



# Thailand Monthly Economic Monitor

16 March 2022

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The economy showed signs of a rebound in Q4 2021. However, the combined shocks of the ongoing Omicron wave and the fallout of the Ukraine-Russia conflict on global energy prices, tourism and financial markets, will further set back the recovery. The number of foreign tourists fell in January, due to a pause of the Test and Go program amid rising COVID cases. The current account deficit widened as the goods trade surplus narrowed and the services trade deficit remained large. The Thai baht appreciated in February as investors gained confidence in Thai equity and bond markets, only to depreciate in March due to a global flight to safety as the Ukraine-Russia conflict intensified. Surging global energy prices caused inflation to rise significantly to 5.3% but second-round inflation pressures remained contained. The banking system remained resilient, despite deteriorated asset quality.

## The economy rebounded in Q4 2021, driven by exports and private consumption.

The economy posted stronger-than-expected growth of 1.9% percent (yoy), up from -0.2 percent in the previous quarter. On a quarterly basis, output increased 1.9% (qoq, sa). Exports of goods and services were the key drivers of growth, reflecting strong external demand and the reopening of borders. Private consumption also improved, amid relaxation of lockdown measures, pent-up demand for durables, and COVID-19 relief measures. On the supply side, manufacturing output surpassed its pre-COVID-19 level, but services still lagged behind. In particular, tourism-related output stayed subdued at 40% below its pre-COVID-19 level (Fig. 1). Overall, the economy expanded by 1.6% in 2021, after contracting by 6.2% in 2020.

## The Omicron wave delayed consumption recovery.

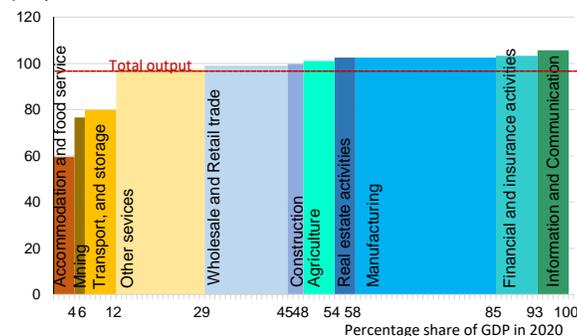
Average new daily COVID-19 cases broke 22,000 during the first ten days of March, up from 16,000 cases per day in February, due to the highly transmissible Omicron variant (Fig. 2). Similar to regional peers, the surge in cases has started to weigh on sentiment and mobility (Fig. 3). The Mobility Index declined by 3 pts to -11 pts in the second half of February but remained significantly higher than the Delta outbreak. The COVID death rate edged up from 0.2% of confirmed cases in February to 0.3% in March. The fully vaccinated population reached 71% while 30% are boosted.

## The resumption of the Test and Go program attracted tourists in February after a lull in January.

Tourist arrivals posted 133,903 in January, down from 230,500 in the previous month, due to the temporary pause of the Test and Go program. This remains well below pre-Covid levels of about 40 million per year. Foreign tourists are expected to increase in February following the resumption of quarantine-free entry for fully vaccinated visitors in February. However, the recovery of tourism is likely to be gradual due to the ongoing Omicron wave, continued travel restrictions by

Figure 1: Sectoral Recovery Remains Uneven

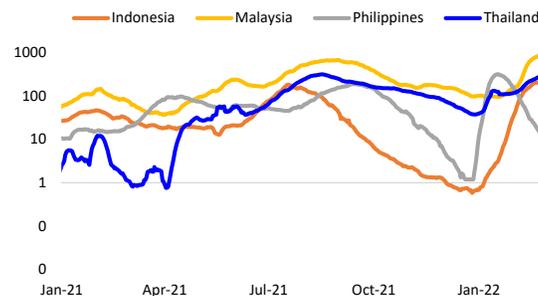
(Output level as a share of Pre-Covid level, Q4 2019 = 100)



Source: NESDC; World Bank staff calculations

Figure 2: New Cases Reached 20,000 per Day

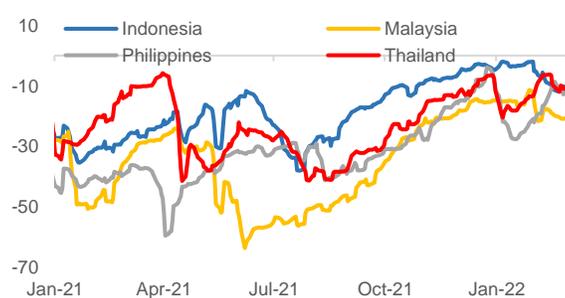
(New COVID-19 cases per million, smoothed, log-scale)



Source: Ourworldindata; World Bank staff calculations

Figure 3: Mobility Fell as Cases Increased

(Google Index, average of transit, retail and recreation, and workplace)



Source: CEIC; World Bank staff calculations

China, and the Ukraine–Russia conflict. Over the past 3 months, Thailand relied mainly on visitors from Europe, which accounted for more than 60% of tourist arrivals.

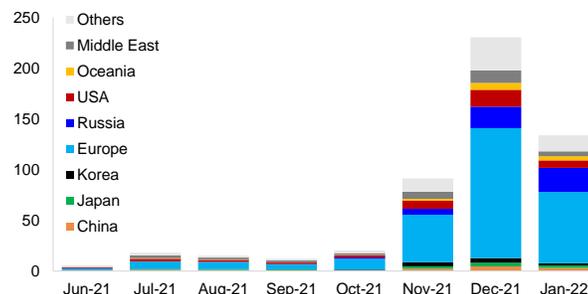
**Headline inflation rose to 5.3% in February, breaching the central bank’s target due to surging energy prices.** Core inflation also started to pick up from 0.5% to 1.8% (Fig. 5). Second-round inflation pressures have been largely contained due to the oil subsidy and subdued domestic demand (Fig. 6). However, second-round effects may potentially materialize if global oil prices continue to rise and the output gap closes. The government recently extended the cap on diesel until the end of May at 30 baht/liter, funded by the state oil fund and a cut in the diesel excise tax. The government estimated that the tax cut between February and May could reduce fiscal revenue by THB 17 billion (0.1% of GDP). The co-payment scheme, under which the government pays 50% of the cost of food and general goods purchased by participants, was also extended at the amount of THB 43 billion (0.3% of GDP) to help offset household cost of living. The fiscal cost could become larger if the global oil price continues to rise.

**The current account deficit widened as the goods trade surplus narrowed and the service trade deficit remained large.** The current account deficit widened to THB 2.2 billion (7% of GDP) in January, the largest deficit in 5 months (Fig. 7). This reflected a significant decline in the goods trade balance as export growth slowed to 7.9% (yoy), from 23% in the previous month, due to softening external demand, while strong import growth continued at 21.6%. The services and income balance remained in deep deficit at 9% of GDP due to low tourism receipts and the high cost of freight.

**The Thai baht appreciated in February, but the trend reversed in March amid a global flight to safety.** The baht appreciated in February to 32.7 against the US dollar. The Real Effective Exchange Rate (REER) outperformed the rest of Asia and appreciated by 1.7% during the same period, reflecting investor confidence in the economic outlook. However, the Thai baht started to weaken in the beginning of March as a global flight to safety took hold. Thai bond and equity markets registered net outflows for the first time in 6 months at THB 46 billion (Fig. 8).

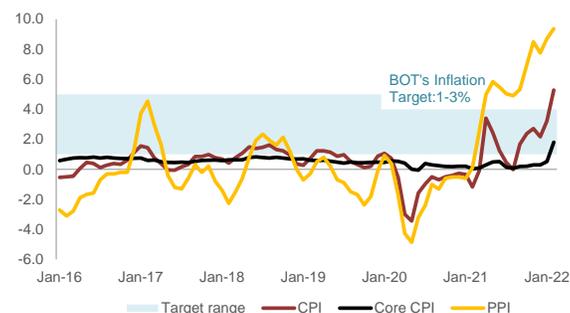
**The Russia-Ukraine conflict could impact the economy via energy prices, trade and tourism, and financial market volatility.** Although the economy does not directly rely on energy imports from Russia, the impact of the Russia-Ukraine conflict is likely to be felt via rising global energy prices. Thailand is a net importer of energy, with an energy trade deficit of 4.5% of GDP in 2020 (Table 1). A price spike could affect the headline CPI, the fiscal costs of the diesel and LPG

**Figure 4: Foreign Tourism was Driven by Europe**  
(Thousand people)



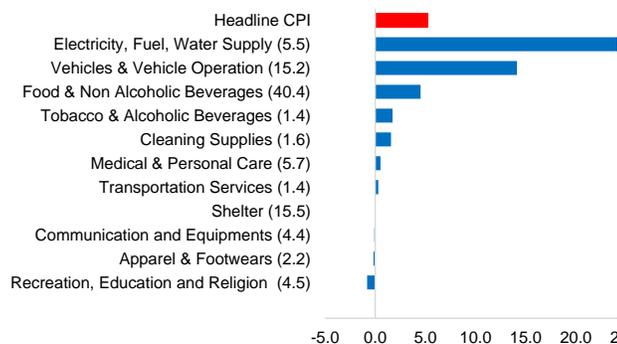
Source: MOTs, CEIC; World Bank staff calculations

**Figure 5: Headline and Core Inflation Ticked Up**  
(Percent year-on-year)



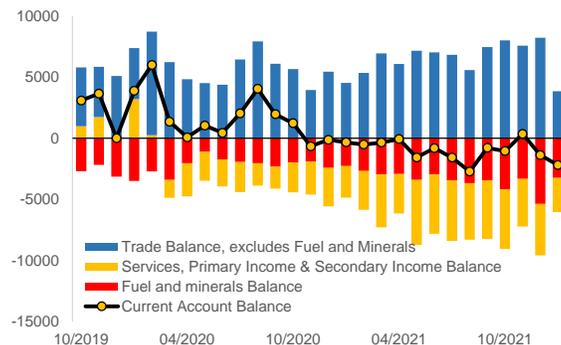
Source: MOC; CEIC; World Bank staff calculations

**Figure 6: Energy and Food Prices Drove Inflation in February**  
(Percent, numbers in parenthesis are weights in CPI basket)



Source: MOC; CEIC; World Bank staff calculations

**Figure 7: The Current Account Deficit Widened**  
(USD Million)



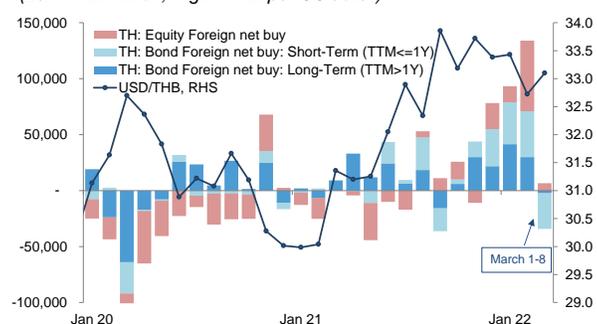
Source: Bank of Thailand; CEIC; World Bank staff calculations

subsidies, and lead to a deterioration of the current account balance. The latter is likely to be additionally affected by weaker global demand and tourism. Since the reopening of borders in July 2021, Russian tourists accounted for 6% of total foreign visitors. Portfolio flows to stock and bond markets could become more volatile as the Thai economy is reliant on imported oil. However, Thailand continues to maintain relatively strong buffers against external shocks, including high foreign reserves and relatively low foreign holdings in the sovereign bond market.

**The Thai banking system remained resilient in Q3 2021 with sufficient capital and liquidity buffers.** The system-wide regulatory capital to risk-weighted assets ratio (CAR) remained stable in Q3 2021, above the minimum regulatory requirements as well as the Basel III minimum required level. Thai commercial banks also maintained adequate liquidity (Figure 9), with a liquidity coverage ratio of 186.6%, well above the minimum regulatory requirement of 10% (Figure 10). Banking sector profitability showed a stabilizing trend after a significant decline from pre-pandemic levels with return on assets and return on equity at 1.0% and 7.2% respectively. Asset quality deteriorated as nonperforming loans to total gross loans rose slightly and special mention loans increased significantly from 2.8% of total loans end-2019 to 6.4%. In addition, as of end-2021, NPLs for SMEs edged up from 7.0% in 2020 to 7.5% of total SME gross loans, while NPLs for large enterprises declined from 2.1% of non-SME gross loans to 1.9% during the same period. The financial assistance measures to support borrowers may mask underlying vulnerabilities in loan quality, which could deteriorate further as some of these measures expire in 2022. The increase of household debt from 79.8% of GDP at the end of 2019 to 89.3% could negatively impact the financial sector.

**Figure 8: Financial Inflows Rose Substantially During Jan-Feb 2022**

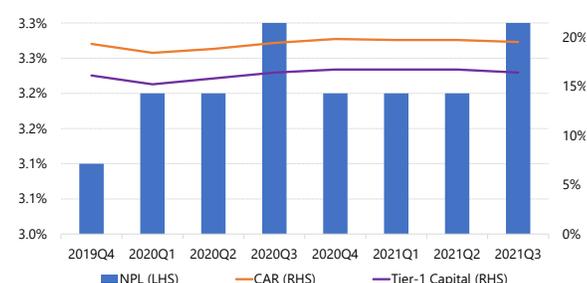
(Left: THB million, Right: THB per US dollar)



Source: SET; Thai BMA; CEIC; World Bank staff calculations

**Figure 9: Capital to Risk-Weighted Assets Remained Stable in Q3 2021**

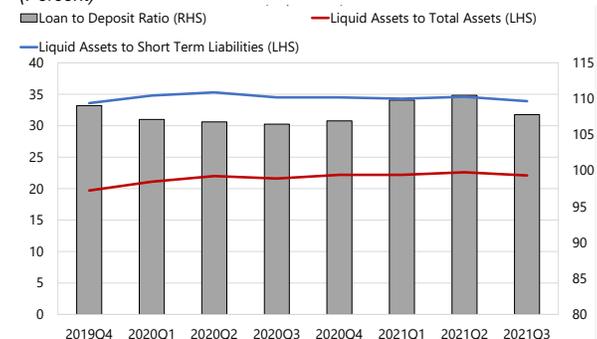
(Percent)



Source: Bank of Thailand, IMF FSI, and World Bank staff analysis

**Figure 10: Liquidity Coverage Ratio was Well Above the Minimum Regulatory Requirement**

(Percent)



Source: Bank of Thailand, IMF FSI, and World Bank staff analysis

**Table 1: Economic Exposure Ukraine–Russia Conflict**

|             | Share of Energy Imports from Russia | Net Energy Exports (% of GDP) | Current Account Balance (%GDP) | Foreign holding government debt (%total) | International Reserve (%GDP) | Share of Exports to Russia | Share of Exports to EU |
|-------------|-------------------------------------|-------------------------------|--------------------------------|--|------------------------------|----------------------------|------------------------|
| Thailand    | 4.1                                 | -4.5                          | -1.6                           | 13.4                                     | 40.6                         | 0.3                        | 8.9                    |
| Philippines | 2.4                                 | -2.0                          | -1.0                           | 1.9                                      | 24.3                         | 0.1                        | 10.7                   |
| Malaysia    | 2.3                                 | 1.1                           | 3.6                            | 25.9                                     | 28.7                         | 0.3                        | 9.6                    |
| Indonesia   | 1.2                                 | 0.9                           | 0.4                            | 19.1                                     | 11.1                         | 0.6                        | 8.8                    |

Source: IIF, Asia Bond Online; Trade map; Haver Analytics; CEIC; World Bank staff calculations

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**Issues to Watch:**

- **Inflation:** Will rising prices of raw food and energy significantly affect core inflation and wages?
- **Trade:** Will the Russia-Ukraine conflict cause a significant decline in merchandise exports, disrupt supply chain and lower tourism receipts?
- **COVID-19:** Will the government continue loosening COVID-19 restrictions?

**News Highlights:**

- The government has two choices to cope with the upsurge in global oil prices (Bangkok Post, [Link](#))
- The BoT is concerned about inflation, but believes the Thai economy will recover this year (Bangkok Post, [Link](#))
- Consumers will be affected by the higher cost of living and become more cautious with spending (Bangkok Post, [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](mailto:wputhong@worldbank.org)*

## Selected Economic and Financial Indicators

|  | 2020    | 2021    | 2021    |         |         |         | 2021   |        |        | 2022   |        |
|--|---------|---------|---------|---------|---------|---------|--------|--------|--------|--------|--------|
|  |         |         | Q1      | Q2      | Q3      | Q4      | Oct    | Nov    | Dec    | Jan    | Feb    |
| <b>GDP and Inflation (%YoY)</b>                                |         |         |         |         |         |         |        |        |        |        |        |
| GDP growth (real)  | -6.2    | 1.6     | -2.4    | 7.7     | -0.2    | 1.9     |        |        |        |        |        |
| Contribution to GDP growth:                                    |         |         |         |         |         |         |        |        |        |        |        |
| Private consumption  | -0.5    | 0.2     | -0.1    | 2.7     | -1.9    | 0.2     |        |        |        |        |        |
| General Government consumption                                 | 0.2     | 0.5     | 0.3     | 0.2     | 0.3     | 1.2     |        |        |        |        |        |
| Gross fixed capital formulation: Private                       | -1.5    | 0.6     | 0.5     | 1.6     | 0.4     | -0.2    |        |        |        |        |        |
| Gross fixed capital formulation: Public                        | 0.3     | 0.3     | 1.1     | 0.3     | -0.5    | 0.1     |        |        |        |        |        |
| Net Exports of goods and services                              | -5.0    | -4.1    | -7.5    | -0.1    | -9.2    | 0.5     |        |        |        |        |        |
| Change in Inventory  | 0.2     | 4.2     | 3.3     | 3.1     | 10.7    | 0.1     |        |        |        |        |        |
| GDP, nominal (USD Billion)                                     | 501     | 506     | 134     | 125     | 119     | 129     |        |        |        |        |        |
| GDP, nominal (THB Billion)                                     | 15,654  | 16,180  | 4,053   | 3,914   | 3,918   | 4,296   |        |        |        |        |        |
| Consumer Prices Index: Headline                                | -0.8    | 1.2     | -0.5    | 2.4     | 0.7     | 2.4     | 2.4    | 2.7    | 2.2    | 3.2    | 5.3    |
| Consumer Prices Index: Core                                    | 0.3     | 0.2     | 0.1     | 0.4     | 0.1     | 0.3     | 0.2    | 0.3    | 0.3    | 0.5    | 1.8    |
| <b>Output Indicators</b>                                       |         |         |         |         |         |         |        |        |        |        |        |
| Manufacturing Production Index (%YoY)                          | -9.4    | 6.5     | 0.7     | 21.0    | -0.3    | -0.6    | 2.7    | 4.6    | 6.7    | 2.0    |        |
| Capacity Utilisation (%)                                       | 60.1    | 63.0    | 66.3    | 62.7    | 58.5    | 60.2    | 63.1   | 65.2   | 65.2   | 65.9   |        |
| Farm Production Index (%YoY)                                   | -5.5    | 2.2     | 0.6     | 4.9     | 4.3     | 2.0     | -2.6   | -0.6   | 0.9    | 3.1    |        |
| Service Index (%YoY)   | -12.8   | -2.3    | -10.7   | -0.6    | -1.8    | 4.0     | 3.0    | 2.5    | 6.4    | 9.1    |        |
| <b>Labor Market</b>  |         |         |         |         |         |         |        |        |        |        |        |
| Unemployed workers (Thousand Persons)                          | 651     | 748     | 758     | 732     | 871.3   | 631.9   |        |        |        |        |        |
| Unemployment rate (%)  | 1.7     | 2.0     | 2.0     | 1.9     | 2.3     | 1.6     |        |        |        |        |        |
| Underemployment/1 (Thousand Persons)                           | 485     | 584     | 651     | 469     | 778     | 438     |        |        |        |        |        |
| Underemployment (%)  | 1.3     | 1.5     | 1.7     | 1.2     | 2.1     | 1.2     |        |        |        |        |        |
| <b>Balance of Payments (USD million)</b>                       |         |         |         |         |         |         |        |        |        |        |        |
| Current account  | 21,178  | -10,902 | -1,222  | -2,478  | -5,112  | -2,090  | -1,058 | 346    | -1,378 | -2,204 |        |
| Current account (% of GDP)                                     | 4.2     | -2.2    | -0.9    | -2.0    | -4.3    | -1.8    | -3.3   | 1.1    | -4.3   | -7.1   |        |
| Trade Balance  | 40,856  | 39,955  | 8,885   | 10,929  | 9,264   | 10876   | 3,804  | 4,238  | 2,835  | 596    |        |
| Exports of goods (%YoY)  | -6.4    | 19.6    | 5.0     | 36.4    | 15.7    | 21.3    | 17.0   | 23.7   | 23.0   | 7.9    |        |
| Imports of goods (%YoY)  | -13.7   | 24.5    | 6.5     | 39.0    | 31.8    | 20.6    | 20.1   | 13.5   | 28.2   | 18.4   |        |
| Service, primary and secondary Income                          | -19,677 | -50,857 | -10,108 | -13,407 | -14,375 | -12,966 | -4,862 | -3,892 | -4,213 | -2,801 |        |
| Tourist Arrivals (Thousand Persons)                            | 6,701   | 428     | 20.2    | 20.3    | 45.4    | 342.0   | 20.3   | 91.3   | 230.5  | 133.9  |        |
| Financial account  | -11,991 | -       | -5,142  | -1,927  | 2,197   | -       |        |        |        |        |        |
| Financial account (% of GDP)                                   | -2.4    | -       | -3.8    | -1.5    | 1.8     | -       |        |        |        |        |        |
| Foreign direct Investment, net                                 | -23,847 | -       | 1,104   | -1,726  | -1166.0 | -       |        |        |        |        |        |
| Portfolio flows  | -12,148 | -       | -9,697  | -3,757  | 158.1   | -       |        |        |        |        |        |
| Others Investments   | 24,414  | -       | 3,550   | 4,160   | 3,476   | -       |        |        |        |        |        |
| <b>Central Government Budget (Fiscal Year, THB billion)/2</b>  |         |         |         |         |         |         |        |        |        |        |        |
| Revenue  | 2,822   | 2,858   | 591     | 842     | 824     | 661     | 215    | 188    | 259    | 257    |        |
| Expenditure  | 3,669   | 4,205   | 1,017   | 934     | 1209    | 1209    | 519    | 283    | 407    | 311    |        |
| Central Government balance                                     | -847    | -1,346  | -426    | -91     | -385    | -548    | -304   | -95    | -148   | -53    |        |
| Central Government balance (% of GDP)                          | -5.6    | -8.4    | -11     | -2      | -10     | -13     |        |        |        |        |        |
| Public debt (% of GDP)   | 49.4    | 59      | 52.0    | 56.1    | 57.980  | 58.760  | 58.8   | 59.6   | 59.6   | 59.9   |        |
| <b>Financial Markets Indicators</b>                            |         |         |         |         |         |         |        |        |        |        |        |
| Policy rate (%)  | 0.50    | 0.50    | 0.50    | 0.50    | 0.50    | 0.50    | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   |
| M2 (%YoY)  | 9.2     | 6.0     | 9.5     | 4.2     | 4.0     | 4.2     | 6.2    | 5.2    | 4.9    | 5.4    | -      |
| SET Index  | 1,449   | 1,658   | 1587    | 1588    | 1522    | 1639    | 1,623  | 1,569  | 1,658  | 1,649  | 1,685  |
| Thai government bond yield, 10 year (%)                        | 1.13    | 1.90    | 1.76    | 1.57    | 1.56    | 1.57    | 1.98   | 1.85   | 1.90   | 2.11   | 2.15   |
| Foreign exchange reserve and FX forward position (USD billion) | 274     | 258     | 267     | 263     | 263     | 261     | 258    | 257    | 258    | 255    | 255    |
| USD/THB, end of period   | 30.04   | 33.42   | 31.34   | 32.05   | 32.90   | 32.39   | 33.18  | 33.69  | 33.42  | 33.43  | 32.73  |
| THB NEER   | 123.2   | 114.4   | 121.9   | 118.9   | 115.8   | 114.3   | 113.69 | 115.54 | 114.41 | 115.54 | 117.56 |

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