scaled up social assistance (under an assumption that the eligibility criteria attached to each of these measures were ‘perfectly’ applied).

While Thailand’s social protection system could have been better prepared to respond to the pandemic, it built successfully on its first-class unique ID, payment, and administrative systems to scale up rapidly cash transfer programs. The crisis in 2020 demonstrated Thailand’s ability to quickly integrate existing data and agile, on-line applications to create a kind of instant social registry. In fact, Thailand successfully leveraged on its robust and universal digital ID, sophisticated and interoperable digital platform, and a number of administrative databases to filter eligibility for new cash transfer programs. With all of the building blocks in place, Thailand could now consolidate that effort and face future crises better prepared through a ‘virtual’ or ‘federated social registry’ that monitors the situation of households in normal times as well as crises.

Going forward, government will need to invest in strengthening the social protection system. Prior to the pandemic social assistance benefits were not very generous and often inadequate to protect the poor. The largest social assistance programs were categorically targeted, and only recently is poverty targeting becoming more prominent. In the years to come it should be a priority to ensure that vulnerable beneficiaries receive adequate support and given the limited fiscal space would also require significant investments in effective targeting. The crisis also further underscores the need to ensure that the social protection system covers the large informal sector in Thailand at all times, not only during crises.
Executive Summary

Recent Developments and Near-Term Outlook

Figure ES 1: Thailand's GDP growth rate remained negative in Q1 2021, but key indicators showed signs of improvement...

Figure ES 2: ...as exports expanded amid an accelerating global recovery.

Figure ES 3: However, quarterly growth stalled in early 2021 due to a resurgence in COVID-19 cases...

Figure ES 4: ...and stricter containment measures hindered economic activity again in Q2 2021.

Source: NESDC

Source: Google Community Report
Executive Summary

Figure ES 5: The authorities responded by expanding relief measures, causing the fiscal deficit to widen.

(Percent of GDP)

Figure ES 6: The recovery is expected to be slow with output returning to pre-pandemic levels in 2022.

( Index, 2017 GDP = 100)

Source: Fiscal Policy Office, Ministry of Finance

Source: NESDC; World Bank staff calculation

Table ES 1: Macroeconomic Indicators

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<td>(at constant factor prices)</td>
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<td>Fiscal Balance (% of GDP)</td>
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<td>49.4</td>
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Source: NESDC; World Bank staff calculations
Part 1. Recent Economic Developments and Outlook: The Long and Uneven Road to Recovery

1. Recent Economic Developments: A New Wave of COVID-19

   i. The global economy is recovering, albeit unevenly, with positive spillover effects for Thailand.

The global economy is experiencing an exceptionally strong but highly uneven recovery. The aggregate global growth rate is expected to reach 5.6 percent in 2021, its fastest post-recession expansion in 80 years. However, the recovery is being supported by rising but highly unequal vaccination rates. Growth is concentrated among a few major economies (Figure 1), while most emerging markets and developing economies (EMDEs) continue to lag. About 90 percent of advanced economies are expected to return to their pre-pandemic per capita income levels by 2022, but the same is true for just one-third of EMDEs.

The U.S. fiscal stimulus is expected to boost global growth, with positive spillover effects on the Thai economy. The U.S. government recently approved US$1.9 trillion (9 percent of GDP) in additional fiscal stimulus, which will substantially accelerate the global recovery. The stimulus will increase U.S. consumption of both domestic and imported goods, positively impacting countries with strong economic ties to the United States. Thailand could benefit from positive spillovers via trade, investment, remittances, and enhanced business confidence. However, a stimulus-driven demand surge in the context of a rapid recovery in advanced economies could
lead to high transitory inflation rates and push up interest rates faster than current forecasts predict. If the global steepening of yield curves or an earlier-than-expected tightening of global financing conditions triggers an abrupt market correction, capital inflows could decline sharply, causing financial turbulence. Many countries in East Asia and the Pacific are exposed to the risk of sudden financial outflows amid slow vaccination rollouts, repeated waves of COVID-19 infections, and the emergence of new coronavirus variants.¹

Thailand is integral to the East Asian regional value chain, and most of its exports go to advanced economies. In 2020, 14.8 percent of the country’s exports (6.8 percent of GDP) went to the United States, 9.9 percent (4.6 percent of GDP) to Japan, and 9.0 percent (4.1 percent of GDP) to the European Union. Thailand is well integrated into global value chains for automobiles and electronics, underscoring the importance of indirect trade effects. Estimates based on pre-pandemic data suggest that the direct impact of the U.S. stimulus (i.e., a 1.0 percentage point increase in the U.S. growth rate), coupled with its indirect impact via accelerated growth among Thailand’s other trading partners, could boost the average GDP growth rate among EMDEs by 0.6 percentage points per year over the next two years. These effects will occur primarily through trade and trade-related FDI. The region’s relatively export-oriented regional economies—including Thailand, as well as Cambodia, Malaysia, and Vietnam—are expected to benefit the most from faster growth in the United States and other advanced economies. Service exports are likely to remain subdued, as tourism is unlikely to recover substantially in 2021.²

The pandemic hit the Thai economy particularly hard in 2020, exacerbating pre-existing weaknesses. The Thai economy contracted by -6.1 percent in 2020, one of the deepest contractions among regional peers (Figure 2) and second only to that of the Philippines (-9.5 percent).³ Although Thailand’s public health response was relatively successful throughout most of 2020, the country’s position as a travel and tourism hub left it acutely exposed to the global collapse of tourism.³ The pandemic also compounded pre-existing weaknesses, and the annual growth rate had already slowed from 4.2 percent in 2018 to 2.4 percent in 2019 and reached -2.0 percent in Q1 2020, before the effects of the pandemic had fully materialized. A combination of domestic and external factors slowed growth, including a decline in exports due to US-China trade tensions, disruptions in public investment due to the delayed passage of the FY 2020 budget, political uncertainty around the formation of a new coalition government, and a severe drought. In addition, the Thai economy saw a secular slowdown with growth averaging 3.2 percent over 2009-2019, down from 4.8 percent in 1999-2008 due to structural weaknesses such as a rapidly aging population, diminished total factor productivity and low private investment and FDI.

¹ Variants Alpha, Beta, Delta, and Gamma spread more rapidly and are more infectious than the original COVID-19 virus and could pose greater challenges during future waves of COVID-19 infections. The World Health Organization has designated several of these as variants of concern.
³ Unless otherwise noted, all growth statistics are in year-on-year terms.
⁴ Major tourism countries such as the Philippines, the Maldives and the Bahamas, which have pre-pandemic tourism contribution to total GDP of 12.7, 56.6 and 43.3 percent respectively, contracted by 9.5 percent, 28.0 percent and 16.2 percent, respectively, in 2020.
Part 1. Recent Economic Developments and Outlook

Figure 1: Major economies are driving the recovery of global output growth, while EMDEs are lagging. *(Percentage-point contribution to global GDP growth)*

Figure 2: China’s recovery has been much faster than those of smaller regional economies. *(GDP, % change, year-on-year)*


Note: AEs = advanced economies; EMDEs = emerging market and developing economies. Aggregate growth rates are calculated using GDP weights at average 2010–19 prices and market exchange rates. Figure shows contributions to global growth forecast for 2021 and 2022 compared to average contributions to growth in 2015–2019 period. Shaded area indicates forecasts.

Box 1: Global Developments

Following a sharp contraction in 2020, the global economic recovery accelerated during the first few months of 2021. Global economic output shrank by 3.5 percent in 2020, with contractions of 4.7 percent in advanced economies and 1.7 percent in EMDEs. By the second half of the year, China’s economy was already recovering, but other EMDEs experienced a collective economic contraction that was more severe than initially forecast. Recent high-frequency data point toward a broad recovery, with the global Purchasing Manager’s Index rising to 54.8 in March—a 79-month high—as advanced economies and EMDEs both ramped up their manufacturing output.

The economic recovery has been uneven across countries and sectors. Fiscal support and loose monetary policies have supported a swift recovery among some advanced economies, and manufacturing output has risen substantially on the back of resurgent global demand. The U.S. economic recovery is accelerating due to the rapid rollout of vaccines and renewed fiscal support. Stimulus checks pushed retail sales up by 9.8 percent in March, a dramatic turnaround from the 8.7 percent contraction observed in March 2020. Nevertheless, a resurgence in COVID-19 infections in some large eurozone economies is weighing on economic activities and forcing governments to maintain stringent lockdowns. The eurozone’s composite Purchasing Manager’s Index rose slightly in February but remained in contractionary territory at 48.8. Among EMDEs, commodity exporters such as Russia, Saudi Arabia, Nigeria, and South Africa have benefited from the broad-based increase in commodity prices, and a recovery among commodity importers is also gaining traction due to reduced drag from the pandemic and spillovers from the global recovery.
While global trade in goods has recovered to pre-pandemic levels, international travel, tourism, and other tradable services remain subdued. The rapid recovery of the global trade in goods has largely mirrored the rapid recovery in industrial production. The recovery has not, however, been homogeneous across countries, with China and advanced economies largely leading the rebound. Furthermore, the rapid recovery in trade has led to a sharp increase in freight prices amid congestions at shipping ports, which, coupled with supply-chain disruptions, has weakened growth momentum. Meanwhile, trade in services has recovered only modestly, with tourist arrivals remaining far below their January 2020 levels.

Financial markets expect an economic recovery, as evidenced by the widening spread between short- and long-term interest rates, but EMDEs face mounting headwinds as capital inflows slow. The widening spread between short- and long-term interest rates has been observed across most advanced economies and has reduced the share of negative-yielding debt since January, with significant spillover effects on other financial markets. In the United States, 10-year U.S. Treasury yields have risen by 33 basis points, their sharpest increase in five years. In EMDEs, yields on local-currency-denominated and dollar-denominated bonds are also increasing, though capital inflows have lost momentum due to rising global yields and concerns over tightening U.S. monetary policy. More subdued recovery projections for EMDEs relative to advanced economies were reflected in the overall decrease in EMDE bond issuance in February.

ii. A severe third wave of COVID-19 cases emerged in April, with public health measures scaling up in response.

A third wave of COVID-19 infections emerged in the beginning of Q2 2021. The downside risk of a COVID-19 resurgence, identified in the January 2021 edition of the Thailand Economic Monitor (TEM), has unfortunately materialized. A third wave of infections began in April 2021, and the number of daily cases surged to over 3,000 in May-June 2021, more than double the 800-900 cases per day observed during the peak of the second wave in December 2020 (Figure 3). Beginning in April, the authorities reimposed strict containment measures in Bangkok and 17 provinces to flatten the infection curve, and increases in daily cases have since slowed. However, public health restrictions have hampered mobility and adversely affected domestic economic activity. Unlike the first two waves of infections, which occurred in localized clusters, the third wave has included outbreaks across the country, and additional resources have been required to mount an effective response.

The authorities have restricted business activities and travel, slowing the nascent economic recovery. The authorities tightened public health measures in Bangkok and 17 other provinces on May 1 as infections continued to climb. Quarantine for all international arrivals, regardless of vaccination status, were extended from 10 days to 14 days. Other measures announced included the closure of parks, gyms, dine-in restaurant services, cinemas, daycare centers, and other venues in Bangkok from April 26. The Bangkok municipal authorities also introduced a fine of up to THB 20,000 (US$635) for people who fail to wear face masks in public. Shopping malls remain open, but the Thai Retailers Association has restricted opening hours in Bangkok and 17 other provinces. However, a curfew has not been imposed, and the stringency index remains below the levels of peers such as Malaysia, Indonesia, and the Philippines (Figure 4). These measures are expected to remain in place until the situation improves.

Testing, active case identification, contact tracing, and isolation have been intensified. COVID-19 testing has been scaled up, while active case identification and contact tracing have been intensified in provinces designated as high-transmission areas. Timely testing can save both lives and livelihoods, and the authorities have actively tested for clusters of infection. Hospitals are required to admit and isolate infected patients immediately—a policy that has worked well under a low burden scenario but that may need to be reviewed in the event of a sharp increase in confirmed cases. A number of field hospitals, including at least five in Bangkok alone, have been erected to expand capacity, and several hotels have been converted into makeshift hospitals. The tightening of public health measures combined with expanded testing and tracing caused the positivity rate to fall below 5 percent in June-2021 after reaching the peak in mid-May 2021, potentially indicating that testing has kept up with the outbreak. Nevertheless,

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6 The EAP Update (April 2021) assessed the link between the COVID-19 infection rate and governmental policy responses using daily data for 174 countries from January 1 to December 31, 2020. A panel-data regression is with a country- and time-fixed effect model shows that the introduction of public health measures—including both open testing and mobility restrictions—and economic support measures are positively correlated with a slower growth of COVID-19 infection cases relative to the counterfactual. However, open and comprehensive testing policies are positively associated with both containment and growth outcomes, even after controlling for the level of mortality rate and the stringency of lockdowns. On average, every 1,000 additional tests per positive case is associated with a one-percentage-point increase in output growth.
7 This metric offers key insights into the adequacy of testing and the spread of the virus. The positivity rate indicates the
the average number of additional infections caused by each infection had surged again to 1.22 by end-June 2021 from 0.92 in the beginning of June (Figure 5).

The government has stepped up its plan for a mass vaccination drive starting in June 2021 and aims to inoculate 70 percent of the population by the end of the year.

About 9.9 percent of Thailand’s population had received at least one dose as of June 29, 2021, lower than the rates in Malaysia, where mass vaccination began earlier (Figure 6). As the third wave took hold, the Thai government accelerated its mass-vaccination plans and now aims to inoculate 70 percent of the population by the end of 2021. Part of the government’s strategy is to vaccinate a large share of local populations in tourist areas before reopening to vaccinated foreign visitors. Vaccination is ongoing for an initial 16 million people, including those over 60 and those with co-morbidities or underlying health conditions. Assuming that supply is unconstrained, about 61 million AstraZeneca vaccine doses, as well as 5 million from Johnson & Johnson, 20 million from Pfizer, and 7 million from Sinovac, are expected to be made available through the vaccination program during the second half of this year. About 35 million AstraZeneca vaccines are planned to be distributed between June to September alone.

The progress of the vaccination drive is close to the government’s plan, but supply remains uncertain.

Thailand is modifying its COVID-19 immunization strategy to target the worst-hit areas. Thailand’s immunization strategy previously focused on individuals, including the elderly and those with preexisting health issues. While these groups are still being prioritized, the authorities are increasingly focused on the most-affected areas of the country and those where clusters are most likely to emerge. These areas include Bangkok and the nearby provinces Samut Prakan, Nonthaburi, and Pathum Thani, as well as tourism destinations such as Phuket. The government is also targeting certain high-risk workers, including public transportation workers, healthcare workers, and construction workers, who often live in temporary camps at construction sites.

Thailand ECONOMIC MONITOR | July 2021
Part 1. Recent Economic Developments and Outlook

iii. Before the third wave of COVID-19 hit, the economy was showing signs of recovery, supported by fiscal and financial measures and robust external demand.

The Thai economy is showing signs of recovery, supported by a substantial package of fiscal, monetary, and financial policies. The economy contracted by -2.6 percent (yoy) in Q1 2021 as the authorities tightened public health measures to contain a second wave of COVID-19 infections that emerged at end-2020 (Figure 7). A third wave of infections disrupted an incipient recovery in Q1 2021 (Figure 8). Thailand’s contraction in Q1 was the second deepest among regional peers, after the Philippines (-4.2 percent), and significantly worse than those experienced by Indonesia (-0.7 percent) and Malaysia (-0.5 percent). Meanwhile, Vietnam posted a positive growth rate of 4.5 percent.
Meanwhile, an accelerating global recovery has bolstered external demand for goods. External demand accounted for the majority of growth in Q1 2021 (Figure 9), as the renewed global expansion continued. Exports rose to meet strong global demand for manufactured goods, and quarterly export growth surged by 8.0 percent in Q1 2021 following a contraction of -1.3 percent in the previous quarter (Figure 10). However, domestic demand remained sluggish due to the second wave of COVID-19. Private consumption growth softened from 0.9 percent in Q4 2020 to 0.5 percent in Q1 2021. Government consumption expanded by 2.1 percent (yoy), while government public investment increased by 19.6 percent (yoy), as the authorities strove to contain the negative economic impacts of the pandemic while continuing to implement public infrastructure projects.

Robust external demand for goods exports is driving the overall improvement in macroeconomic indicators. Goods exports grew by 5.3 percent, quarter-on-quarter, in Q1 2021, up from -1.5 percent in Q4 2020 (Table 1), amid strong global demand for goods across major product groups. Excluding gold, exports grew 11.8 percent, supported by rising automotive, electronics, and machinery exports, as well as agricultural exports. However, export growth in Thailand remained weaker than among regional peers such as Vietnam and Malaysia, as Thailand produces smaller shares of the goods that recovered fastest beginning in Q3 2020, particularly electronics (14.8 percent) and electrical appliances (6.6 percent). Thailand has a relatively large automotive subsector (17.3 percent), and automotive exports experienced a slower recovery.
Figure 9: Exports and investment supported growth in Q1 2021. (Percentage-point contribution to real GDP growth, quarter-on-quarter, seasonally adjusted)

Figure 10: Following a deep contraction in Q2 2020, exports of goods and services have turned positive. (% change, quarter-on-quarter, seasonally adjusted)

Table 1: A broad-based recovery of goods exports was observed in Q1 2021

<table>
<thead>
<tr>
<th>Product Group (Custom basis)</th>
<th>2020 Q1</th>
<th>2020 Q2</th>
<th>2020 Q3</th>
<th>2020 Q4</th>
<th>2021 Q1</th>
<th>Share of export 2021 Q1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>-4.7</td>
<td>-47.8</td>
<td>-19.4</td>
<td>0.4</td>
<td>21.2</td>
<td>17.3%</td>
</tr>
<tr>
<td>Electronics</td>
<td>5.2</td>
<td>-6.8</td>
<td>1.6</td>
<td>4.9</td>
<td>10.7</td>
<td>14.8%</td>
</tr>
<tr>
<td>Agro-manufacturing Products</td>
<td>3.8</td>
<td>-2.2</td>
<td>-0.7</td>
<td>-1.4</td>
<td>9.9</td>
<td>13.4%</td>
</tr>
<tr>
<td>Machinery &amp; Equipment</td>
<td>-8.5</td>
<td>-23.4</td>
<td>-9.6</td>
<td>9.3</td>
<td>17.3</td>
<td>8.9%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>-10.4</td>
<td>4.6</td>
<td>-7.9</td>
<td>10.2</td>
<td>18.3</td>
<td>7.2%</td>
</tr>
<tr>
<td>Electrical Appliances</td>
<td>5.8</td>
<td>-18.8</td>
<td>5.6</td>
<td>9.5</td>
<td>11.1</td>
<td>6.6%</td>
</tr>
<tr>
<td>Total Exports (BOP basis)</td>
<td>1.3</td>
<td>-17.7</td>
<td>-8.2</td>
<td>-1.5</td>
<td>5.3</td>
<td></td>
</tr>
<tr>
<td>Total Exports excluding gold (BOP basis)</td>
<td>-3.3</td>
<td>-21.3</td>
<td>-10.5</td>
<td>-0.9</td>
<td>11.8</td>
<td></td>
</tr>
</tbody>
</table>

Source: NESDC; World Bank Staff calculations

iv. But the third wave of COVID-19 appears to have set back the economic recovery and prospects for tourism.

The Private Investment Index recovered to its pre-COVID-19 levels on the back of robust external demand for goods.

The Private Investment Index, a monthly measure of private investment expenditures compiled by the Bank of Thailand, recovered to above pre-COVID-19 levels as manufacturing output rose, but it dipped again as the third wave emerged in April 2021 (Figure 11). The expansion of private investment was driven by the recovery of goods exports, which increased imports of capital goods and sales of domestic machinery (Table 2). Purchases of commercial vehicles also increased slightly, possibly due to rising demand for delivery services.
International travel restrictions continued to weigh on foreign purchases of real estate, but demand for construction materials continued to grow.

The resurgence of COVID-19 weakened business sentiment regarding domestic sectors.

The Business Sentiment Index (BSI) dipped in May, with declines in almost all its sub-indices. The drop in sentiment was especially pronounced in non-manufacturing sectors such as hospitality and retail trade, which were directly affected by the more stringent control measures imposed in April, but the 3-month BSI also fell across almost all sectors during the third wave of the pandemic (Figure 12). Nevertheless, the recovery of exports kept the BSI manufacturing sector sub-index above the January 2019 benchmark for four consecutive months.

**Figure 11: Private investment returned to its pre-COVID-19 level but dipped during the third wave.** (Private Investment Index: Base Jan 2019 = 100)

**Figure 12: Business sentiment remained volatile amid continued surges of COVID-19.** (Diffusion Index: Unchanged = 50)

![Graphs showing private investment and business sentiment](image)

**Table 2: The Private Investment Index showed signs of recovery**

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>JAN</td>
<td>FEB</td>
</tr>
<tr>
<td>Private Investment Index</td>
<td>98.0</td>
<td>94.5</td>
</tr>
<tr>
<td>Construction Area Permitted</td>
<td>99.4</td>
<td>99.9</td>
</tr>
<tr>
<td>Construction Material Sales Index</td>
<td>93.6</td>
<td>96.7</td>
</tr>
<tr>
<td>Import of Capital Goods</td>
<td>96.3</td>
<td>80.5</td>
</tr>
<tr>
<td>Domestic Machinery Sales</td>
<td>100.6</td>
<td>102.5</td>
</tr>
<tr>
<td>Number of Newly Registered Motor Vehicles for Investment Purpose</td>
<td>82.3</td>
<td>84.4</td>
</tr>
</tbody>
</table>

*Source: Bank of Thailand and World Bank staff calculations*

**Remarks:** Green indicates positive growth from January 2019. Darker green indicates very positive growth. Red indicates negative growth from January 2019. Darker red indicates very negative growth.

**Note:** Construction material sales index includes sales of cement (portland, mixed, and various types), clinkers, ready-mixed concrete, concrete floor planks, bricks, cement pipes, sanitary fixtures, wall/floor tiles, asbestos cement roman roofing tile, and roofing tile.
Total import of capital goods excludes rental and leasing transportation items and includes computer and information services (imports of services). Total number of newly registered motor vehicles excludes motorcycles and passenger cars (seven-or-less seaters).

The volatility of the Private Consumption Index reflected the start-stop character of the recovery.

The Private Consumption Index, a monthly measure also compiled by the Bank of Thailand, appeared to be returning to pre-COVID-19 levels during the second half of 2020, supported by fiscal stimulus measures and the easing of mobility restrictions. However, the index plunged amid the second and third waves of COVID-19 (Figure 13). At the onset of the third wave, mobility indicators plummeted to levels below those observed during the second wave at end-2020, but remained well above their pandemic nadir, which occurred during the first wave, when a curfew was imposed (Figure 14). Subsequent to the first wave, firms adopted digital technology as reflected in a surge in digital payments. The Consumer Confidence Index improved in the latter half of 2020 but became highly volatile in 2021 due to the second and third waves of COVID-19. Purchases of durable consumer goods, such as passenger cars and motorcycles, improved at a sluggish pace due to high household debt levels and weak consumer confidence in a sustained recovery.

Figure 13: The Private Consumption Index fell in April 2021 due to the rapid resurgence of COVID-19 and the imposition of strict control measures. (LHS: Base Jan 2019 = 100, RHS: Diffusion Index = 50)

Figure 14: Mobility indicators dropped below the level observed during the second wave of infections in December 2020. (Change in visits relative to yearly baseline)

Source: Bank of Thailand and Ministry of Commerce

Note: Grocery & Pharmacy represents mobility trends for places like grocery markets, food warehouses, farmers markets, specialty food shops, drug stores, and pharmacies. Retail & Recreation represents mobility trends for places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters.

8 Promptpay peak transaction volume registered at 707.97 million with a value of 2,611.20 billion baht as of March 2021, compared with the corresponding period in 2019 when the peak transaction volume logged at 297.76 million with a value of 1,484.56 billion baht (Bank of Thailand).

9 The Consumer Confidence Index measures consumer perceptions of current and future economic conditions, job prospects and income. The index is based on a survey of around 2,440 households. Values above 100 indicate an improving outlook, and values below 100 indicate a deteriorating outlook.
As the Thai economy depends on tourism, low international tourist arrivals have slowed the recovery.

Thailand received close to 40 million foreign tourists in 2019, and international tourism receipts totaled THB 1.9 trillion (11.3 percent of GDP). Meanwhile, income from domestic tourists amounted to THB 1.1 trillion (6.4 percent of GDP). The three tourism-related sectors—hotels and restaurants, wholesale and retail trade, and transportation and communications—together employed more than 10 million workers, contributing 26 percent to total employment.\(^{10}\)

The government is working to restart tourism activity while maintaining tight public health precautions.

The authorities introduced the Special Tourist Visa program for long-stay tourists from low-risk countries in Q4 2020. However, only about 5,600 visitors have arrived each month (Figure 15), as quarantine requirements in Thailand remained stringent, and vaccination rates in countries of origin were still relatively low. However, with vaccination rates accelerating in many countries, the Thai authorities has opened Phuket, a popular island destination, to vaccinated tourists as of July 2021. The experience of other countries, albeit limited, suggests that restricting entry from high-risk countries and imposing testing requirements on incoming tourists can help mitigate the risks posed by the resumption of tourism activity (see Box 2).

Domestic travel dropped in the beginning of Q2 2021 due to the resurgence of COVID-19.

Despite of a boost from the government’s tourism stimulus campaign “We Travel Together” introduced end-July 2020, a revival of domestic travel-related activity remains highly uncertain due to the resurgence of COVID-19 inflections. Domestic visitor spending declined by 28 percent in 2020. The number of domestic travelers, which includes domestic tourists, dropped again in the beginning of Q2 2021 due to the reimposition of strict mobility measures (Figure 16). In addition, domestic tourists spending cannot cover the loss of receipts from foreign tourists as it accounts for around one-third of total tourism income.

\(^{10}\) Siam Commercial Bank Economic Intelligence Center, 2020.
Part 1. Recent Economic Developments and Outlook

Table 3: Impact of COVID-19 on tourism across selected destinations

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>20.1%</td>
<td>8.4%</td>
<td>-60.8%</td>
<td>21.4%</td>
<td>18.1%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>11.7%</td>
<td>5.2%</td>
<td>-57.9%</td>
<td>15.1%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Maldives</td>
<td>52.6%</td>
<td>29.4%</td>
<td>-63.8%</td>
<td>53.5%</td>
<td>40.2%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>7%</td>
<td>3.5%</td>
<td>-48.5%</td>
<td>9%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Philippines</td>
<td>22.5%</td>
<td>14.6%</td>
<td>-41.4%</td>
<td>22.8%</td>
<td>19.2%</td>
</tr>
</tbody>
</table>

Source: WTTC 2021

Box 2: Tourism in the Time of COVID-19

Countries around the world are reassessing their tourism policies as vaccination rates in major source markets continue to rise. At the global level, the G-20 Rome Guidelines for the Future of Tourism (May 2021) focus on three priorities: (i) restoring confidence and enabling a robust recovery; (ii) learning from the experience of the pandemic; and (iii) emphasizing sustainability as a guiding principle for the future of tourism. This guidance is timely, as global tourism may be poised for a recovery as confidence grows and the virus is brought under control. A recent survey by Booking.com (February 2021) found that confidence in the safety of travel is rising rapidly, and 66 percent of surveyed global travelers report feeling more hopeful about traveling in 2021. In terms of destinations, 61 percent are confident that they will be able to visit a beach by summer 2021.

Several destinations have introduced temporary regulations to support the initial phase of the recovery. Most interventions are focused on geographical restrictions, such as points of entry and so-called “travel bubbles,” as well as testing and vaccination requirements for tourists, either pre- or post-arrival. In many cases, international access has been restricted to selected airports to enable better monitoring of visitor movement and maximize the impact of limited testing resources. Restricted corridors, or “travel bubbles,” offer two-way quarantine-free travel between destinations (e.g., Taiwan and Palau; Australia and New Zealand), but this approach is still rare and does not allow for large numbers of visitors. Nevertheless, “travel bubbles” provide an object lesson in how governments can work together to establish consistent international standards for travel during the pandemic.

Other destinations are emphasizing efficient testing protocols. For example, Dubai does not require mandatory quarantine for incoming tourists, but does require foreign travelers to have a negative PCR test before departure or upon arrival. To reinforce traveler confidence, Dubai even offers free insurance coverage for COVID-19-related treatment should a visitor be infected while in the country. The Maldives requires a negative PCR test prior to arrival and a subsequent test carried out at the destination resort. Guests remain under quarantine until the second test returns a negative result. Expanding testing infrastructure can facilitate the movement of tourists within the country, and testing should be easily accessible, fast, and inexpensive. In addition, tracing and isolation capacity should be enhanced to enable the rapid containment of identified cases in tourism hotspots. Meanwhile, vaccinating staff and residents in key tourism destinations...

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11 Prepared by Wouter Schalken.
Box 2: Tourism in the Time of COVID-19

can improve traveler confidence and allow direct access between selected source markets and destinations (e.g., from Cape Town, South Africa to the resort town of Victoria Falls, Zimbabwe).

After borders closed and international travel was restricted, many countries promoted domestic tourism to offset some of the economic damage caused by the pandemic. Thailand, along with Vietnam, the Philippines, the European Union, and other countries, encouraged domestic travel by introducing discounts and strict hygiene and social-distancing measures. However, a sharp rise in COVID-19 cases and limited domestic demand have constrained the positive economic impact of domestic tourism.

Thailand could consider opening selected tourism destinations as a first step towards the recovery of the national tourism system. Phuket could be reopened as a destination for direct, long-haul flights from countries with high vaccination rates, with limited stays pre-booked in approved accommodations with vaccinated staff. The island of Koh Samui could be reopened as a destination for direct, regional flights from areas with high vaccination and/or testing rates, also with limited stays pre-booked in approved accommodations with vaccinated staff. Similar to the model used in the Maldives, following a negative in-country test administered at the accommodation site guests would be free to enjoy the destination’s facilities while adhering to appropriate protocols. Domestic tourism should not be allowed in the selected destinations until domestic vaccination rates have improved.

In the medium term, Thailand has an abundance of natural resources available to meet the green growth agenda for tourism and become an eco-tourism destination of choice. Pristine natural destinations are suitable as locations for wellness tourism which, as an established segment, makes for a natural transition to a higher-value tourism service. The anticipated 12-24 months recovery time to return to pre-COVID-19 tourism levels are best used to ensure the right products are created and the appropriate infrastructure put in place.

v. On the production side, the growth of the manufacturing and service sectors diverged in line with global consumption patterns.

Manufacturing has recovered to near pre-COVID-19 levels, while services continue to languish.

The relatively swift recovery of manufacturing (-0.2 percent in Q1 2021), combined with persistent weakness in services (-2.7 percent in Q1 2021), reflects the nature of the pandemic, which has shifted global consumption patterns toward goods and away from services (Figure 17). However, the contraction of services due to the collapse of tourism and weak private consumption amid successive waves of COVID-19 infections was partly offset by growth in other service subsectors, such as financial services and insurance activities (which tend to be countercyclical), construction (which was exempted from lockdown restrictions), and information and communications services (which have benefitted from the pandemic-driven growth of the digital economy). Thai firms and consumers have coped with the crisis by increasing the use of digital technologies. The volume of mobile and digital banking transactions in Thailand increased by almost 80 percent in 2020 – a staggering increase in one year.\textsuperscript{12}

\textsuperscript{12} The Economist Intelligence Unit (EIU). 2021. Thailand's financial sector: a low-key growth driver?, available at
Part 1. Recent Economic Developments and Outlook

However, smaller firms are generally finding it harder to transition to the new digital models. A recent survey found that 30 percent of Thailand’s digital service consumers today are new consumers due to the COVID-19 pandemic and 90 percent intend to remain.\(^13\)

**COVID-19 undermined the recovery of agriculture despite rising global demand.**

In Q1 2021, the agricultural sector grew by just 0.1 percent despite rising global agricultural prices, as COVID-19 impacted production (Figure 18). Most agricultural prices are now above their pre-pandemic levels, in some instances considerably so, which can help support recovery. These price increases were partly driven by strong demand for soybeans and maize from China, as well as supply shortfalls in South America (linked to the La Niña weather phenomenon) and the United States.

**Figure 17: Manufacturing continued to recover, while services and agriculture remained weak.**

*Percentage-point contribution to real GDP growth, year-on-year*

![Graph showing percentage-point contribution to real GDP growth, year-on-year.](image)

*Source:* World Bank staff calculations

**Figure 18: Global agricultural prices improved, but COVID-19 undermined production.**

*(Base year 2005 = 100, seasonally adjusted)*

![Graph showing agricultural production and price index from 2018 to 2021.](image)

*Source:* Office of Agricultural Economics, Ministry of Agriculture and Cooperatives

vi. The current-account balance remained in deficit, and the financial account recorded net outflows, but reserves remained adequate

The current-account deficit widened from 1.1 percent of GDP in Q4 2020 to 1.9 percent in Q1 2021 (Figure 19). The pandemic reduced tourism receipts from 11.7 percent of GDP in Q4 2019 to just 0.9 percent in the second half of 2020. The trade surplus narrowed to 5.5 percent of GDP in Q1 2021, its lowest level in five quarters. While good exports continued to recover in line with growing demand among trading partners, goods imports also expanded rapidly due to rising global commodity prices and greater demand for capital goods fueled by increased private investment. Goods imports expanded by 9.5 percent (yoy) in Q1 2021, the first positive growth rate in nine quarters. Thailand previously had one of the highest current-account balances among regional peers, but its

Part 1. Recent Economic Developments and Outlook

current-account balance has deteriorated due to falling tourism receipts, while those of peer countries have been bolstered by weak import demand and resurgent goods exports (Figure 20).

Figure 19: In Q4 2020, the current-account surplus narrowed sharply due to a widening services deficit. (% of GDP)

Figure 20: Meanwhile, current-account balances in many other Asian countries significantly improved. (% of GDP)

Source: Bank of Thailand; World Bank staff calculations

Source: Haver Analytics; World Bank staff calculations

The financial account continued to record net capital outflows in Q4 2020, driven by outward portfolio investment and deposits.

Net capital-account outflows continued for the second consecutive quarter, falling from 3.3 percent of GDP in Q3 2020 to 0.7 percent in Q4 (Figure 21). Large FDI outflows in Q4 reflected the sale of the U.K.-owned, Thailand-based retailer Tesco Lotus to Thai investors, a transaction valued at THB 9.9 billion (7.3 percent of GDP), as well as the purchase of a commercial bank in Indonesia by Thai investors. Rising investor confidence in the global economic recovery drove purchases of equities and securities abroad. Meanwhile, other investment inflows rose sharply from 2.2 percent to 9.5 percent of GDP due to a substantial increase in trade credits among trading partners in line with the recovery of good exports and accelerated lending for the acquisition of a Thai retail business.

The Bank of Thailand’s measures to liberalize the financial account have helped address structural imbalances.

In November 2020, the central bank announced plans to liberalize the financial account and raise the limit on the purchase of foreign securities by domestic retail and institutional investors. These measures aim to achieve a better equilibrium within the Thai balances of payments while also addressing structural issues driving foreign-exchange appreciation. Net portfolio outflows continued in Q1 2021 (Figure 22). The structural imbalance in foreign-capital movement over the past five years was a consequence of the large current-account surplus (8 percent of GDP per year on average) combined with relatively low capital outflows for FDI and foreign portfolio investment (less than 4 percent per year on average).
The Thai baht has depreciated against the U.S. dollar since March 2021. Following a significant appreciation in Q4 2020, the Thai baht fell to its weakest level against the U.S. dollar since November at just over 31.50 THB/US$. The depreciation reflected the shrinking current-account balance and net portfolio outflows, mainly from the equity market. Portfolio flows have been affected by concerns over the divergent global economic outlook of advanced economies and emerging markets, and the risk of selloffs from the EMDEs is rising due to growing investor expectations of a reduction in the U.S. Federal Reserve’s quantitative-easing program. In emerging Asia, currency depreciation was concentrated among countries with worsening COVID-19 indicators and relatively low vaccination rates, including Thailand, Indonesia, and Malaysia. In May 2021, the REER for the Thai baht depreciated by 4.7 percent from end-2020, while the Indonesian rupiah fell by 0.9 percent, and the Malaysian ringgit weakened by 0.4 percent (Figure 24).

International reserves remained ample to guard against the risk of market selloffs. International reserves (including the net forward position) amounted to 53 percent of GDP in April 2021. The reserve position remained strong at about 14 months of import coverage and more than four times the level of short-term external debt (Figure 25), well above the levels of most regional peers (Figure 26). Between 2019 and 2020, international reserves increased by 10 percent, or THB 25 billion. This level of international reserves continues to provide adequate flexibility for the authorities to manage and respond to further COVID-19-related shocks.
Figure 23: The Thai baht began to depreciate again from end-June 2020 to end-September 2020.

(Base year 2012 = 100)

Figure 24: In REER terms, the Thai baht and Indonesian rupiah depreciated, while the Chinese renminbi, Malaysian ringgit, and Philippine peso appreciated.

(January 2020 = 100)

Source: Bank of Thailand; World Bank staff calculations

Figure 25: Thailand’s international reserves and forward position remain adequate at over four times the level of external debt...

(LHS: % of GDP, RHS: short-term debt)

Source: Bank of Thailand; World Bank staff calculations

Figure 26: ...and its international reserves have consistently exceeded those of most regional peers.

(% of GDP)

Source: Bank for International Settlements (BIS)

Table 4: The current account and financial account have both deteriorated, but foreign-exchange reserves remain adequate.

(% of GDP unless otherwise indicated)

<table>
<thead>
<tr>
<th></th>
<th>Q1 2019</th>
<th>Q2 2019</th>
<th>Q3 2019</th>
<th>Q4 2019</th>
<th>Q1 2020</th>
<th>Q2 2020</th>
<th>Q3 2020</th>
<th>Q4 2020</th>
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<tr>
<td>Current account</td>
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<td>3.28</td>
<td>7.91</td>
<td>8.08</td>
<td>7.39</td>
<td>1.18</td>
<td>5.36</td>
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<tr>
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<td>46.02</td>
<td>46.36</td>
<td>41.15</td>
<td>45.77</td>
<td>44.89</td>
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<tr>
<td>Imports of goods</td>
<td>39.95</td>
<td>41.42</td>
<td>40.44</td>
<td>36.99</td>
<td>38.92</td>
<td>36.85</td>
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<td>Tourism receipts</td>
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<td>-6.30</td>
<td>8.82</td>
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## Part 1. Recent Economic Developments and Outlook

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<th></th>
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<td>Outbound FDI</td>
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<td>-4.69</td>
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<td>Outbound portfolio investment</td>
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<td>2.54</td>
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<td>-3.68</td>
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<td>Inbound portfolio investment</td>
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<td>Reserves, excluding net forward position (US$ billions)</td>
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<td>215.8</td>
<td>220.5</td>
<td>224.3</td>
<td>226.5</td>
<td>241.6</td>
<td>251.1</td>
<td>258.1</td>
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<td>Reserves relative to short-term external debt (times)</td>
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<td>3.5</td>
<td>3.7</td>
<td>3.8</td>
<td>3.8</td>
<td>3.9</td>
<td>4.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Reserves relative to import values (percent)</td>
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<td>83.2</td>
<td>85.0</td>
<td>86.5</td>
<td>91.6</td>
<td>97.5</td>
<td>101.2</td>
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<tr>
<td>Reserves relative to import values (months)</td>
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<td>11.4</td>
<td>11.0</td>
<td>11.6</td>
<td>10.5</td>
<td>15.6</td>
<td>13.8</td>
<td>12.9</td>
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*Source: Bank of Thailand; World Bank staff calculations*

### vii. Despite pockets of vulnerability, Thailand’s financial system remains stable, supported by adequate buffers and an accommodative monetary policy

#### Persistently low inflation rates reflect weak domestic demand.

From 2017 to 2019, inflation hovered close to the bottom end of the central bank’s target range of 1-3 percent. As described in the January 2020 edition of the TEM, low inflation rates were caused by weak domestic demand, with a negative output gap of 0.3 percent combined with a large current-account surplus. Declining competitiveness and policy uncertainty slowed private and public investment, while high levels of household debt weighed on consumer confidence.

#### The headline inflation rate turned positive due to rising global energy prices and the elimination of temporary subsidies.

After turning negative as the pandemic took hold in April 2020, the headline inflation rate rose to 3.4 percent in April 2021, as increasing global energy demand pushed up prices, while the government terminated temporary subsidies to electricity and water bills which were implemented as a household relief measure in 2020 (Figure 27). The core inflation rate rose to 0.3 percent but remained low, reflecting rising prices for agricultural products such as pork, fresh fruit, and vegetables, due to temporary local supply shortages (Figure 28). Although worldwide inflationary pressures are materializing earlier than was the case following the 2008 global financial crisis, the risk of persistently elevated inflation in Thailand remains low. The country is still at a nascent stage in its economic recovery and faces the prospect of sluggish domestic demand, with a negative output gap estimated at 9 percent.
An accommodative monetary policy stance has supported Thailand’s recovery. The central bank’s Monetary Policy Committee has held the policy rate stable at 0.50 percent since May 2020 to support the economic recovery (Figure 29), even as inflation turned positive for the first time since the start of the pandemic. The committee viewed the increase in headline inflation in Q2 2021 to be transitory, reflecting supply-side pressure, the end of government utility subsidies, and rebounding global oil prices. According to the central bank’s Business Sentiment Survey, medium-term inflation expectations remained anchored within the target range of 1-3 percent. The core inflation rate (excluding volatile raw food and energy components) edged up to 0.30 percent, driven by rising food prices, but remained below its pre-pandemic level.

Figure 27: The headline inflation rate increased sharply, driven by rising global energy prices…
(Headline inflation, % change y-o-y)

Figure 28: ...while the core inflation rate also rose in line with food prices.
(Core inflation, % change, y-o-y)

The Thai stock exchange has recovered nearly all of the value lost during the initial shock of the pandemic.
(Base 02 Jan 2020 = 100)

Figure 29: Since May 2020, the Bank of Thailand has maintained the policy rate at 0.5 percent to support the economic recovery.
(% per annum)

Figure 30: The Thai stock exchange has recovered nearly all of the value lost during the initial shock of the pandemic.
(Base 02 Jan 2020 = 100)
The global recovery has lifted Thailand’s Stock Exchange Index.

The recovering global economy and rising U.S. vaccination rates have boosted the Stock Exchange of Thailand (SET) Index, as well as regional bourses. The SET has recovered almost the entire 35 percent drop it experienced in Q1 2020, when the emergence of the pandemic spurred a global flight to safety (Figure 30). Stocks of listed firms in sectors associated with commodities and manufactured exports tended to outperform the SET average. The VIX Volatility index, a measure of uncertainty, has returned to pre-COVID-19 levels after briefly surging above the levels that prevailed during the 2008 global financial crisis.

The Thai financial sector remains stable and prepared to weather liquidity and solvency shocks.

Significant liquidity and capital buffers, as well as a high level of compliance with international standards, have contributed to a stable and deep financial sector. These strengths were evident before the pandemic and were detailed in the 2019 Financial Sector Assessment Program (FSAP). As of Q1 2021, buffers remained above international benchmarks. The capital adequacy ratio (i.e., the BIS ratio) of the Thai banking system remained high at 20.0 percent, as did loan-loss provisioning at THB 823.4 billion, reflecting an NPL coverage ratio of 149.7 percent. In addition, the liquidity coverage ratio was 186.5 percent. The 2019 FSAP underscored the increasing strength of Thailand’s financial system, and the financial sector’s key vulnerabilities were largely contained. In IMF stress tests, the Thai banking system has exhibited considerable resilience to severe shocks, with the solvency stress tests indicating that the largest banks could withstand a shock roughly as severe as the 1997 Asian financial crisis. Nevertheless, liquidity buffers in Thailand are lower compared to other regional peers and declining profitability will weigh on capital buffers.

However, a protracted recovery is expected to worsen pockets of vulnerability that persist in the banking system.

Thailand’s long recovery from the COVID-19 crisis will likely exacerbate two key sources of vulnerability in the banking system: household indebtedness, and weaknesses among corporates and SMEs. Lockdown measures and slowing economic activity have caused liquidity shortages among households and firms in certain sectors, impairing their ability to service debt. Corporate and household debt levels were already high before the pandemic and have increased further, eroding previous deleveraging gains and intensifying risks to financial stability.

Rising household indebtedness is an especially serious concern.

Due primarily to falling incomes, Thailand’s aggregate household debt rose from 79.9 percent of GDP at end-2019 to 89.1 percent at end-2020, the second highest level in East Asia (Figure 31). Credit to households expanded rapidly over the last decade, rising from 59.3 percent of GDP in 2010 to over 80 percent in 2019, largely driven by not only personal loan but also auto and housing loans, which the government incentivized by offering one-off first-car and first-home tax rebates. The growth of credit to households slowed to approximately 3 percent per year during the pandemic and borrowing likely helped smooth consumption among liquidity-constrained households. A slow economic recovery threatens to further increase the share of nonperforming mortgages, auto loans, and consumer credit.

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14 IMF, pp. 7-8.
The pandemic has adversely affected the debt profile of corporates and SMEs. Corporate vulnerabilities are more elevated in Thailand compared to other EAP countries.\(^\text{15}\) Corporate debt has remained high at 86 percent of GDP, which could pose challenges around debt-at-risk and rollover risk. We are checking if there is Q4 2020 country level analysis showing same trend for Thailand that can be added based on recent MFR. The share of gross nonperforming loans (NPLs) outstanding edged up from 2.98 percent of total loans at end-2019 to 3.10 percent at end-Q1 2021. The Significant Increase in Credit Risk (SICR) also edged up from 2.79 percent of total loans at end-2019 to 6.41 percent at end-Q1 2021. Among SMEs, both NPLs and special-mention loans have increased in recent years, and are especially high in domestically oriented and tourism-related sectors such as construction, trade, and real estate, where NPL ratios range from 4-7 percent. Elevated NPL ratios reflect unresolved concerns about the length and severity of the current crisis, which could significantly impact the asset quality of the banking system.\(^\text{16}\)

Commercial banks have eased loan conditions for large corporates while tightening conditions for SMEs. In Q1 2021, total bank loans grew by 3.92 percent (yoy) as commercial banks eased loan conditions for large corporates (Figure 32). Loan demand among large corporates increased for project finance, especially investments in government projects and manufacturing. The increase in loan demand for large firms was also partly a result of firms switching financing sources due to fluctuating yields and for liquidity management. SME demand for liquidity loans has remained high, but banks have maintained tight loan conditions for SMEs due to the uncertainty surrounding the recovery of domestically oriented industries and the services sector. SME loan growth has remained negative for four consecutive quarters. More than 80 percent of SMEs operate in retail, wholesale, and other services subsectors, underscoring the uneven and protracted nature of the recovery.

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\(^{15}\) World Bank Macro-financial Review, April 2021.

\(^{16}\) IMF, p. 10.
The Bank of Thailand has amended its soft-loan program to support SME liquidity. The amended measures include an additional THB 250 billion in soft loans provided by the central bank and another THB 100 billion earmarked for asset-warehousing with buyback options to assist debtors who are unable to repay loans. The authorities are also working to address weaknesses in the current THB 500 billion soft-loan program by expanding the pool of eligible borrowers to include both new and existing borrowers, raising credit limits, lengthening loan tenors, and adjusting interest rates to better support business recovery. The amended soft-loan scheme will also raise the maximum debt guarantee from the Thai Credit Guarantee Corporation from 30 percent to 40 percent. As of end-May 2021, THB 20.8 billion in loans from the additional THB 250 billion credit line had been approved. The central bank had also approved THB 0.9 billion in debt restructuring for four firms under the THB 100 billion asset-warehousing program. However, debt restructuring is expected to be slow due to the typically lengthy negotiation process between financial institutions and borrowers.

viii. The fiscal deficit has expanded due to the economic shock and the government’s response to COVID-19

Central government revenue fell to 14.6 percent of GDP in the first half of FY21 (October 2020 to March 2021), down from 16.3 percent in the same period in the previous year, with declines in both tax and nontax revenue (Figure 33). Value-added tax, corporate income tax, and personal income tax revenue dropped by 6.0 percent, 17.3 percent, and 5.5 percent, respectively, as COVID-19 slowed economic activity. In addition, government response measures, including a deferral of the personal income tax filing deadline to June from March and an additional personal income tax deduction on the purchase of goods and services, also contributed to the decline in tax revenue in the first half of the fiscal year. Meanwhile, excise taxes fell by 8.8 percent (yoy) due to lower demand for jet fuel combined with a substantial reduction in the excise tax rate on jet fuel (from THB 4.7/liter to THB 0.2/liter), starting in April 2020, which was approved to aid domestic airlines during the pandemic. In cumulative terms, revenue collection during the first half of the fiscal year as a share of the full-year (cash-basis) budget was lower than in previous years (Figure 34 and Figure 35). Over the medium term—and once the recovery is firmly underway—there is significant scope to boost revenue mobilization to consolidate the fiscal position and ensure space for spending needs related to population aging, social protection, and public investment (see Box 3).
Central government spending increased by 19.3 percent (yoy) in the first half of FY21, with both current and capital expenditures remaining at elevated levels (Figure 36). Capital spending more than tripled from the same period in the previous year to 3.7 percent of GDP, almost one-third of which was for transportation projects. The government has attempted to accelerate the implementation of already-approved capital projects to provide further economic stimulus. By March, the capital budget disbursement rate had risen to 25 percent of the full-year (cash-basis) capital budget, in line with historical trends but much faster than in FY20, when the prolonged process of establishing a coalition government significantly delayed capital spending (Figure 37).
Part 1. Recent Economic Developments and Outlook

**Current spending has remained relatively high at 21.5 percent of GDP due to the ongoing implementation of COVID-19 relief measures.**

Off-budget spending to address the COVID-19 shock is being funded by a THB 1 trillion borrowing decree approved in April 2020. The response effort—including medical services, cash transfers, and economic and social rehabilitation—toaled THB 388 billion in the first half of FY21, equal to about 28 percent of on-budget current spending (THB 1.4 trillion) during the period. Relief measures designed to support household incomes accounted for about 80 percent of the COVID-19 response. When measured on a cash basis, the on-budget disbursement of (other) current expenditure in FY21 has been slower than average (Figure 38).

**The central government deficit widened further in the first half of FY21.**

The central government deficit expanded from 4.1 percent in first half of FY20 to 10.5 percent in the first half of FY21 (Figure 39) amid low revenues, elevated expenditures, and a contraction in nominal GDP. The deficit now substantially exceeds those observed over the five years prior to the COVID-19 crisis, which remained below 2.5 percent of GDP. On a cash basis, the size of the on-budget fiscal deficit of THB 583 billion (7.1 percent of GDP) in the first half of FY21 is already approaching the full-year projection of THB 609 billion.

**The public debt stock has reached its highest level since 2001.**

The public debt stock increased from 49.4 percent of GDP at the end of FY20 to 54.5 percent in March 2021 (Figure 40). The public debt consists of 85.8 percent direct government debt and 14.1 percent state-owned-enterprise debt, and 98 percent of the public debt stock is dominated in local currency. Classified by remaining maturity, short-term debt outstanding amounts to THB 1.3 trillion (14.8 percent of the total debt stock) and has doubled in nominal terms since the end of FY19. Also, average maturity of the outstanding public debt declined from 10.5 years at the end of FY 2019 to 9.4 years as of Mar 2021, reflecting increased reliance on shorter-term sources of funding under the 1-trillion baht emergency borrowing decree, including treasury bills, promissory notes, term loans and savings bonds (Figure 41).
Figure 39: The fiscal deficit has widened dramatically since the start of the pandemic. (% of GDP, GFS basis, budgetary central govt)

Figure 40: The public debt stock has increased, but remains below the statutory ceiling of 60 percent. (% of GDP)

Figure 41: Average Time to Maturity of public debt declined since April 2020 (Years)

Nevertheless, public debt dynamics remain consistent with the fiscal discipline criteria for public debt sustainability.

The public debt stock is still below the fiscal-sustainability-framework ceiling of 60 percent of GDP. This ceiling is set by the Public Fiscal Policy Committee, which is chaired by the Prime Minister, and compliance is reported biannually. Moreover, the low proportion of foreign currency debt mitigates fiscal risks and reflects the ability of the government to borrow in baht. The share of external debt in total public debt is well below its ceiling of 10 percent. The government-debt-service-to-revenue ratio also remains low at 8 percent, far below its ceiling of 35 percent, indicating that debt sustainability risks remain contained (Table 5).
Part 1. Recent Economic Developments and Outlook

Table 5: Debt indicators remain well within the established parameters for public debt sustainability. (%)

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<thead>
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<th>Ceiling</th>
<th>Latest</th>
<th>As of</th>
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<tr>
<td>Public Debt / GDP</td>
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<td>Mar-21</td>
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<tr>
<td>Government Debt Service / Revenue</td>
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<td>Mar-21</td>
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<td>Foreign Currency Debt / Public Debt</td>
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<td>Foreign Currency Debt Service / Export</td>
<td>15</td>
<td>0.1</td>
<td>Feb-21</td>
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</table>

Source: Public Debt Management Office, Ministry of Finance; World Bank staff calculations

Box 3: The potential for income and wealth taxation in Thailand

Thailand’s tax-to-GDP ratio has remained relatively low over the past two decades by the standards of upper-middle income countries, as well as regional and OECD comparators. Thailand has a large structural tax gap (i.e., the difference between tax-collection capacity and actual tax revenue), which is estimated at about 10 percent of GDP. While the government’s near-term priority is to provide fiscal support for COVID-19 relief and recovery, over the medium-to-long term boosting revenue mobilization will be necessary to consolidate the fiscal position and ensure space to manage expenditure pressures related to demographic aging, social protection, and public investment.

Levying additional taxes on high-net-worth individuals could increase revenue while enhancing the progressivity of the tax system and mitigating inequality. This could be accomplished by increasing the top statutory personal income tax rate; taxing capital gains (which largely accrue to the wealthiest households); increasing property taxes and establishing progressive property-tax rates; and taxing wealth transfers, including inheritance and gifts.

Personal income tax collection in Thailand is well below cross-country benchmarks. Despite relatively low tax-free thresholds, only about 30 percent of the labor force pays personal income tax, well below the levels of peer countries. The productivity of the personal income tax regime (i.e., the tax revenue collected as a share of GDP divided by the statutory tax rate) is particularly low at just 5 percent. Factors contributing to low tax productivity may include generous deductions and/or low tax compliance. Addressing these issues and boosting personal income tax revenue would likely increase the overall progressivity of the tax system, as higher-income workers are subject to higher marginal income tax rates.

Corporate income tax collection is relatively strong, mainly reflecting high tax productivity, as the corporate income tax rate is competitive with those of other economies in the region. However, tax evasion and avoidance risks remain substantial, requiring strengthened measures to tackle base erosion and profit shifting. Moreover, Thailand’s relatively generous set of tax incentives should be regularly reviewed to ensure that these measures are achieving their intended objectives at an acceptable cost.

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17 Prepared by Jaffar Al Rikabi and Kim Alan Edwards
Box 3: The potential for income and wealth taxation in Thailand

A. Thailand’s tax revenue has fallen short of its potential…

B. …and personal income tax collection is low relative to GDP.

C. Personal income tax productivity is particularly weak…

D. …but corporate income tax collection and tax productivity are relatively high.

ix. Policy responses to COVID-19

The authorities continue to draw on the THB 1 trillion package approved last year to support the fiscal response to COVID-19. In April 2020, the government approved a borrowing decree in the amount of THB 1 trillion to fund the fiscal response to COVID-19. The response package includes: (i) THB 45 billion for health-related measures such as medical personnel and equipment, vaccine procurement, laboratory operations, and medical emergency responses; (ii) THB 555 billion for economic relief measures such as cash transfers and subsidies to affected groups; and (iii) THB 400 billion for post-crisis recovery measures such as co-payment programs and local employment programs (Table A.1 on page 41).

The fiscal response in FY20 was focused

Cash payments were made to self-employed workers, farmers, and low-income earners; people insured under section 33 of the social security fund; Social
almost entirely on cash transfers and subsidies. These relief measures were generally well-executed, with total disbursements in FY20 totaling THB 297 billion, or 81 percent of the allocated amount.

Following the second wave of COVID-19 in late 2020, additional relief measures were launched to support households, the tourism sector, and SMEs. The government allocated a further THB 331 billion to relief measures in the first half of FY21, primarily in response to the second wave of infections. Over two-thirds of this amount was allocated to extending the household-level relief measures approved in FY20. In addition, THB 73.2 billion was allocated to support the recovery of the private sector, including the “We Travel Together” (Rao Thiao Duai Kan) program, which provides subsidies for hotel accommodations and air tickets, and a co-payment program to encourage consumer spending. THB 25.8 billion was allocated to finance health-related costs, including medical personnel, medical equipment, vaccines, testing facilities, and medical laboratories. About three-quarters of the total amount allocated to these relief measures was disbursed during the first half of FY2021.

On May 5, the government announced an additional response package of THB 225 billion to address the economic impact of the third wave of COVID-19. The additional package announced in May largely extended measures that were already in place. However, over half of the new funds were allocated to support the recovery of the private sector, whereas previous packages had been more heavily weighted toward household relief. The government introduced the “Spend More, Get More” (Ying Chai Ying Dai) scheme, which provides a 10-15 percent refund (in the form of e-vouchers) on purchases of food and other products and services. The program aims to stimulate domestic consumption among households with relatively high purchasing power. The government expects 4 million people to participate in the program.

Although the third round of COVID-19 response measures focused more on economic recovery, overall spending on household relief efforts since April 2020 has been significantly higher than originally envisaged. The government’s recent emphasis on providing cash payments to vulnerable households reflects the impact of the second and third waves of COVID-19, which set back the timeline for economic recovery and extended the need for household relief beyond what was originally planned. Overall, about THB 700 billion has been allocated toward relief measures, well beyond the THB 555 billion originally planned. However, of the THB 400 billion originally earmarked for economic recovery measures, only THB 246 billion has been allocated. By design, many private-sector-focused recovery measures also provided household relief by offering government-funded co-payments and vouchers for the purchase of goods and services. Overall, 97.2 percent of the THB 1 trillion spending envelope had been allocated to specific policy measures as of May 2021, and THB 687 billion had been disbursed, with the remainder expected to be disbursed before the end of September 2021 (Figure 42).
Part 1. Recent Economic Developments and Outlook

Figure 42: While most of the THB 1 billion in new spending authorized under the first borrowing decree has been allocated, a larger share has gone to household relief measures than originally planned. (THB millions)

<table>
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<td>Relief</td>
<td>Restoration</td>
<td>Health related</td>
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<td><strong>New 500-Billion Baht Borrowing Decree</strong></td>
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Source: NESDC, World Bank staff calculations
Note: *As of June 30, there were not yet any allocations under the THB 500-Billion Borrowing Decree*

In May 2021, the government approved an additional THB 500 billion (3.2 percent of GDP) in borrowing. The additional funds will be available until the end of FY22. The proposed allocations are based on the same three categories of policy measures as the previous borrowing decree: cash transfers to households (THB 300 billion or 1.9 percent of GDP); medical expenditures (THB 30 billion or 0.2 percent of GDP); and economic and social projects (THB 170 billion or 1.1 percent of GDP). The government has projected that if the THB 500 billion is fully executed, the additional stimulus would boost the country’s GDP by 1.5 percentage points over 2021-22.

In addition to the borrowing decrees, the government has also responded to COVID-19 through on-budget spending. The government has access to a “contingency fund for emergencies or immediate needs” in the annual budget, which is set aside to respond to an unexpected event such as a natural disaster or global crisis. In FY21, the contingency fund has an envelope of about THB 40 billion, which has been allocated to cover spending on vaccine procurement and vaccinations, active COVID-19 testing, and treatment. Moreover, the Ministry of Public Health and the National Health Security Office can also utilize a portion of their regular THB 280 billion budget envelope to respond to COVID-19.

x. The FY22 Budget

The approved FY22 budget, which is prepared on a cash basis, anticipates a deficit of 4.1 percent of GDP, greater than the planned FY21 deficit of 3.7 percent of GDP (Table A.2 on page 43). The expenditure plan for FY22 amounts to THB 3.10 trillion (18 percent of GDP), slightly lower than planned expenditures for FY21. While revenue was also projected to decline in FY22 compared with the FY21 budget plan, collections during the first half of the fiscal year suggest that
The Cabinet has proposed to cut budgetary spending by 6 percent, primarily by reducing current expenditures.

Amongst the ministries with the biggest largest budget allocation, the allocations to the Ministry of Public Health and the Ministry of Finance increased the most, rising by 5.6 percent and 2.1 percent, respectively (Figure 43). Meanwhile, the allocation to the Ministry of Labor declines the most, dropping by 28.7 percent. The budgetary spending resources have also been allocated to seven major areas of the National Strategy, with the largest shares going to environmental quality. The largest share of expenditures goes to the creation of environmental-friendly quality of life (24 percent), administrative capacity-building (18 percent), and national security (12 percent). On the timeline, the budget proposal will be sent to the House and Senate for approvals from late May until late August and is scheduled to be sent for royal consent on September 7, 2021. The final approved budget normally does not change substantially from the Cabinet budget proposal. Note that the As the THB 1 trillion stimulus package approved last year and the additional approval of THB 500 billion borrowing decrees were recorded as an off-budget (see Box 4) expenditures. Therefore, the packages are not included in these spending estimates, even though they will continue to be disbursed this year and next year in FY21 and FY22 (Box 4).

**Figure 43: Health and Finance received increased budget allocations in FY22, while other ministries saw substantial cuts.**

*(THB billions)*

Source: Budget Bureau; Fiscal Policy Office

Actual FY21 revenue is likely to be substantially lower than forecast. The actual budget deficit in FY22 may also be larger than expected if weaknesses in revenue collection persist.
**Box 4: Interpreting the cash-based budget**

Thailand uses two systems of fiscal accounting, the cash-based system and the Government Financial Statistics (GFS) system. The cash-based system is widely used by the authorities, including in the preparation of the budget. However, the budget estimates for revenues and spending can differ significantly from the GFS estimates reported elsewhere, including in this TEM, which can complicate the interpretation of budget outcomes and projections. One major difference is that the GFS estimates include a range of revenues and expenditures that are excluded from the cash-based budget, including those treated as off-budget.

The most important spending item excluded from the cash-based budget estimates in FY20, FY21, and FY22 has been the COVID-19 response package financed by the two borrowing decrees. By authorizing this spending through an emergency off-budget instrument, the government was able to quickly implement a range of relief and recovery measures, the details of which did not need to be reviewed by the legislature when the spending was approved. Moreover, classifying this spending as off-budget ensured that the government would not violate its deficit rule, which states that the annual budget deficit cannot exceed 20 percent of the annual budget plus 80 percent of expenditure allocated for principal repayment. However, approving spending through emergency borrowing decrees means that there is less Parliamentary scrutiny over the specific measures deployed. It also implies that – unlike the GFS estimates – the actual and projected budget deficits do not give an accurate indication of changes in the government debt stock, due to the exclusion of substantial debt-financed expenditure. Finally, the practice calls into question the relevance and enforceability of the government’s deficit rule, which is established by law.

**xi. The economic shock associated with COVID-19 has adversely affected employment, income, and poverty dynamics, but the government’s response has mitigated its impact.**

The official unemployment rate remained at 2.0 percent in Q1 2021, up from 1.0 percent in Q1 2020. More than half of all unemployed workers were formerly engaged in the services sector. By Q1 2021, there were 710,000 fewer jobs than in Q4 2020, and the average number of hours worked per week had fallen from 42.5 to 40.1. Employment in agriculture declined by 10.9 percent, but employment in all other sectors increased by 2.5 percent, in line with the recovery in global demand for goods exports. The automotive and construction industries posted the highest quarterly rates of employment growth at 3.3 percent and 7.5 percent, respectively.

In June 2020, a rapid survey by the Asia Foundation estimated that 70 percent of the national workforce had seen their monthly income fall by an average of 47 percent, with informal sector workers reporting an average income contraction of 67 percent. Workers at the lower end of the income distribution were hit the hardest. Simulations presented in part two of the TEM demonstrate that in the absence of the government’s relief measures, the headcount poverty rate would have increased from 6.2 percent in 2019 to 7.4 percent in 2020—representing an additional 700,000 people falling below the poverty line—before declining to 7
Part 1. Recent Economic Developments and Outlook

percent in 2021. Poverty rates would have increased by 1.6 percent in rural areas and by 1 percent in urban centers, with the largest increase in northeastern Thailand, which had the country’s highest regional poverty rate in 2019.

The government’s social assistance policies greatly mitigated the pandemic’s impact on household welfare. The government acted quickly to target vulnerable populations with a comprehensive and effective social protection response. The authorities created large new emergency programs for informal workers and farmers who would not have been considered vulnerable prior to the pandemic, while also expanding existing social assistance schemes. The simulations suggest that the social assistance measures introduced in response to COVID-19 may have actually caused the poverty headcount rate to drop slightly despite the pandemic, from 6.2 percent in 2019 to 6.0 percent in 2020 and 5.6 percent in 2021.

At the same time, the government’s relief efforts have helped bolster economic activity during a period of weak private demand. The primary goal of the social assistance measures deployed in response to the successive waves of COVID-19 was to attenuate the economic impact of the crisis on vulnerable households, but cash transfers and other forms of household assistance also likely provided additional economic stimulus, partially compensating for the pandemic-induced declines in private consumption and investment. The size of this stimulatory effect would depend on the amount of the transfers, the share that was spent, and the extent to which the additional spending continued to recirculate through the economy. While granular data are not yet available to assess these effects, there is an extensive body of international empirical evidence on the macroeconomic impact of social transfers (Box 5).

Box 5: The effects of social protection measures on economic growth

While the goal of Thailand’s social assistance programs was to provide income support to the most vulnerable during the COVID-19 pandemic, international evidence suggests they may also have influenced short-run economic growth, particularly in those regions with a greater concentration of beneficiaries. The short-run increase in GDP for each THB 1 increase in transfers is known as the “transfer multiplier”. This box reviews the factors that determine the size of the transfer multiplier and the empirical evidence on its size in other countries.

The most important factor determining the size of the transfer multiplier is whether the payments are consumed or saved. While temporary payments are saved by many households (to smooth consumption over time), other households face liquidity constraints which means they are likely to spend most or all of the cash assistance they receive. Using data from before the pandemic, Bracco et al. (2021) estimate that about half of all Thai households are liquidity constrained. But the households targeted by fiscal response programs were especially likely to face such constraints, as many had lost income due to the pandemic. Other groups who might have saved direct transfers were targeted by co-payment schemes instead.

For increased consumption to stimulate the economy, it must be focused on goods with local content (Pennings 2021). While international evidence suggests that larger payments could be spent on expensive

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18 These figures are based on the upper-middle-income poverty line of US$5.50 per person per day in 2011 PPP terms.
19 The simulations assume that the relief package was perfectly targeted and fully disbursed with minimal leakages.
20 Prepared by Steven Pennings.
Box 5: The effects of social protection measures on economic growth

items with less local content, in Thailand the transfers appear to have primarily offset a reduction in the incomes of informal workers or are made to farmers living in remote areas, who seem likely to spend most of their income on locally produced goods and services. While a sudden increase in consumption demand could lead to higher prices rather than to an expansion of output and employment, most businesses faced weak demand during the pandemic, which kept inflation rates low. Internationally, monetary authorities have often raised interest rates to offset the inflationary effect of transfers, which could reduce the national transfer multiplier. But in Thailand interest rates have remained low and stable for most of the pandemic.

International empirical evidence suggests that transfer payments can boost national or regional GDP in the short term. Pennings (2021) estimates that one-off stimulus payments in the United States had a regional multiplier of around 0.33, meaning that for each US$1 received in one-off transfers regional GDP would grow by $0.33 in the short run. The multiplier was larger (0.4-0.6) for transfer payments targeted at low-income residents. While regional incomes fell when the transfers were withdrawn, there was mixed evidence of a persistent impact on GDP. Most 2020 COVID-19 relief payments in Thailand lasted 3 months and reached low-income workers and farmers—more persistent and targeted than the one-off payments studied by Pennings (2021)—suggesting a higher regional multiplier (other things equal). Using a sample of Latin American countries, Bracco et al (2021) find that a US$1 increase in transfers to individuals leads to a $0.90 increase in GDP over the next few quarters, mostly through increased consumption. They also estimate a much lower transfer multiplier of 0.3 in developed countries. Using the model from Giambattista and Pennings (2017), they argue that the difference between multipliers can be explained by the greater share of liquidity-constrained households in developing countries.
2. Outlook: An Uncertain and Protracted Recovery

i. The economy is projected to expand only modestly in 2021

The Thai economy is projected to expand only modestly in 2021, and not return to pre-COVID levels until 2022. Economic growth is projected at 2.2 percent in 2021, revised down by 1.2 percentage points from the March 2021 East Asia and Pacific Economic Update (Table 6). The weaker outlook reflects the impact of ongoing third wave of COVID-19. The third wave has been much more severe than previous waves, and the forecast assumes that the number of new cases remains elevated until August 2021. Private consumption is expected to see a small expansion of 2.4 percent, with the impact of mobility reductions, containment measures and income losses partially offset by social assistance measures. Investment is expected to grow by 6.7 percent, with particular strength in public investment. Private investment is expected to be supported by the rising capacity utilization in export-oriented manufacturing, despite the impact of the local COVID-19 outbreak on domestic confidence. Exports of goods are projected to be the main source of growth, supported by strength in global demand, while service exports (which are largely tourism-related) will remain very weak throughout 2021, under the assumption that significant border restrictions remain in place.
Part 1. Recent Economic Developments and Outlook

Table 6: Thailand Economic Outlook

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>100%</td>
<td>2.3</td>
<td>-6.1</td>
<td>2.2</td>
<td>5.1</td>
<td>2.2</td>
<td>5.1</td>
</tr>
<tr>
<td>Private Consumption Expenditure</td>
<td>55%</td>
<td>4.0</td>
<td>-1.0</td>
<td>2.4</td>
<td>3.9</td>
<td>1.3</td>
<td>2.1</td>
</tr>
<tr>
<td>Government Consumption Expenditure</td>
<td>16%</td>
<td>1.7</td>
<td>0.9</td>
<td>5.0</td>
<td>-0.7</td>
<td>0.8</td>
<td>-0.1</td>
</tr>
<tr>
<td>Gross Fixed Capital Investment</td>
<td>24%</td>
<td>2.0</td>
<td>-4.8</td>
<td>6.7</td>
<td>7.9</td>
<td>1.6</td>
<td>1.9</td>
</tr>
<tr>
<td>Gross Fixed Capital Investment-Private</td>
<td>17%</td>
<td>2.7</td>
<td>-8.4</td>
<td>6.2</td>
<td>9.4</td>
<td>1.1</td>
<td>1.6</td>
</tr>
<tr>
<td>Gross Fixed Capital Investment -Public</td>
<td>7%</td>
<td>0.1</td>
<td>5.7</td>
<td>9.4</td>
<td>4.5</td>
<td>0.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Exports of Goods and Services</td>
<td>61%</td>
<td>-3.0</td>
<td>-19.4</td>
<td>7.3</td>
<td>11.9</td>
<td>4.5</td>
<td>7.3</td>
</tr>
<tr>
<td>Exports of Goods</td>
<td>54%</td>
<td>-3.7</td>
<td>-5.8</td>
<td>10.2</td>
<td>6.9</td>
<td>5.6</td>
<td>3.8</td>
</tr>
<tr>
<td>Exports of Services</td>
<td>7%</td>
<td>-0.5</td>
<td>-60.1</td>
<td>-20.4</td>
<td>60.0</td>
<td>-1.5</td>
<td>4.3</td>
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<tr>
<td>Imports of Goods and Services</td>
<td>59%</td>
<td>-5.2</td>
<td>-13.3</td>
<td>10.3</td>
<td>9.8</td>
<td>6.1</td>
<td>5.8</td>
</tr>
<tr>
<td>Import of Goods</td>
<td>49%</td>
<td>-5.8</td>
<td>-11.2</td>
<td>11.8</td>
<td>10.1</td>
<td>5.8</td>
<td>5.0</td>
</tr>
<tr>
<td>Imports of Services</td>
<td>10%</td>
<td>-2.7</td>
<td>-21.1</td>
<td>2.3</td>
<td>7.3</td>
<td>0.2</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Source: NESDC, Haver Analytics; World Bank staff calculations

The pace of the recovery in 2022 will depend on vaccination progress, the effectiveness of fiscal support, and the extent to which international tourism resumes.

Private consumption and service sector activity are expected to rebound in 2022, with progress on vaccine distribution and a decline in COVID-19 cases expected to improve domestic mobility and consumption, while allowing the government to reopen the country to foreign tourists. While the government has set a target to fully vaccinate 50 million people (70 percent of total population) by the end of 2021, the forecasts presented here are consistent with this target being reached in the first half of 2022, based on the assumption that recent vaccination rates (of around 200 to 300 thousand people per day) are sustained over the next 12 months. As of mid-June 2021, only 1.8 million people (2.6 percent of the target) has been fully vaccinated with 2 doses and about 44 million more people still need to be vaccinated with the first dose. The government has already procured 61 million vaccine doses from AstraZeneca and 19.5 million from Sinovac, but the procurement of additional vaccines - including 5 million from Johnson & Johnson and 20 million from Pfizer – will be required to achieve 70 percent vaccination coverage by early 2022.

Additional fiscal relief will provide much-needed support to domestic demand.

The remaining THB 225 billion of the THB 1 trillion pandemic relief package is expected to be disbursed between May and December 2021, entirely on social assistance measures. Of the recently announced additional THB 500 billion package, 300 billion is expected to be spent on cash transfers to households before the end of 2021. Together, these measures are projected to see private consumption grow by 2.4 percent in 2021, compared with growth of 0.6 percent in the absence of this fiscal support. The remaining THB 170 billion allocated for social and economic rehabilitation projects and THB 30 billion for procurement of medical supplies, drugs, vaccine shots, research and the development of vaccines are expected to boost government consumption spending and investment in both 2021 and 2022.

Severe restrictions on international arrivals are projected to remain in place.

The projected number of foreign tourist visitors has been revised significantly lower from the previous forecast of 4–5 million to 0.6 million in 2021, compared with 40 million tourist arrivals in 2019. The government plans to open six major tourist destinations for vaccinated tourists, starting from Phuket on July 1.
2019, these six destinations including Phuket, Chonburi, Krabi, Suratthani, Phangaa, and Chiangmai accounted for 46 percent of tourists in Thailand. From July, vaccinated tourists can visit Phuket without quarantine. The removal of quarantine will also be applied to five other destinations from October. Finally, country-wide quarantine is planned to be removed for vaccinated tourists, starting from January 2022. Despite this planned reopening, arrivals are projected to remain weak through the end of 2021, with the resurgence of new cases domestically and the slow progress of local vaccination making Thailand a less attractive destination relative to others, despite the progress of vaccinations in major source markets including Europe, the United States, and Singapore. The recovery in tourism is projected to be only modest in 2022, with progress to achieving widespread immunity remaining slow in Thailand and other countries in the region.

On the upside, exports of goods are projected to be the main source of growth due to a strong recovery in global demand. Exports of goods are expected to grow at 10.2 percent in 2021, adding 5.6 percentage points to overall GDP growth. The recovery is accelerating in the US and China, which together account for 28 percent of Thailand’s exports. Exports of manufacturing goods, especially auto vehicles, electronics, and electrical appliances are expected to be the main beneficiaries of the recovery of trading partners. Advanced economies are expected to grow 5.4 percent in 2021, with substantial fiscal support and faster-than-expected vaccinations in the United States adding fuel to the rebound. US growth is projected to reach 6.8 percent in 2021, its fastest pace since 1984. It is then expected to soften to a still-strong 4.2 percent in 2022 as the fiscal impulse begins to fade. Growth in China is projected to accelerate to 8.5 percent this year, before moderating to 5.4 percent in 2022. However, the resurgence of the outbreak in many emerging market countries and the slow vaccination progress is expected to weigh on the demand for Thai exports. A partial withdrawal of macroeconomic support in emerging markets is also offsetting some of the benefits of strengthening external demand and elevated commodity prices (GEP, June 2021).

The current account surplus is forecast to narrow significantly in 2021. Despite strength in goods exports, the current account surplus is forecast to narrow significantly in 2021 to 1.3 percent of GDP. Weakness in tourism-related service exports will continue to weigh on the surplus. Imports are projected to rebound strongly due mainly to the improvement in exports of goods and the rise in global oil prices.

The fiscal deficit is projected to expand further in FY21, before narrowing in FY22, and public debt is expected to rise above 60 percent of GDP in FY22. Thailand’s fiscal deficit is projected to widen from 5.6 to 9.6 percent of GDP in FY2021, due largely to spending financed by the 1 trillion baht and subsequent 500 billion baht in borrowing that has been approved for COVID-19 response. Spending of more than 500 billion baht (3.2 percent of GDP) is projected under these relief packages in FY2021. While the deficit is expected to narrow to 5.0 percent of GDP in FY2022, it will remain high compared with pre-COVID levels due to the disbursement of the remainder of the 500 billion baht off-budget relief package and the widening on-budget deficit projected for FY2022. As a result of the fiscal expansion, public debt is expected to increase to 62 percent of GDP by the end of FY2022, above the government’s target ceiling of 60 percent of GDP. Nevertheless, the debt trajectory remains sustainable: fiscal risks are mitigated by the fact that the debt stock is largely denominated in local currency, and by the availability of sufficient domestic liquidity to absorb the government’s refinancing needs.
Monetary policy is projected to remain accommodative to support the recovery.

On the policy rate outlook, the BOT is expected to maintain an accommodative monetary policy stance and keep the policy rate unchanged at 0.50 percent in 2021-2022 to preserve some monetary policy space, despite the subdued outlook for growth and low inflationary pressure. The already-low financing cost and high liquidity environment suggest that further cuts in the policy rate may not be effective. The BOT is expected to continue to focus on lending support measures that are targeted at SMEs in highly affected sectors that need liquidity support and have difficulty in accessing finance.

Global growth is facing risks from the resurgence of COVID-19, especially in the Emerging Market and Developing Economies (EMDEs).

COVID-19 continues to spread, particularly in many emerging markets and developing economies (EMDEs) amid unequal vaccine deployment. Since COVID-19 started to spread, it has infected at least 160 million people and caused more than 3 million deaths. Hundreds of thousands of new cases are being reported every day, and the number of unreported cases is estimated to be substantial, particularly in South Asia (GEP, June 2021). Vaccination campaigns are gathering pace in many advanced economies and a number of EMDEs. However, coverage in poorer countries remains extremely limited. Many countries remain vulnerable to renewed outbreaks and the new variants which may be resistant to treatments or the current vaccines.

The third wave of the COVID-19 in Thailand could take longer than expected to contain and the impact on the

If authorities cannot contain the third wave of infection and cases remain elevated for the rest of the year, growth could drop further to 1.2 percent in 2021 and 2.6 percent in 2022 (Figure 46). This reflects a longer period of stringent mobility restrictions and delays in the reopening of borders. Private consumption could drop further in the second half of 2021 and tourism sector recovery could be even more protracted.
economic outlook could be more damaging.

Ongoing delays in vaccine distribution would further dampen economic activity and increase the risk of further waves of COVID-19.

The path to achieving the government’s goal of a 70 percent vaccination rate is uncertain and relies on many factors such as COVID-19 vaccination implementation plan, vaccine procurement and delivery, the effectiveness of vaccines against new strains of the coronavirus, as well as the national campaigns to improve vaccine take up and reduce hesitancy. Given the limited supply of vaccines, a careful vaccine distribution plan is necessary, and it may be necessary to prioritize the worst affected provinces (considering both economic and public health impacts). The trade-off between providing at least one vaccine dose to as many people as possible, which may come at the cost of having fewer people fully vaccinated in the short term, will also need to be weighed. Meanwhile, ongoing policy uncertainty surrounding vaccine distribution and lockdown measures is likely to dampen consumer and business confidence.

Figure 46: Output will only return to pre-pandemic level in 2022. (Index, 2017 GDP = 100)

Source: NESDC; World Bank staff calculation

Figure 47: Projection of Contribution to GDP growth. (Percentage Point)

Source: Haver Analytics; World Bank staff calculations

Premature withdrawal or weak execution of fiscal support measures would result in a more protracted economic recovery.

Owing to prudent fiscal management, Thailand had ample fiscal space before the shock, allowing a substantial fiscal response to COVID-19. Medium-term fiscal modelling based on reasonable assumptions for growth, interest rates, and primary deficits suggests that Thailand can temporarily exceed its 60 percent to GDP debt ceiling in responding to COVID-19, while maintaining fiscal sustainability. On the other hand, the earlier-than-anticipated removal of fiscal support would result in a slower economic recovery and could have significant impacts on the most vulnerable segments of the population. Efficient implementation of the relief and recovery measures remains a priority. In particular, relief should be targeted so that the poorest and those most affected by COVID-19 receive sufficient support to maintain their livelihoods, while minimizing cash payments to those who are less in need (see Part 2). Going forward, fiscal consolidation will be needed over the medium-term, once the
economic recovery takes hold, to rebuild fiscal buffers and ensure sufficient fiscal space to fund critical spending needs.

Global constraints on the supply of raw materials in the auto sector and transportation bottlenecks could have a negative impact on the export growth outlook.

A global chip shortage due to the soaring global demand for smartphones, gaming consoles, tabs and other electronics has disrupted global car production as capacity has been diverted away from the auto industry. As semiconductor production requires lead times of six to nine months, automobile exports could be hampered by the shortage of supply. Transport delays and increased freight costs are attributable to a limited new supply of containers, disruptions from lockdowns due to COVID-19, and the blockage of the Suez Canal in March. Given current trends, several months will likely pass before this disruption can be absorbed across the maritime supply chain and before the system resumes smoother operations. (UNCTAD, 2021). The disruption could result in delayed delivery of goods and the reduction of margins for exporters.

Lasting scars from the crisis could slow the restoration of potential output to pre-pandemic levels, while aging poses additional long-term risks.

The COVID-19 crisis is likely to have lowered potential GDP, and further damage is possible if the pandemic continues for longer than anticipated. In 2022, potential growth is estimated to be 0.6 ppts lower compared to the pre-pandemic rate (Figure 48). The rapidly declining share of the working-age population, slow factor reallocation and the large drop in GDP due to the pandemic have all contributed to relatively large potential output losses in Thailand, further compounding the slowdown in potential growth observed over 2009-2019. Potential output growth declined by 1.1 percentage points over the period to 2.6 percent in 2019. If left unaddressed, lower potential growth is likely to constrain actual growth. Although a relatively strong recovery in investment is projected in the baseline forecast, rising debt acquired during the pandemic along with worsening bank balance sheets and prolonged uncertainty could pose longer-term risks to this outlook. Some of these risks may only become apparent once existing forbearance measures expire. Moreover, in the medium and long term, rapid aging could weigh further on growth. The working age share of the population is projected to decline from 71 percent of the population in 2020 to 66 percent in 2030 and 56 percent in 2060. Job losses and school closures may have longer term impacts on skills and human capital accumulation.

Looking beyond 2021, a global growth upside could be captured through growth-enhancing reforms.

The global recovery in trade and economic activity may prove more robust and broad-based than expected due to faster and more equitable global vaccination, pro-cyclical policy support and expanded private sector investment. The benefits of the ongoing global trade rebound can be leveraged by economic reforms that lower trade costs by supporting trade infrastructure and services (GEP, June 2021) as laid out in the AEC framework agreement on services. Thailand, compared to ASEAN peers, has lagged behind on reform of services and enforcement of intellectual property rights. Growth-enhancing reforms such as these, together with robust implementation of the new competition act, can help Thailand capture knowledge-intensive FDI, move up global value chains into more complex activities and raise potential growth. In addition, strengthening social safety nets can help support resilient and inclusive growth by supporting the transition of labor into higher productivity sectors.
Part 1. Recent Economic Developments and Outlook

Figure 48: The pandemic has damaged potential GDP
(Potential output, index, 2019 = 100, LHS; loss in Potential GDP growth, percentage points, RHS)

Source: World Bank staff calculation
Note: All figures are forecast values, projected before the pandemic (2019)

Annex

Table A.1: Overview of Thailand’s Planned COVID-19 Relief Measures

<table>
<thead>
<tr>
<th>Unit: Million Baht</th>
<th>Original Envelop (1)</th>
<th>Revised Envelop (2)</th>
<th>Allocated (3)</th>
<th>% (4) = (3)/(2)</th>
<th>% GDP</th>
<th>Remaining (5) = (2)-(3)</th>
<th>Disbursed (6)</th>
<th>% (7) = (6)/(2)</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Health related</strong></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Support costs of Medical personnel, Medical equipment, vaccine, and labs</td>
<td>45,000</td>
<td>45,000</td>
<td>25,826</td>
<td>57.4%</td>
<td>0.2%</td>
<td>19,174</td>
<td>9,546</td>
<td>21.2%</td>
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<tr>
<td><strong>2. Relief</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Measures in H2 FY 2020 (April 20 - September 20)</td>
<td>555,000</td>
<td>685,000</td>
<td>699,818</td>
<td>102.2%</td>
<td>4.5%</td>
<td>-14,818</td>
<td>607,190</td>
<td>88.6%</td>
<td>1H FY21</td>
</tr>
<tr>
<td>THB 5,000 checks per person for 3 months for self-employed, farmers, and low-income earners</td>
<td>170,000</td>
<td>24.8%</td>
<td>1.1%</td>
<td>2H FY20</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>THB 5,000 per person for 3 months for insured people under section 33 of the social security fund</td>
<td>150,000</td>
<td>21.9%</td>
<td>1.0%</td>
<td>2H FY20</td>
<td></td>
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<tr>
<td>Spending support THB 1,500 per month for 3 months for people with Social Welfare card</td>
<td>24,415</td>
<td>3.6%</td>
<td>0.2%</td>
<td>2H FY20</td>
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<tr>
<td>Spending support THB 1,000 per month for 3 months for infants, seniors and disabled people</td>
<td>20,346</td>
<td>3.0%</td>
<td>0.1%</td>
<td>2H FY20</td>
<td></td>
<td></td>
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</tr>
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<td>Measures in H1 FY 2021 (October 21 - March 21)</td>
<td>232,276</td>
<td>33.9%</td>
<td>1.5%</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rao Chana 1: THB 3,500 checks per person for 2 months for self-employed, farmers, and low-income earners</td>
<td>179,200</td>
<td>26.2%</td>
<td>1.1%</td>
<td>1H FY21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### 3. Restoration/Recovery

<table>
<thead>
<tr>
<th>Description</th>
<th>Original Envelope (1)</th>
<th>Revised Envelope (2)</th>
<th>Allocated (3)</th>
<th>% (4) = (3)/(2)</th>
<th>% GDP</th>
<th>Remaining g (5) = (2)/(3)</th>
<th>Disbursement (6)</th>
<th>% (7) = (6)/(2)</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>THB 4,000 per person for the insured people under section 33 of the social security fund</td>
<td>32,441</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1H FY21</td>
</tr>
<tr>
<td>Extended spending support measure for people with Social Welfare card at THB 500 per month for 3 months</td>
<td>20,635</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1H FY21</td>
</tr>
<tr>
<td>Measures in H1 FY 2021 (April 21 - September 21)</td>
<td>102,780</td>
<td>9.8%</td>
<td>0.7%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rao Chana 2: THB 2,000 checks per person for self-employed, farmers, and low-income earners</td>
<td>67,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2H FY21</td>
</tr>
<tr>
<td>additional THB 2,000 per person for the insured people under section 33 of the social security fund</td>
<td>16,400</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2H FY21</td>
</tr>
<tr>
<td>Spending support THB200 per month for 6 months through Social Welfare card and people who need special assistance</td>
<td>19,380</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2H FY21</td>
</tr>
<tr>
<td>jobs creation for the new graduates</td>
<td>19,462</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1H FY21 - 2H 22</td>
</tr>
<tr>
<td>&quot;We travel together&quot; Phase1-2: subsidy for hotel accommodation and airplane ticket cash back</td>
<td>20,700</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1H FY21</td>
</tr>
<tr>
<td>co-payment scheme phase 1-2 at THB 3,000 per person</td>
<td>52,500</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1H FY21</td>
</tr>
<tr>
<td>co-payment scheme phase 3 at THB 3,000 per person</td>
<td>93,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2H FY21</td>
</tr>
<tr>
<td>&quot;Ying Chai Ying Dai&quot;: 10-15 percent refund (in the form of e-vouchers at the maximum of THB 7,000) on purchases of food and other products and services</td>
<td>28,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2H FY21</td>
</tr>
<tr>
<td>Total</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>971,798</td>
<td>97.2%</td>
<td>6.2%</td>
<td>28,202</td>
<td>687,030</td>
<td>68.7%</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Office of the National Economic and Social Development Council, Budget Bureau, Fiscal Policy Office, Bank of Thailand*
**Table A.2: Budget Structure, Cash-Based, THB billion**

<table>
<thead>
<tr>
<th>Budget Structure (THB Billion)</th>
<th>FY 2020 (Oct19-Sep20)</th>
<th></th>
<th>FY 2021 (Oct20-Sep21)</th>
<th></th>
<th>FY 2022</th>
<th></th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budget Plan</td>
<td>Actual</td>
<td>Budget Plan</td>
<td>Actual</td>
<td>Cabinet proposal</td>
<td>Budget</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% GDP</td>
<td>% GDP</td>
<td>% GDP</td>
<td>% GDP</td>
<td>% GDP</td>
<td>% GDP</td>
<td>% GDP</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>2,731</td>
<td>17%</td>
<td>2,351</td>
<td>15%</td>
<td>2,677*</td>
<td>16%</td>
<td>1,102</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>3,200</td>
<td>20%</td>
<td>3,169</td>
<td>20%</td>
<td>3,286</td>
<td>20%</td>
<td>1,685</td>
</tr>
<tr>
<td>Current expenditures</td>
<td>2,404</td>
<td>15%</td>
<td>2,576</td>
<td>16%</td>
<td>2,538</td>
<td>16%</td>
<td>1,392</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>644</td>
<td>4%</td>
<td>368</td>
<td>2%</td>
<td>649</td>
<td>4%</td>
<td>160</td>
</tr>
<tr>
<td>Principal repayments</td>
<td>89</td>
<td>1%</td>
<td>n.a.</td>
<td></td>
<td>99</td>
<td>1%</td>
<td>n.a.</td>
</tr>
<tr>
<td>Fiscal Surplus/Deficit</td>
<td>-469</td>
<td>-</td>
<td>-818</td>
<td>-</td>
<td>-609</td>
<td>-</td>
<td>-583</td>
</tr>
<tr>
<td>Memo: Fiscal Surplus/Deficit using GFS accounting</td>
<td>-896</td>
<td>-</td>
<td>-865</td>
<td>-</td>
<td>-843</td>
<td>-</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

*Source: Ministry of Finance; Haver Analytics; World Bank staff calculations*

*Note: *revenue projection for FY2021 is subjected to be revised lower as it has not reflected the impact of the COVID-19 crisis

** All projections are in “red”
Among the first countries whose economy was seriously impacted by COVID-19, Thailand pursued a multi-pronged fiscal response that was among the largest in the world. A major element of Thailand’s response to the pandemic was an unprecedented scaling up of social assistance. The government expanded what was previously a relatively modest set of cash transfer programs to deliver one of the largest such responses to COVID-19 in the world. Simulations suggest that the implementation of these new programs likely mitigated the impact of the economic downturn on poverty rates, noting that further research is needed as new data becomes available. Nevertheless, there are already lessons related to implementation that can inform social protection reforms going forward.

1. Before the COVID-19 Pandemic

Following remarkable progress on poverty reduction over two decades, Thailand recently began to lose ground with poverty rates ticking upwards prior to COVID-19. Between 1988 and 2019, poverty in Thailand fell from 65.2 percent to 6.2 percent based on the national poverty line and extreme poverty was all but eliminated (Figure 49). Yet poverty increased in 2016 and 2018 due to a slowing economy, droughts and wage stagnation. Unlike earlier periods, the recent increases in poverty did not coincide with financial crises. Instead, declining farm, business and wage incomes were the largest contributors (Yang et al 2020).
Prior to the crisis, poverty was most concentrated amongst children and the elderly, and in rural areas. Using the international poverty line for Upper Middle-Income Countries (UMICs) of US$5.5 per person per day in 2011 Purchasing Power Parity (PPP) rate, Thailand’s poverty rate was 6.2 percent in 2019, but 10.9 percent for children aged 0-14 and 6.4 percent amongst elders aged 60 or above. About 1.05 million children lived in poor households. According to UNICEF estimates about 21.5 percent of children, or over one in every five, live in multidimensional poverty (UNICEF 2019). Rural areas faced a higher poverty rate of 8.9 percent, compared to 0.1 percent in Bangkok and 3.6 percent in urban areas outside Bangkok. The poverty rate was highest in the North-eastern (10.3 percent) and Northern (8.6 percent) regions (SES, 2019).

Social assistance spending has focused on cash categorical transfers, especially for the elderly, in the past decades and more recently on targeted programs to the poor, but spending on these programs is still relatively low as a share of GDP and results in low average benefits.

A recent World Bank study found that Thailand’s social assistance spending is lower than other countries at similar income levels (Sharpe and Lamanna et al, 2021). It also found that benefit levels as a share of household consumption limited the impact of these programs. While a significant share of households received some form of social assistance, the benefits received were amongst the lowest in the region. The report recommended raising and indexing benefit levels and overall social assistance spending in order to consolidate the poverty reduction gains of the previous two decades. The report also noted the lack of a social registry – a gap that reflected the focus on categorical benefits for children, the disabled and the elderly over poor households generally.

As in many countries, when the COVID-crisis hit Thailand in the first quarter of 2020, it became clear Less than 40 percent of working age Thais are employed in jobs covered by social insurance. So, while for this group, unemployment benefits and wage subsidies could be applied fairly easily, the vast informal sector including farmers were excluded and there was no mechanism in place to make them eligible for a social assistance system which is dominated by categorical transfers. While many other middle-income countries (e.g., Chile and Turkey) were able to scale up based on

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**Figure 49: Poverty rate at national and international poverty lines, 2000-2019.**

*Source: Thailand Socio-Economic Survey (SES) and WDI*
that existing social assistance programs did not cover most of those who would feel the economic impact of the lockdown.

2. Responding to the impact of COVID-19 by scaling up social assistance

The economy shrunk by 6.1 percent in 2020 and it is projected to expand by 2.2 percent in 2021 by the World Bank (Ariyapruchya et al 2021). Thailand’s borders closed in March 2020 and the tourism sector, which accounts for 15 percent of GDP and is a major employer in many parts of Thailand, was largely shuttered. Downturns in the retail and accommodation sectors also affected employment and income, and remittances from Thai migrant workers fell. Comparing financial assets to consumption expenditure per person, an average household was estimated to be able to last for up to nine months without income, while poor households could only last three (OPM 2020).

COVID-19 containment measures had a major impact on livelihoods and incomes, even more so for informal workers.

In June 2020, a rapid survey conducted by the Asia Foundation estimated that 70 percent of the national workforce had seen their monthly income fall by an average of 47 percent, with informal sector workers reporting an average income contraction of 67 percent. 49 percent of small business owners indicated that their business was at high risk of permanent closure (Parks et al 2020). While the economic downturn has been felt by all income levels, the lowest earning groups had the highest percentage of people experiencing a decline in their income; 70.7 percent of those earning THB 0-5,000 and 85 percent of those earning THB 5,000 to THB 10,000 (Figure 50). The scale of impact on individual income was also most significant in the poorest segments surveyed, with those reporting earning between THB 0-5,000 per month saying their monthly incomes had decreased by 63 percent, and those earning between THB 5,001-10,000 per month reporting 57.4 percent less income. ‘Middle’ income-earners were also affected, albeit to a lesser extent. Survey respondents who reported earning between THB 15,000 and THB 30,000 per month reported that their incomes declined by 37.7 percent (Parks et al. 2020).
The economic impact of COVID-19 further eroded hard-won poverty gains; however, the government introduced a significant social assistance response to mitigate this negative impact.

The catastrophic impacts of COVID-19 therefore required a rapid, firm and massive response from the Government.

To cushion the economic impacts of the COVID-19 crisis on Thailand’s economy, the government mobilized a one trillion Baht economic recovery package in 2020, focused on providing relief to vulnerable households and affected firms. This response was unprecedented for Thailand in terms of size, coverage and the variety of instruments employed. In the first phase, between March and July 2020, relief programs provided cash transfers to households and infrastructure projects. The Bank of Thailand established a corporate bond market stabilization fund to help firms roll over maturing bonds and provide soft loans to Small and Medium Enterprises (SMEs). Tax relief and debt restructuring for firms and households was also included (IMF 2020, Ariyapruchya et al 2020). In the second half of 2020, the government also introduced economic stimulus measures, including subsidies to encourage travel to assist the ailing tourism industry and the ‘let’s go halves’ scheme for general consumption.

The early social assistance response was heavily skewed to addressing the needs of informal sector workers. While vertical transfers or top ups were paid to close to eight million beneficiaries of pre-COVID programs by May 2020, this new spending represented a tiny fraction of the scaling up of social assistance in response to the pandemic. The bulk of the 2.5 percent of GDP went to the informal workers and farmers who would have not been considered vulnerable prior the pandemic. (Table 7). The total cost of COVID-19 transfers in 2020 was estimated at B388 billion baht or about 2.5 percent of GDP, more than tripling the 0.77% figure of

Source: Parks et al 2020. Income estimates include any government assistance received.
2019, bringing total social assistance to about 3.2 percent of GDP in 2020. The remaining social protection response went to supporting formal sector workers as described in Box 6.

Table 7: Coverage and expenditures for COVID-19 Social Assistance programs in 2020

<table>
<thead>
<tr>
<th>Target group</th>
<th>Program</th>
<th># receiving COVID-19 payments</th>
<th>Value benefits for 3 months (baht)</th>
<th>Implied expenditure (baht)</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>New emergency social assistance payments</strong></td>
<td>informal sector workers</td>
<td>&quot;No-one left behind&quot; Rao Mai Ting Gun (March)</td>
<td>15,300,000</td>
<td>15,000</td>
<td>229,500,000,000</td>
</tr>
<tr>
<td>Farmers, fishers, herders*</td>
<td>Farmers’ assistance (May)</td>
<td>7,565,880</td>
<td>15,000</td>
<td>113,304,400,000</td>
<td>0.72%</td>
</tr>
<tr>
<td><strong>Top-up payments through existing programs</strong></td>
<td>Elderly</td>
<td>Old Age Allowance (May-July)</td>
<td>4,056,596</td>
<td>12,169,788,000</td>
<td>0.08%</td>
</tr>
<tr>
<td>People with disabilities (PWD)</td>
<td>PWD Allowance (May-July)</td>
<td>1,330,529</td>
<td>3,000</td>
<td>3,991,587,000</td>
<td>0.03%</td>
</tr>
<tr>
<td>Children of poor families</td>
<td>Child Support Grant (May-July)</td>
<td>1,394,756</td>
<td>3,000</td>
<td>4,184,268,000</td>
<td>0.03%</td>
</tr>
<tr>
<td>Poor/ vulnerable individuals</td>
<td>State Welfare Card Program (Apr-Jun)</td>
<td>1,164,222*</td>
<td>3,000</td>
<td>3,492,666,000</td>
<td>0.02%</td>
</tr>
<tr>
<td>Poor/ vulnerable individuals</td>
<td>State Welfare Card Program (Oct-Dec)</td>
<td>All SWC recipients 13,694,365</td>
<td>1,500</td>
<td>20,922,777,000</td>
<td>0.13%</td>
</tr>
<tr>
<td><strong>Total Social Assistance</strong></td>
<td></td>
<td>30,811,983</td>
<td></td>
<td>387,565,486,000</td>
<td>2.47%</td>
</tr>
</tbody>
</table>

*Sources: Sharpe and Lamanna et al, 2021
GDP in current market prices 2020

*Note: Does not include non-COVID-19 related expenditures for pre-existing program beneficiaries.

*Note that while the temporary cash transfer scheme for farmers was strictly a new program, farmers already registered for other forms of government assistance (loans and debt relief) were eligible so this could be considered a kind of top-up.

* In the first round (April-June), Social Welfare Card (SWC) card holders could opt to apply for the more generous schemes for informal workers and farmers. This would appear to explain why so few SWC holders (1,164,222 from a possible 13.9 million SWC holders in 2020) were recorded as receiving top-up benefits. All SWC holders were eligible for benefits in the second round (October-December 2020); this figure is omitted from the table to avoid double counting of COVID-19 benefit recipients in the total.
Box 6: Social insurance and labor market measures in response to the COVID-19 crisis in 2020

**Social insurance**
- Under Social Security Fund (SSF) rules, employers and employees are mandated to pay five percent of wages each (wage ceiling of THB 15,000) to contribute to old age pensions and the government contributes 2.75 percent of salary. In mid-April 2020, contribution rates were reduced to four percent for employers (up to THB 600 a month from THB 750) and one percent for employees (up to 150 baht from THB 750) for March, April and May. The government contribution of 2.75 percent of wages remained unchanged. Therefore, the total contribution for the three months period went down from 12.75 percent of wages to about three percent of wages (Bangkok Post 2020).
- The SSF covered the medical costs of those infected with COVID-19 and enrolled in the fund. Personal income tax deductions for health insurance were increased from THB 15,000 (US$460) to THB 25,000 (US$760) for the 2020 tax year onwards.

**Labor Market programs**
- Prior to COVID-19, the unemployment benefit from the SSF was set at 50 percent of daily wage with a maximum of 7,500 baht and benefits were provided for 180 days. SSF members who were furloughed due to COVID-19 outbreak received an unemployment benefit of up to 62 percent of daily wage with a maximum of THB 9,300 per day, for three months (March to May). Those laid off were eligible to receive up to 70 percent of their daily wages up to THB 15,000 for up to 200 days (Bangkok Post 2020). The number of unemployed receiving benefits increased from 170 thousand to 395 thousand from 2019 to 2020.
- Small and medium enterprises were able to deduct three times the cost incurred for salary payment from April to July 2020 for those employees who were members of the Social Security Office and received a salary of up to THB 15,000/person/month. To qualify, SMEs had to maintain the same level of employment during that period as the number of employees at end-December 2019.
- For Thai workers forced to return from other countries due to the outbreak, members of the Overseas Workers Fund were entitled to THB 15,000 in compensation. In Korea, the Ministry of Labor coordinated with labor offices in Korea to make sure that Thai laborers received pending wages and benefits (the Department of Employment identified over 81,562 domestic jobs for Thai laborers returning from overseas) (World Bank 2020b).
- Migrant workers in the formal sector who had contributed to social security for more than six months were also entitled to these unemployment benefits, and to severance pay if they had worked at least four months. Work permits were extended for migrant workers (ILO 2020).

Sources: Sources: Sharpe and Lamanna, 2021

While COVID-19 continues to impact Thailand’s economy, continued assistance to the poor and vulnerable, including informal...
workers, will be necessary. in 2021. Finally following the most serious upsurge in COVID-19 cases and deaths and a new lockdown in April 2021, a second round of social assistance support was announced on June 1, 2021. Thailand stands in a favorable position with fiscal space still sufficient to cover measures to protect the poor and most in need in the months to come. The announced total cost of social assistance response in 2021 is lower than Thailand’s response in 2020 (equivalent to 1.51 percent of GDP) but is still significantly higher than normal spending on social assistance (Figure 51) and the number of beneficiaries increased with respect to 2020, reaching 34.5 million beneficiaries, roughly ninety percent of households. The overall amount received to date though was smaller than in 2020.

Table 8: Summary of COVID-19 Social Assistance Programs in 2021

<table>
<thead>
<tr>
<th>Target group</th>
<th>Program</th>
<th># Receiving COVID-19 payments</th>
<th>Thai Baht cost</th>
<th>Amount of transfers</th>
<th>%GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>New program in 2021</td>
<td>Poor/vulnerable individuals&lt;sup&gt;21&lt;/sup&gt;</td>
<td>We Win/Rao Chana&lt;sup&gt;22&lt;/sup&gt;</td>
<td>33.2 million</td>
<td>THB 210,179.27 million used&lt;sup&gt;23&lt;/sup&gt;</td>
<td>Beneficiaries received THB 7,000 (for 2 months-3,500 per month Jan-Feb 2021). The program offered an additional THB 2,000 per person (THB 1,000 for two weeks) to its current beneficiaries and extended the spending deadline to June 30, 2021 (one more month).</td>
</tr>
<tr>
<td>Top-up payments through existing programs*</td>
<td>PWD</td>
<td>PWD Allowance</td>
<td>1,330,529 (in the program 1,840,000)</td>
<td>(THB 17,038 million - Jan-September 2021)</td>
<td>PWD Allowance (October 2020 – September 2021-12 months in total)&lt;sup&gt;24&lt;/sup&gt;; PWD under 18 years are receiving THB 1,000 per month (126,032 individuals). 18 years old or above PWD without Social Welfare Cards (SWC) are receiving THB 800 per month (&lt;830,000 individuals).&lt;sup&gt;25&lt;/sup&gt; 18 years old or above PWD with SWC will receive 1,000 baht per</td>
</tr>
</tbody>
</table>

<sup>21</sup> Beneficiaries are SWC card-holders, those previously eligible for the Co-Pay and We Travel programs during the first wave of the outbreak and those who have never received Covid-19 state welfare transfers.
<sup>24</sup> https://18pee.com/pikan-200/
<sup>25</sup> https://www.posttoday.com/politic/news/647554
## Part 2. Protecting Poor and Vulnerable Households

<table>
<thead>
<tr>
<th>Target group</th>
<th>Program</th>
<th># Receiving COVID-19 payments</th>
<th>Thai Baht cost</th>
<th>Amount of transfers</th>
<th>%GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor/ vulnerable individuals</td>
<td>State Welfare Card Program</td>
<td>All SWC recipients 13,350,159</td>
<td>(THB 20,922.78 million, Jan-Mar 2021)</td>
<td>All SWC recipients received THB 500 per month in October-December 2020 and January-March 2021. Additional THB 200 per month per person for 6 months, will be handed out from July to December 2021.</td>
<td>0.13</td>
</tr>
<tr>
<td>Total Social Assistance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.51</td>
</tr>
</tbody>
</table>

Sources: Sharpe and Lamanna et al, 2021  
GDP in current market prices 2021

**Figure 51: Increased Coverage and Spending on Social Assistance during COVID-19**  
(Beneficiaries in millions and spending as %GDP)

The speed and scope of the social assistance response to the pandemic was impressive and stands out in comparison with other countries.

The "No One Left Behind" (NOLB) program was announced on March 24, 2021 with on-line registration running from March 28 to April 22, 2020. Payments began in late May. The parallel program for farmers with similar benefits began registration on April 28 with payments taking place between May through July 2020. While vertical expansions (temporary increases to the benefit value or duration of a benefit provided through an existing program) can be implemented quickly, this kind of large scale, horizontal expansion (temporarily including new beneficiaries in an existing social assistance program) tends to take longer.

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26 https://news.trueid.net/detail/07vXDVEBddkq  
27 https://www.facebook.com/236890883455795/photos/a.236922993452584/1014414489036760/?type=3  
28 The payments were deducted from the other transfer of 3,500 baht
Thailand was among a few dozen countries around the world that was able to make payments to these new beneficiaries within a few months of their lockdowns and/or announcements (Beazley et al. 2021).

In terms of scale, preliminary estimates of the population living in households receiving the new transfers puts Thailand among the countries with the largest expansion to new beneficiaries globally, exceeded only by a handful of countries with quasi-universal population coverage.

Figure 52 shows the share of the population in 84 low- and middle-income countries that received any kind of cash transfer in 2020 by income per capita level and region. Thailand is among the dozen or so highest coverage countries in the world\(^{29}\). Preliminary analysis from a recently completed survey indicates that 80 percent of households have received COVID-19 cash transfer assistance in 2020 (Gallup Thailand COVID-19 Household Survey, 2021).

Some of the largest social assistance expansions in the world took place in East Asia.

Figure 53 and Figure 54 below suggests a strong relationship between the size of the response and the economic impact of the pandemic both in terms of the population covered and the magnitude of spending. Not surprisingly, countries with massive declines in income responded with bigger social assistance packages than countries less affected. China and Vietnam experienced slightly positive real growth

\(^{29}\) Note that these figures are based on administrative data and assumptions made as to program overlap and multiple beneficiary households.
in 2020 and did not increase social assistance coverage or spending significantly. In contrast, the most affected countries such as Malaysia, the Philippines and Thailand, increased both coverage and spending dramatically and to unprecedented levels.\textsuperscript{30}

**Figure 53: Real GDP Growth and Social Assistance Coverage in East Asia in 2020.**

\[ y = -8.0451x + 1.5884 \quad R^2 = 0.5906 \]

*Source: IMF (2021); World Bank (2021)*

**Figure 54: Real GDP Growth and Change in Cash Transfer Spending in East Asia in 2020.**

\[ y = 1.1582x^2 - 5.8266x + 0.1598 \quad R^2 = 0.5064 \]

*Source: IMF (2021); World Bank (2021)*

**While the speed and scope of the response are both important indicators, ultimately only**

It is possible however, to evaluate the potential or ‘de jure’ impact of the policy response based on the design of the program. Specifically, it is possible to simulate a ‘perfect targeting’ scenario where all of the eligibility criteria are applied using pre-pandemic survey data. The methodology for the simulations presented here is described in Box 7.

\textsuperscript{30} Mongolia had the highest social assistance coverage and spending in the region in 2020 and in April 2021 introduced a one-off payment to all citizens.
household survey data will reveal how much these transfers mitigated the poverty impact of the pandemic.

Box 7: Macro-Micro Simulation Model

The macro-microsimulation model combines macroeconomic projections with pre-crisis data from SES in 2019 to predict income and consumption at the individual and household level. The simulation model uses labor markets as the main transmission mechanism and allows for two types of shocks; (1) shocks to labor income (including employment shocks and earnings shocks from the Pandemic) and (2) shocks to non-labor income, modeled as a change to social protection mechanisms (in this case, the emergency transfers in response to COVID-19). There are three distinct steps to produce estimates:

1. **Calibration:** Household and individual-level data from SES 2019 are used to model labor market behavior and outcomes.
2. **Simulation:** Information on aggregate projected changes in output, employment and remittances is used to generate changes in labor and non-labor income at the micro-level through the structural models developed during the calibration.
3. **Assessment of Impacts:** The resulting information on individual employment status and labor income, as well as on non-labor income at the household level are used to generate income and consumption distributions that can then be used to compare the scenario of Covid-19 impacts with and without additional transfers.

This approach is appealing as it generates income and consumption counterfactuals at the individual and household levels which can then be used to assess impacts across the entire distribution. Estimates from another simulation model, PovSim (Lakner, Negre and Prydz 2014), do indicate higher rates of poverty for Thailand in 2020 than estimated here but the approach is less robust because it does not capture labor market behavior and treats income growth rates as uniform for the top 60 percent and the bottom 40 percent as an approach to understand the impacts of pro-poor income growth.

There are some important limitations that must be taken into account when interpreting the results. Firstly, the quality and accuracy of the simulation output is a function of the nature and quality of data underpinning the exercise. More specifically, the results depend not only on the micro-models, but also on the macro-projections of the crisis. Secondly, the simulations implicitly assume that the structural relationships estimated as part of the calibration process on the baseline data continue to be valid in the future years for which the projections are made. The more distant in the past the baseline year is, the more questionable this assumption is likely to be.
Not surprisingly, the preliminary micro-simulation shows results suggest that poverty would have increased significantly in 2020 if the government had not scaled up social assistance.

Figure 55 shows poverty increasing from 6.2 percent in 2019 (US$5.5/day/person UMIC poverty line) to 7.4 percent in 2020 without emergency assistance, before declining to seven percent in 2021 (not taking into account the recently introduced programs). This would have represented about an additional 780,000 people entering poverty in 2020. Poverty rates would have increased more in rural areas compared to urban areas (1.7 percentage points compared to 0.9 percentage points).31 The number of children aged 0-14 years would have increased by 270 thousand, reaching 1.3 million in 2020.

**Figure 55:** Macro-micro simulated poverty estimates without emergency response, 2019-2021, percent and number of people (million).

<table>
<thead>
<tr>
<th>Area</th>
<th>Poverty rate 2019</th>
<th>Poverty rate 2020</th>
<th>Poverty rate 2021</th>
<th>Nbr of poor 2019</th>
<th>Nbr of poor 2020</th>
<th>Nbr of poor 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>6.2</td>
<td>7.4</td>
<td>7.0</td>
<td>3.7</td>
<td>7.4</td>
<td>7.0</td>
</tr>
<tr>
<td>Urban</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural</td>
<td>2.6</td>
<td>0.7</td>
<td>0.9</td>
<td>1</td>
<td>3</td>
<td>3.3</td>
</tr>
</tbody>
</table>


Simulation results suggest that successful implementation of the policy would have reduced the poverty rate marginally in 2020. The emergency transfers would have helped maintain poverty rates at 1.4 percentage points lower for both 2020 and 2021 compared to the scenario where no additional transfers were made (7.4 percent compared to 6.0 percent in 2020, and 7.0 percent compared to 5.6 percent in 2021, see Figure 56). Transfers are likely to have been particularly impactful in rural areas, based on the simulations. Poverty in rural areas would have decreased by 0.4 percentage points in 2020 (instead of increasing by 1.7 percentage point) while poverty would have increased by 0.4 percentage points in urban areas (rather than 0.9 percentage point).

Simulations indicate that under the assumption of perfect targeting, the design of Thailand’s COVID-19 response measures would have largely offset the poverty impact of the pandemic.

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31 This is due to the prevalence of poverty in rural areas compared to urban zones and to the persistence of structural challenges that limit government efforts in reducing poverty and vulnerability.
The simulations suggest that changes in inequality would be mitigated relative to what might have been expected.

Without transfers, consumption inequality, as measured by the Gini Index, would have increased by 1.3 percentage points in 2019-20 (from 34.9 to 36.2 percent) and income inequality would have increased by 1.1 percentage points (from 43 to 44.1 percent). The fairly small increase in the income based Gini coefficient is due to the low proportion of labor income (the income source most affected by the pandemic) as a share of total household income: 27 percent for the poor and 39 percent for the total population, as well as low employment-growth elasticity. However, with the transfers, inequality is estimated to have increased by a much lower degree (0.4 percentage point), as social transfers were specifically aimed at poor individuals and farmers as well as those who are informally employed.
Estimates based on SES 2020 yield quite similar figures to the simulation model with social transfers, with estimates showing poverty slightly increasing by 0.2 percentage points in 2020 from 2019, which represents an additional 200,000 people falling into poverty. Similarly, the 2020 SES also finds that poverty rates increased in urban areas by 0.5 percentage points. Unlike the simulation model, the SES 2020 finds that rural poverty remained constant. While the differences between the SES 2020 and the simulation model results for 2020 remain low (and within the confidence interval), they could be due to model imperfections or assumptions about the targeting of social assistance response to the pandemic. They will be subject of more analysis in subsequent work. With regard to the Gini coefficient, estimates from the 2020 SES are in line with the simulation model, and show that inequality changed only marginally at the national level, and inequality increased more in urban areas.

The unprecedented levels of spending and the quasi-universality of coverage implemented in a short period likely prevented a significant increase in poverty inequality. This depends, however, on how well these programs were implemented. In other words, to what extent did de facto targeting approximate the de jure design that was intended. A separate question is whether the allocation of social protection resources could have been improved in such a way as to maximize the welfare impact of the combined set of programs. These questions will be the subject of further study in the months and years to come. In the meantime, there are some lessons that emerge from the experience of 2020 and early 2021.

3. Lessons from the COVID-19 Response

The vast majority of informal workers in Thailand are not covered by social insurance. Prior to COVID-19 they were not registered in any social assistance programs, making it harder to rely on existing program databases to quickly mobilize a response that would mitigate the impact of the pandemic on informal workers. In fact, a number of countries, including some at lower income per capita levels, were able to make first payments quickly and make the process smoother and faster for all their beneficiaries. India, Malaysia and Pakistan were able to make their first round of digital payments to new beneficiaries within three weeks of making the decision to do so, while Brazil, Chile, Peru and Turkey did so within a month of announcing the expansions. With the exception of Turkey, the speed with which horizontal expansions could be implemented was due to the availability of data in the form of social registries and other databases that covered millions of informal sector workers. In Turkey, the on-line application process, combined with cross-checks against 28 administrative databases (social security, property, income tax, etc.), was already being utilized before the pandemic; the same process allowed for rapid scale up as eligibility criteria were temporarily relaxed. In Thailand, personal information for some groups including farmers was not updated in government databases. This caused occasional delays in registering these groups into emergency cash transfer programs and in some cases, poor quality data resulted in exclusion from emergency cash programs (Johnson and Palacios, forthcoming).
Fortunately, Thailand’s government did enter 2020 with three important assets—a robust and universal digital ID, a sophisticated and interoperable digital payments platform and a number of administrative databases that, in principle, could be used for filtering eligibility conditions.

Leveraging its three assets, the Thai government developed several on-line application sites that could be accessed via the internet and smart phones. Applications could also be made at Krungthai Bank and BAAC. In the case of NOLB, there were 28.8 million attempts to apply, of which 4.8 million were found to be duplicate attempts, and 1.7 million were ineligible, leaving 22.3 million to be checked against various databases for eligibility. Ultimately, 15.3 million applications were accepted, and benefits were paid out. A similar, parallel application process was used for the farmers’ scheme which ultimately led to the approval of 7.6 million applications.

The massive scale of the registration process tested the newly introduced system while the cross-checking process required a series of bilateral agreements to be put into place quickly on an ad hoc basis.

The Fiscal Policy Office arranged for a series of checks with other government databases to filter out ineligible applicants such as recipients of social security schemes, civil servants etc., who would not be eligible. Making these arrangements and exchanging data through new APIs required time. Subsequently encountering differences in data quality and timeliness also slowed the cross-checking process and led to many claims of inappropriate rejections of applications. Tens of thousands of potential applicants were unable to navigate the new system in the initial period. With a system similar to Turkey’s Integrated Social Assistance System (ISAS) in place prior to the crisis, these hiccups and modest delays may have been avoided.

In contrast to the processes associated with registration and eligibility, high rates of financial inclusion and a pre-pandemic policy of paying benefits into transaction accounts linked with the national ID allowed for digital payments on a massive scale.

In contrast to countries like the Philippines and Vietnam where most of the initial COVID-related payments were done in cash, Thailand’s ability to make digital government to person payments matched the good practice cases observed in countries like Chile and Malaysia where pre-pandemic processes were easily scaled up. While the NOLB and farmers program transfers involved cash, further research is needed to understand the experience of beneficiaries of the quasi-cash programs paid through cards or wallets such as ‘Lets Go Halves’ or ‘We Win’. While not the only country using this approach, Thailand stands out among the countries that relied most on digital, non-cash benefit payments.

32 For example, around 38,000 farmers were unable to complete their applications by the July deadline.
33 The Turkey Integrated Social Assistance Service Information System (ISAS) is an application-based system that relies on linked administrative databases. The system electronically facilitates all steps related to the management of social assistance, including the application, assessment of eligibility requirements, and disbursement of funds. The term “virtual” or “federated architecture” refers to the fact that it allows interoperability and regular data exchange. Centrelink in Australia could be another example to consider.
The crisis in 2020 demonstrated Thailand’s ability to quickly integrate existing data and agile, on-line applications to create a kind of instant social registry.

With all of the building blocks in place, Thailand could now consolidate that effort and face future crises better prepared through a ‘virtual’ or ‘federated social registry’ that monitors the situation of households in normal times as well as crises. There is scope to better harness available administrative data through greater interoperability, sharing and matching capabilities, which will enable real-time and comprehensive decision-making. The mostly successful experiment with on-line and mobile registration anchored with the unique NID could become a permanent mechanism for responding to shocks. At the same time, the quality of data in some program and administrative databases may also need to be improved, to improve the effectiveness of the system. It will be crucial however, to put in place both technical and legal safeguards to protect personal data and privacy.

In order to better protect the most in need in an efficient manner, it will also be highly advisable for government to define the maximum/minimum package of benefits that households may receive and strengthen the targeting of poverty targeted programs.

The rapid scale up of major social assistance programs and targeted cash transfers around the world are showing positive impact on poverty reduction and human capital development. This provides solid justification for the significant spending on poverty targeted programs in Thailand (Box 8). Before the pandemic, the poorest 40 percent of the population was more likely to benefit from two or more programs than the top 60 percent, however for some households the amount provided by recurrent social assistance programs was inadequate (World Bank, 2021). In the years to come it should be a priority to ensure that vulnerable beneficiaries receive adequate support, and given the limited fiscal space available, would require significant investments in effective targeting. Government will then need not only to define a package of benefits and rationalize programs, but also be able to track what individual households receive and check that the overall support received is adequate for the most in need.

Finally, the crisis further underscores the need to incorporate the large informal sector in Thailand into the social protection system at all times, not only during crises.

Expansion of social insurance through the Social Security Fund has been slow and international experience suggests that it could take decades unless innovative approaches of the kind that has helped Thailand reach universal health insurance coverage are employed. The pandemic has highlighted the need for protection against shocks that reduce incomes and therefore consumption for millions of workers that are not regular wage earners in normal times as well as during crises.

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34 The Personal Data Protection Act (PDPA) was published in May, 2019 and was originally scheduled to become effective following a one year grace period for organizations to set up their compliance mechanisms, i.e. June 2020. The COVID-19 pandemic was cited as a major obstacle for this and, as a result, the Government deferred effectiveness until June 2021. On May 5, the Cabinet, further postponed the enforcement of the PDPA to one year until June 2022.

35 Thailand’s social pensions – the Old Age Allowance (OAA) and People with Disability (PWD) Allowances – are some of the least generous in the world compared with this benchmark, and with other upper-middle income countries (the monthly PWD benefit represents just 12.2 percent of average household consumption, and 17.1 percent for the poorest quintile and the OAA represented just 8.9 percent of average household consumption, and 15 percent for the poorest quintile), where the top up provided during COVID-19 doubled the transfers.

36 See World Bank (2021).
Box 8: Evidence on Positive Impact of Cash Transfer Around the World

Cash transfers are among the most rigorously-evaluated fields in development. Impact evaluations consistently show that using money to meet basic needs and make productive investments. Cash is overwhelmingly spent on items like food, medicines, school-related expenses, and agricultural inputs. These expenditures also generate local economic multipliers. For example, it is estimated that in Ethiopia, Ghana, Kenya, Lesotho, Malawi, Zambia and Zimbabwe, $1 worth of cash transfer injected in local economies generates between US$0.3 – US$2.6. Extensive evidence shows that cash transfers provided while children are in utero and during early childhood boost subsequent learning, health, nutrition, cognitive and socio-emotional skills, and even earning potential as adults (e.g., Brazil, Cambodia, Colombia, Egypt, Madagascar, Nicaragua, South Africa). Pantawid conditional cash transfer program in the Philippines reduced severe stunting in children aged 6-36 months, changed key parenting practices, including children’s intake of protein-rich goods and care-seeking behavior.37

Cash transfers can help spurping entrepreneurship, acquiring work experience, and rendering useful services. In order to harness the effects of cash transfers, an increasing number of productive inclusion programs provide a more integrated package of cash, assets (e.g., livestock) and trainings can boost self-employment, consumption and investment. And where labor demand is low, public works can provide temporary jobs in productive labor-intensive activities (e.g., climate-smart agriculture in the Sahel) or social services (e.g., childcare for working mothers in urban areas). Another function is facilitating job transitions and skills acquisition. As countries embark on structural reforms for competitiveness, cash transfers can also offset the private costs of labor reallocation and reskilling, especially when connected with other programs like active labor market policies (e.g., Argentina, Ethiopia).

Cash transfers help enhance resilience to shocks by households and communities efficiently. In Ethiopia, Kenya and Somalia, regular and timely cash transfers reduce the need for post-crisis emergency assistance, including saving US$2.3 – US$3.3 worth of relief aid for every US$1 of cash transfers invested. Finally, cash transfers can reduce violence and improving psychological wellbeing. Evidence from Bangladesh, Ecuador, India and Mali shows that cash transfers can reduce intimate partner violence within households, decrease depression among women, and bolster self-confidence (World Bank, 2020).

Evidence from Asia-Pacific suggests that cash transfer programs had also a positive impact on household welfare. Pakistan’s Benazir Income Support Program (BISP) led to increased household expenditure, especially on food, and corresponding reductions in poverty (Cheema et al. 2016).38 Similarly, in Indonesia, Program Keluarga Harapan (a conditional cash transfer for poor households) beneficiary households increased their total expenditure by approximately 10 percent more than their pre-program expenditure, which was reflected in increased spending on food (especially high-quality nutritious food) and health costs (Alatas 2011).39 In the Philippines, the Pantawid program increased household expenditure for the poorest 20 percent of households (Tutor 2014).40

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