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Thailand Monthly Economic Monitor

12 November 2021

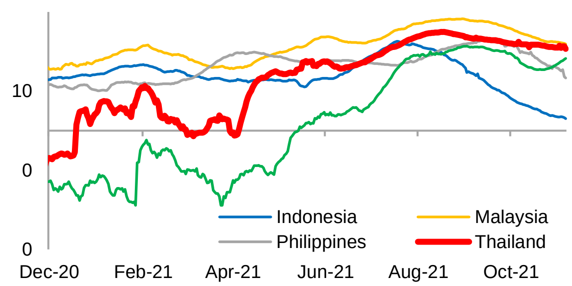
The government has reopened international borders and lifted the curfew in Bangkok as the number of COVID-19 cases and deaths continued to decline. The target to vaccinate 70% of the population by end-2021 moved within reach due to an acceleration in the vaccination rate. However, the recovery in tourism is expected to be gradual. Domestic economic activity rebounded in September and October due to the lifting of lockdown measures and the decline in infections. Exports continued to rise but remained low compared to peers. The government continued to borrow to support off-budget spending for COVID-19 relief, bringing public debt to 58% of GDP as of end-September. Inflation remained within the Bank of Thailand's target range at 2.4% (yoy) in October. The Thailand banking system remains resilient with sufficient capital and manageable nonperforming loans, although asset quality has deteriorated. In contrast to the rest of the region, the current account remained firmly in deficit through the first three quarters of 2021. Nevertheless, the Thai baht appreciated slightly in October, with investor confidence strengthening due to the reopening of borders.

The number of COVID-19 cases and deaths continued to decline. In early November, new infections continued to decline to 8,800 cases per day, on average, from 10,334 in October (Fig. 1). Although the decline in case numbers has been slow relative to regional peers, the number of deaths has fallen substantially to less than 100 per day over the past month. The pace of vaccinations also accelerated in October. The share of the population vaccinated with at least one dose climbed to 62.1% while the share of those fully vaccinated reached 46.8%, surpassing Indonesia and the Philippines (Fig. 2). Recent trends suggest that the vaccination target of 70% of the population by end-2021 is attainable.

The government reopened international borders and lifted the curfew in Bangkok to revive tourism and domestic activity. Fully vaccinated tourists from 63 low-risk countries starting from November 1 are now able to travel to Thailand without mandatory quarantine, subject to rapid testing results. The reopening is expected to benefit the tourism sector which accounted for about a fifth of GDP and employment in 2019. The government also designated 17 areas as tourist areas or so-called "blue zones" with fewer COVID-19 restrictions (e.g. no curfew or alcohol ban). In the major areas from these zones – including Bangkok, Samut Prakan, Chon Buri, Phuket, and Phangnga – more than 60% of population is fully vaccinated. The number of high-risk provinces (dark red zone) with a curfew in place was reduced to 6 provinces from 23.

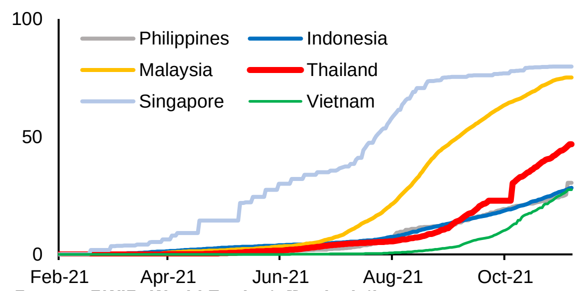
The recovery in tourism is expected to be gradual. The number of foreign tourist visitors remained below 1% of the 2019 level in the third quarter (Fig. 3), similar to regional peers, but in contrast to the rise in other European destinations. Despite the reopening, the Ministry of Finance expected the number of visitors to pick up only gradually to

Figure 1: COVID-19 Cases Declined Gradually
(Per Million People, Log scale)



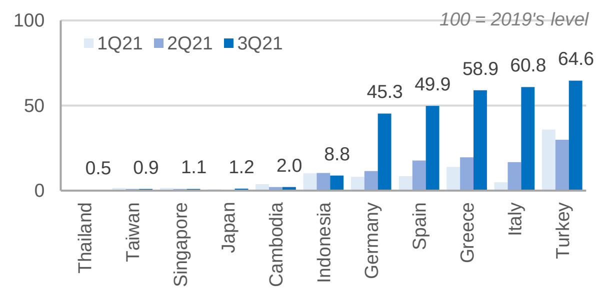
Source: OWiD; World Bank staff calculations

Figure 2: Vaccination Accelerated in October
(Fully vaccinated people as percent of the population)



Source: OWiD; World Bank staff calculations

Figure 3: Tourism in Asia Stayed Weak
(Number of visitors, percent of the pre-COVID level in 2019)



Source: CEIC; World Bank staff calculations

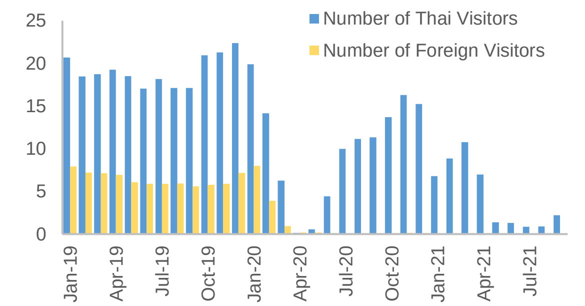
90,000 visitors in the fourth quarter of 2021 (0.9% of 2019 level). Domestic travel is expected to support the tourism sector in the fourth quarter due to the relaxation of containment measures. Domestic travel supported the sector before the lockdown was reimposed in May (Fig. 4). The Government projects the number of international tourists will pick up to only 7 million in 2022 (18% of 2019 level), due to hesitation of tourists to travel long distance and low demand from China, as the Chinese government has continued to ban outbound package travel.

Economic activity rebounded in September and October after hitting a one-year low in August. In July and August, the economy was severely hit by the COVID-19 outbreak, containment measures, and the supply disruption. The manufacturing production index (MPI) and the private consumption index in August fell to the lowest level in 2021. Economic activity rebounded in September and October with improved consumer confidence and a rebound in exports. In September, the MPI saw a small contraction and merchandise exports increased by 17.7%. Nevertheless, export growth remained low compared to peers in 2021 (Fig. 6), as Thai exports benefitted less from the surge in global demand for electronics and the higher global oil price. Overall, we expect a small contraction in the third quarter. With the further easing of lockdown measures in October which led to the rising of mobility to its highest level since the third COVID wave in April (Fig. 5), a stronger economic outlook is expected for the fourth quarter of 2021. This trend is common across countries and was supported by the easing of movement restrictions.

Public debt increased as the government supported off-budget spending for COVID-19 relief. As of September, the government had borrowed about THB 145 billion (0.9% of GDP) out of the THB 500 billion (3.2% of GDP) off-budget fiscal envelope to fund COVID-19 relief measures (Fig. 7). These measures include the previously announced cash handout, subsidy for students, and vaccine procurements from Pfizer and Sinovac. The remaining balance of THB 354 billion (2.3% of GDP) is expected to be disbursed in FY 2022. As a result, fiscal policy remained highly expansionary, with a deficit of 11% of GDP in the last quarter of FY 2021 (July-September). Public debt increased to 58% of GDP at the end of FY 2021 from 49.4% in the previous fiscal year (Fig. 8). The government also announced additional measures of THB 5.7 billion (We Travel Together - phase 3) to subsidize domestic travel in the first quarter of FY 2022.

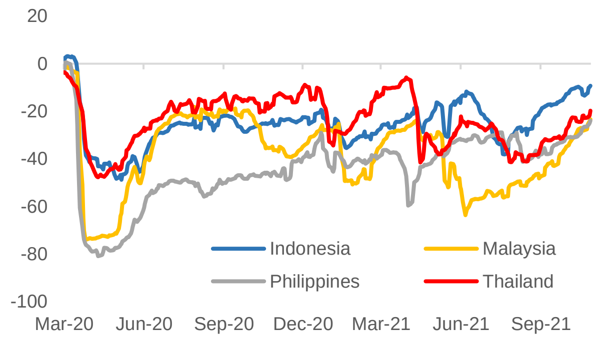
Inflation remained within the Bank of Thailand's target range. Inflation rose to the highest level in five months in October at 2.4% due to the surge in oil and fresh food prices (Fig 9). However, the pass-through of global oil prices to inflation was limited, in part because the government

Figure 4: Domestic Travel Was Driven By Thai Visitors
(Million visitors)



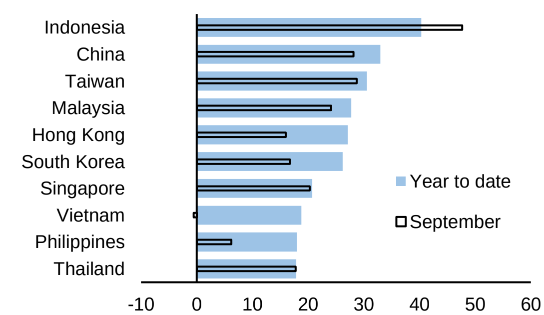
Source: CEIC; World Bank staff calculations

Figure 5: Google Mobility Surged in October
(Index)



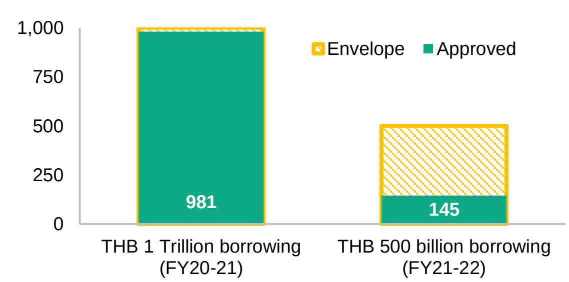
Source: CEIC; World Bank staff calculations

Figure 6: Thai Exports Continued to Rise but Remained Low Compared to Peers
(Percent Year on Year)



Source: Haver Analytics; World Bank staff calculations

Figure 7: More Borrowing Under Off-Budget Fiscal Stimulus is Expected in FY 2022
(THB billion)

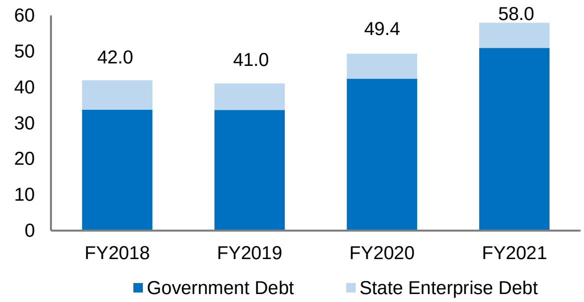


Source: NESDC; World Bank staff calculations announced a cap on diesel prices at 30 baht per liter. The BOT maintained the policy rate at 0.50%, noting that inflationary pressure was contained and projecting inflation to stay close to the lower bound of the target range (1-3%) at 1% in 2021 and 1.4% in 2022. Nevertheless, in line with the expected economic recovery in 2022 and 2023, some additional inflationary pressure may emerge as the output gap closes. To enhance bond market stability and ensure adequate liquidity in the corporate bond market, the BOT extended the Corporate Bond Stabilization Fund (BSF) for another year to the end of 2022. The THB 400 billion BSF was set up in April 2020 to provide a liquidity backstop to support firms. While the fund has not been fully utilized, it has helped restore investor confidence and stabilize the corporate bond market, as reflected in the decline in the corporate bond spread since the Q3 2020.

The Thai banking system remains resilient with sufficient capital and manageable nonperforming loans (NPLs), although asset quality has deteriorated. The reported system-wide regulatory capital to risk-weighted assets (CAR) remained stable at 19.7% end-June 2021, above the minimum regulatory requirements and Basel III minimum required level of 10.5% (Fig 10). The NPLs to total gross loans increased modestly to 3.2%, however the special mentioned loans, a forward-looking indicator of asset quality, have deteriorated significantly – rising from 2.8 at the end of December 2019 to 6.37% end-June 2021. The government's financial assistance measures to support borrowers, though necessary, may mask underlying vulnerabilities in loan quality, which could deteriorate further as some of these measures expire in 2022.

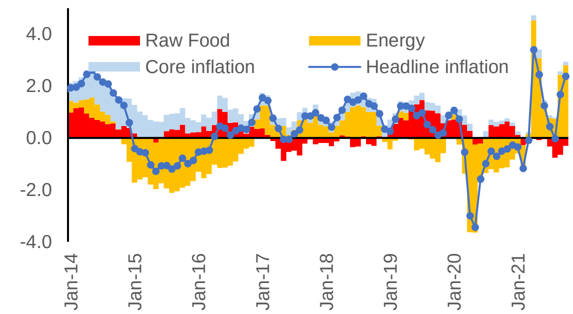
The Thai baht appreciated slightly in October, with investor confidence strengthening due to the reopening of borders. By the end of October, the baht had appreciated by 2.2% since the end of September to 33.18 against the US dollar, after the easing of lockdown measures and the reopening announcement. The Real Effective Exchange Rate (REER) gained 1.7%, a larger appreciation than elsewhere in the region. Foreign inflows to stocks and bonds markets were recorded at THB 24.8 billion in October due to the improved economic outlook. However, the current account deficit has remained relatively large (3.5% of GDP in Q3), driven by subdued tourism receipts and soaring payments for freight costs (Fig. 11). In contrast to the rest of the region, the current account has remained firmly in deficit through the first three quarters of 2021. However, the goods trade surplus continued to stay strong at 7.4% of GDP.

Figure 8: Public Debt is on the Rise.
(Percent of GDP)



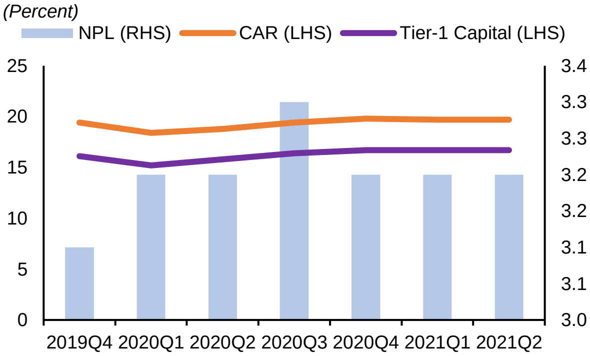
Source: PDMO; World Bank staff calculations

Figure 9: The Surge in Oil Prices Drove Inflation
(Contribution to inflation, Percent year-on-year)



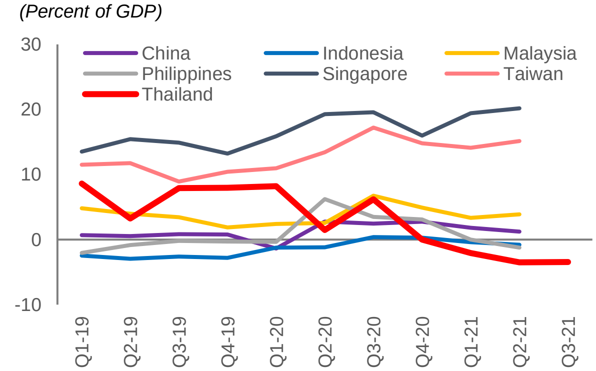
Source: CEIC; World Bank staff calculations

Figure 10: NPL and CAR in the Banking Sector
(Percent)



Source: CEIC; World Bank staff calculations

Figure 11: The Large Current Account Deficit Persisted
(Percent of GDP)



Source: CEIC; World Bank staff calculations

Issues to Watch:

- COVID-19: Will the rise in vaccination result in a significant reduction of COVID-19 cases?
- Tourism: Will the reopening of the border from November 1 attract foreign tourist visitors and ignite domestic activity?
- Fiscal: Will additional fiscal relief be announced to fight the impact of COVID-19 on domestic activity?

News Highlights:

- Thai economy faces uncertainty, monetary policy to stay accommodative (Reuters, Link)
- Thailand reopens to vaccinated tourists from over 60 nations (BBC, Link)
- Thailand to extend cap on diesel prices to help consumers (Reuters, Link)

Prepared by Warunthorn Puthong, MTI, Uzma Khalil, FCI, under the guidance of Kiatipong Ariyapruchya and Kim Alan Edwards. For further questions, please email wputhong@worldbank.org

Selected Economic and Financial Indicators

	2020	2020	2021			2021				
		Q4	Q1	Q2	Q3	Jun	Jul	Aug	Sep	Oct
GDP and Inflation (%YoY)										
GDP growth (real)	-6.2	-4.2	-2.6	7.5	-					
Contribution to GDP growth:										
Private consumption	-0.5	0.5	-0.2	2.6	-					
General Government consumption	0.1	0.3	0.3	0.2	-					
Gross fixed capital formulation: Private	-1.5	-0.6	0.5	1.6	-					
Gross fixed capital formulation: Public	0.4	0.0	1.1	0.4	-					
Net Exports of goods and services	-5.3	-10.7	-8.0	-2.1	-					
Change in Inventory	0.7	6.3	3.6	4.8	-					
GDP, nominal (USD Billion)	502	135	134	125	-					
GDP, nominal (THB Billion)	15698	4133	4071	3924	-					
Consumer Prices Index: Headline	-0.8	-0.4	-0.5	2.4	0.7	1.3	0.5	-0.02	1.7	2.4
Consumer Prices Index: Core	0.3	0.2	0.1	0.4	0.1	0.5	0.1	0.1	0.2	0.2
Output Indicators										
Manufacturing Production Index (%YoY)	-9.2	-1.6	0.8	20.7	-0.7	18.3	3.9	-4.7	-1.3	
Capacity Utilisation (%)	61.0	63.8	67.4	64.7	59.3	62.5	58.9	57.1	62.0	
Farm Production Index (%YoY)	-6.9	-0.5	2.8	2.3	8.1	4.2	7.3	12.0	4.9	
Service Index (%YoY)	-13.1	-15.4	-10.6	-0.6	-1.7	-2.0	-1.6	-2.9	-0.4	
Labor Market										
Unemployed workers (Thousand Persons)	651	727.1	758	732	-					
Unemployment rate (%)	1.7	1.9	2.0	1.9	-					
Underemployment/1 (Thousand Persons)	485	510	651	469	-					
Underemployment (%)	1.3	1.3	1.7	1.2	-					
Balance of Payments (USD million)										
Current account	20,279	-6	-2,799	-4,377	-4337.5	-1,430	-456	-2,536	-1,346	
Current account (% of GDP)	4.0	0.0	-2.1	-3.5	-3.5	-3.3	-1.1	-5.9	-3.1	
Trade Balance	40,856	8,698	7,389	9,713	9264	3,906	3,361	1,895	4,007	
Exports of goods (%YoY)	-6.4	-1.4	5.0	36.2	15.7	46.1	21.7	8.2	17.8	
Imports of goods (%YoY)	-13.7	-6.7	9.5	41.8	31.8	45.8	36.6	39.6	20.4	
Service, primary and secondary Income	-20,577	-8,704	-10,188	-14,089	-13601	-5,335	-3,817	-4,432	-5,353	
Tourist Arrivals (Thousand Persons)	6,701	9.6	20.2	20.3	29.8	5.7	18.1	15.1	12.2	
Financial account	-11,991	-2,021	-5,142	-812	-					
Financial account (% of GDP)	-2.4	-1.5	-3.8	-0.6	-					
Foreign direct Investment, net	-23,847	-12,150	1,104	-1,375	-					
Portfolio flows	-12,148	-3,867	-9,697	-2,956	-					
Others Investments	24,414	14,095	3,550	4,121	-					
Central Government Budget (Fiscal Year, THB billion)/2										
Revenue	2,834	601	591	849	799	350	219	244	336	
Expenditure	3,730	1,052	1,023	946	1217	375	349	362	506	
Central Government balance	-896	-450	-431	-97	-418	-25	-130	-119	-170	
Central Government balance (% of GDP)	-5.8	-10.9	-11	-2	-11					
Public debt (% of GDP)	46.2	50.5	52.0	56.09	57.98	56.09	55.6	57.01	57.98	
Financial Markets Indicators										
Policy rate (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
M2 (%YoY)	9.2	10.4	9.5	4.1	3.9	3.5	4.1	4.9	6.0	-
SET Index	1,449	1449	1587	1588	1522	1,588	1,522	1,639	1,606	1,623
Thai government bond yield, 10 year (%)	1.13	1.13	1.76	1.57	1.56	1.57	1.56	1.57	1.89	1.98
Foreign exchange reserve										
and FX forward position (USD billion)	274	274	267	263	263	263	263	261	257	258
USD/THB, end of period	30.04	30.04	31.34	32.05	32.90	32.05	32.90	32.39	33.92	33.18
THB NEER	123.2	121.9	121.9	118.9	115.8	118.91	115.80	114.27	114.35	113.69

1/ Underemployment account for workers who work less than 35 hours per week and available for additional work (defined by BOT)
2/ Fiscal Year 2021 starts in October 2020 to September 2021, Fiscal Balance according to GFS

Source: Office of the National Economic and Social Development Council, Bank of Thailand, Office of Industrial Economics, Ministry of Industry
National Statistical Office of Thailand, Fiscal Policy Office, Public Debt Management Office, Haver Analytics