Thailand Monthly Economic Monitor

18 October 2021

Domestic economic activity improved following the easing of virus containment measures on October 1. New infections continued to decline gradually while the pace of vaccination picked up significantly. The government announced the reopening of borders for November 1 to fully vaccinated tourists from low-risk countries. The vaccination target of 70% of the population by end-2021 is within reach. The economic recovery faces headwinds with subdued manufacturing production as export growth moderated. To support economic recovery, the government raised the public debt ceiling to 70% of GDP and the Bank of Thailand kept the policy rate unchanged. The current account remained in deficit, pushing the Thai baht to its weakest level since 2017.

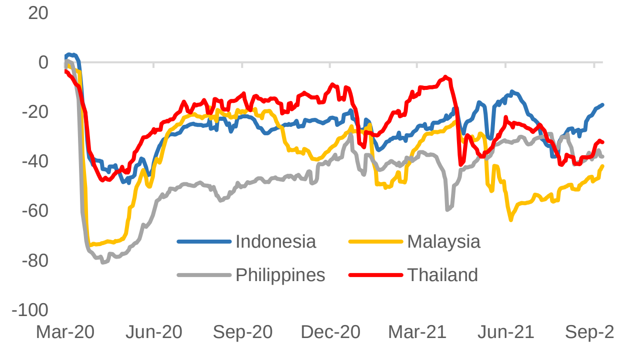
The government continued to ease lockdown measures, allowing domestic activity to improve. On October 1, the government further eased containment measures imposed on dark red provinces. More venues and services were reopened, including cinemas, spas, fitness centers, salon, public libraries, and museums. Also, on October 16, the government further shortened the curfew to between 11pm to 3am, instead of 10pm to 4am and reduced the number of dark red provinces to 23 from 29. New infections declined gradually in October to 11,000 cases per day, on average, from 13,000 in September. Mobility improved in line with regional peers (Fig. 1).

The government announced the reopening of borders on November 1 and the vaccination target of 70% of the population by end-2021 is within reach. The pace of vaccination picked up significantly as of September, including for school aged children. The share of the population vaccinated with at least one dose climbed to 49.7% while the share for those fully vaccinated reached 33.0%, surpassing Indonesia and the Philippines (Fig.2). This was attributed to the increase in vaccine delivery in the third quarter to 59 million doses sufficient to fully vaccinate 40% of the population (Fig. 3). Additional vaccines supplies (79 million doses) are expected to arrive in Q4. Recent trends suggest that the vaccination target of 70% of the population by end-2021 is within reach, though this will be challenging. Thailand's progress is now faster than several regional peers such as Philippines and Indonesia, but slower than in Malaysia. The government has announced to reopen borders on November 1 to fully vaccinated tourists from low-risk countries. The reopening of the border is a step to revive the tourism industry and to maintain the competitiveness of the industry. Other neighbors such as Indonesia, Singapore, Malaysia, Vietnam have also laid out plans to reopen their borders.

Manufacturing production stayed subdued as export growth moderated. Manufacturing production continued to decline for the fifth month in August, with the index 3.5% lower than the previous month. In September, the Manufacturing Purchasing Manager Index stayed in negative territory at 45.9,

Figure 1: Mobility Continued to Improve

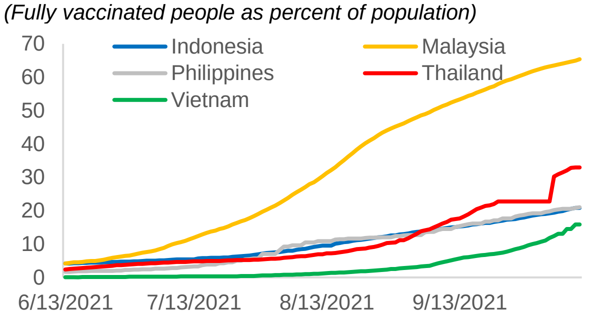
(Index, 5-day moving average excluding weekends)



***Source:** Google Mobility;* **World Bank staff calculations**

Figure 2: Thailand Stepped Up the Pace of Vaccination due to Increase in Delivery

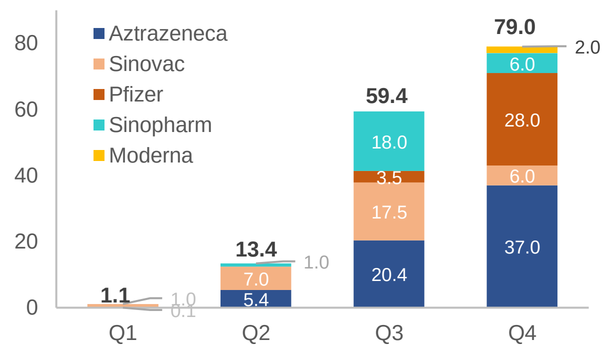
(Fully vaccinated people as percent of population)



***Source:** CEIC; OWiD;* **World Bank staff calculations**

Figure 3: More Vaccines Delivery Expected in Q4

(Vaccine delivered (Q1-Q3) and plan for Q4, million doses)



***Source:** Department of Disease Control* while Indonesia saw an expansion as the number of new COVID-19 cases declined significantly (Fig. 4). Domestic consumer confidence picked up slightly in September, reflecting the easing of lockdown measures. However, signs of a slowdown in exports weighed on the subdued recovery in manufacturing production. Export growth has been weighed down by moderating demand from advanced economies, supply chain disruptions due to factories shutting down owing to COVID-19, and the surge in shipping costs due to logistics bottlenecks. In August, merchandise exports grew 8.2% moderating from 17.8% during the first 7 months of 2021 and performing worse than regional peers (Fig. 5). Exports have been benefitted less from the surge in global demand for electronics and rise in the global oil price relative to the regional peers (Fig. 6).

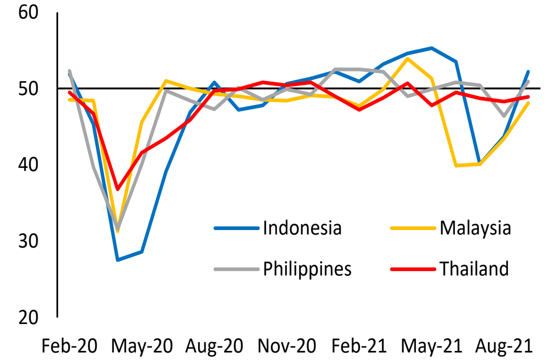
The government raised the public debt ceiling from 60% to 70% of GDP to support the economic recovery. As additional borrowing remains necessary to finance the planned stimulus and support the economic recovery, the debt ceiling was raised. For FY22, the government plans to borrow THB 1.2 trillion (7% of GDP) to finance the budget deficit, off-budget COVID-19 stimulus, and investment in the infrastructure projects. This is lower than the 10% of GDP in FY20 and FY21. The World Bank projects public debt to stay below the new ceiling at 62% of GDP in FY22 (Fig. 7). The fiscal debt path is projected to remain sustainable, reflecting the large share of debt denominated in local currency (98% of total) The relatively stable 10-year sovereign yield at 1.9% implies that domestic liquidity has remained sufficient.

The Bank of Thailand (BOT) maintained its accommodative monetary policy stance and kept the policy rate unchanged. On September 29, the Monetary Policy Committee decided unanimously to keep the policy rate unchanged at 0.50% compared to 4:2 votes to maintain the policy rate in the previous meeting. The BOT expressed a more optimistic outlook on the economy as it expects progress on vaccination and relaxation of the containment measures to support the economy, going forward. As a result, the BOT kept the growth outlook unchanged at 0.7% for 2021 and 3.9% for 2022. Inflation stayed subdued at 0.8% on average in the first 9 months of 2021, despite a rebound in September to 1.7% after measures to support electricity and water bills expired. The BOT expects inflation to remain well-anchored within the target range of 1-3%.

The current account deficit continued to deepen, pushing the Thai baht to its weakest level since 2017. The current account deficit increased to 6 percent of GDP in August, bringing the deficit in the first 8 months of 2021 to 2% of GDP. The deepening services trade deficit was the main reason for the current account deterioration, reflecting the subdued tourism

Figure 4: Manufacturing PMI continued to contract for Thailand

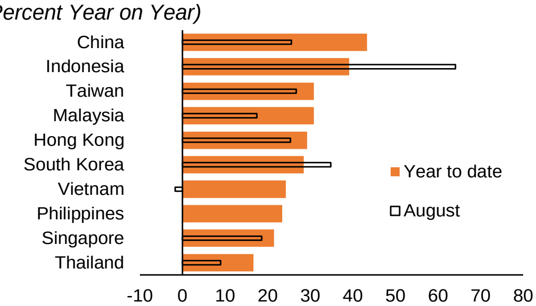
(Diffusion Index sa)



Source: CEIC; World Bank staff calculations

Figure 5: Thai Exports Underperformed Peers

(Percent Year on Year)



Source: Haver Analytics; World Bank staff calculations

Figure 6: Thailand is Net Importer of Oil and Mineral Products

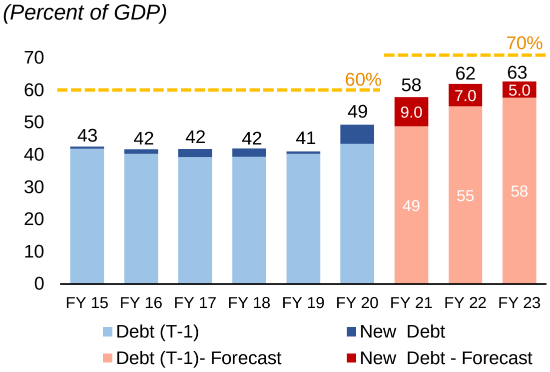
(Percent of GDP)

(% GDP)	Net Oil and Mineral Exports, 2020
Malaysia	1.1
Indonesia	0.9
China	-1.6
Philippines	-2.0
Taiwan	-3.5
South Korea	-3.7
Thailand	-4.5
Singapore	-5.5

Source: Trade map; World Bank staff calculations

Figure 7: Public debt is Projected to Rise

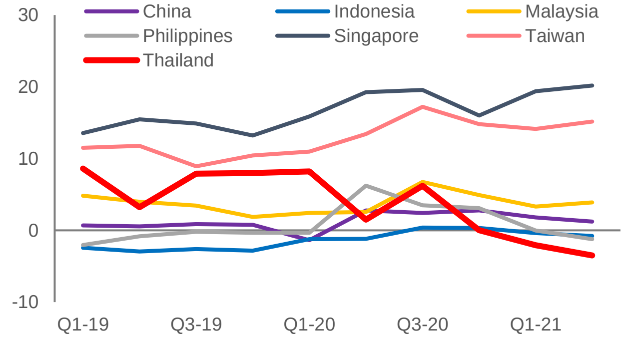
(Percent of GDP)



Source: PDMO; World Bank staff calculations receipts and the soaring payments for freight costs. Figure 8 showed that the current account has been affected by the service exports deficits more than others in the region. The trade surplus declined for the second month as export growth slowed, while imports continued to see solid growth. Net inflows from equity and bond markets declined in Q3, similar to other ASEAN countries, reflecting investor concerns over the impact of lockdowns and the pressure from the Fed's signal to begin scaling back liquidity support for the US markets (Fig. 9). As a result, the Thai baht depreciated 4.7% to 33.80 against the US dollar, and became the worst-performing currency in Asia. However, the Thai baht appreciated slightly after the government announced to reopen the border to foreign tourists.

Figure 8: Current Account Deficit Increased More Than Other Peers

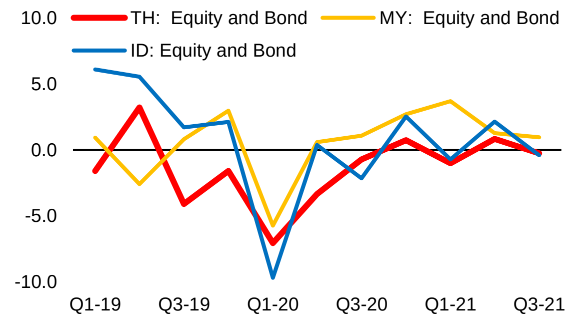
(Percent of GDP)



***Source: CEIC;* World Bank staff calculations**

Figure 9: Portfolio flows declined in line with other ASEAN countries

(USD Billion)



***Source: CEIC;* World Bank staff calculations**

Issues to Watch:

- COVID-19: Will the easing of lock down measures result in increased COVID-19 cases?
- Tourism: Will the reopening of border from November 1 attract tourist visitors?
- Fiscal: Will the additional fiscal relief be announced to fight the impact of COVID-19 on domestic activity?

News Highlights:

- Increase in public debt ceiling raises questions on government's competence (Thai PBS, Link)
- Thailand to end quarantine for some vaccinated visitors from Nov (Bangkok Post, Link)
- Thai economy in better shape as restrictions ease (Reuters, Link)

Prepared by Waruntorn Puthong, MTI, 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				
		Q1	Q2	Q3	Q4	Q1	Q2	May	Jun	Jul	Aug	Sep
GDP and Inflation (%YoY)												
GDP growth (real)	-6.2	-2.1	-12.1	-6.4	-4.2	-2.6	7.5					
Contribution to GDP growth:												
Private consumption	-0.5	1.3	-3.6	-0.3	0.5	-0.2	2.6					
General Government consumption	0.1	-0.3	0.2	0.4	0.3	0.3	0.2					
Gross fixed capital formulation: Private	-1.5	-0.9	-2.7	-1.9	-0.6	0.5	1.6					
Gross fixed capital formulation: Public	0.4	-0.6	0.8	1.2	0.0	1.1	0.4					
Net Exports of goods and services	-5.3	-2.1	-3.7	-4.7	-10.7	-8.0	-2.1					
Change in Inventory	0.7	0.5	-3.0	-1.2	6.3	3.6	4.8					
Consumer Prices Index: Headline	-0.8	0.4	-2.7	-1.0	-0.4	-0.5	2.4	2.4	1.3	0.5	-0.02	1.7
Consumer Prices Index: Core	0.3	0.5	0.1	0.2	0.2	0.1	0.4	0.5	0.5	0.1	0.1	0.2
Output Indicators												
Manufacturing Production Index (%YoY)	-9.2	-6.6	-20.3	-13.6	-1.6	0.8	20.7	25.7	18.3	3.9	-4.1	
Capacity Utilisation (%)	61.0	66.9	52.8	57.7	63.8	67.4	64.7	65.8	62.5	58.9	57.4	
Farm Production Index (%YoY)	-6.9	-13.2	-7.0	-4.2	-0.5	1.9	0.6	0.0	1.6	8.4	13.8	
Service Index (%YoY)	-13.2	-6.1	-15.7	-15.2	-15.5	-10.7	-0.6	0.9	-2.1	-1.4	-2.5	
Labor Market												
Unemployed workers (Thousand Persons)	651	395	745	738	727.1	758	732					
Unemployment rate (%)	1.7	1.0	2.0	1.9	1.9	2.0	1.9					
Underemployment/1 (Thousand Persons)	485	284	704	442	510	651	469					
Underemployment (%)	1.3	0.8	1.9	1.2	1.3	1.7	1.2					
Balance of Payments (USD million)												
Current account	20,279	10,983	1,639	7,662	-6	-2,799	-4,377	-2,214	-1,430	-456	-2,536	
Current account (% of GDP)	4.0	8.3	1.5	6.2	0.0	-2.1	-3.5	-5.1	-3.3	-1.1	-5.9	
Trade Balance	40,856	9,222	8,814	14,121	8,698	7,389	9,713	3,378	3,906	3,361	1,895	
Exports of goods (%YoY)	-6.4	1.5	-17.8	-7.9	-1.4	5.0	36.2	44.4	46.1	21.7	8.2	
Imports of goods (%YoY)	-13.7	-3.1	-24.9	-20.1	-6.7	9.5	41.8	56.6	45.8	36.6	39.6	
Service, primary and secondary Income	-20,577	1,761	-7,175	-6,459	-8,704	-10,188	-14,089	-5,592	-5,335	-3,817	-4,432	
Tourist Arrivals (Thousand Persons)	6,701	6691.6	0.0	0.0	9.6	20.2	20.3	6.1	5.7	18.1	15.1	
Financial account	-11,991	-9,625	5,964	-6,309	-2,021	-5,142	-812					
Financial account (% of GDP)	-2.4	-7.2	5.4	-5.1	-1.5	-3.8						
Foreign direct Investment, net	-23,847	-2,663	-5,656	-3,379	-12,150	1,104	-1,375					
Portfolio flows	-12,148	-8,515	2,750	-2,517	-3,867	-9,697	-2,956					
Others Investments	24,414	1,496	9,018	-196	14,095	3,550	4,121					
Central Government Budget (Fiscal Year, THB billion)/2												
Revenue	2,834	696	629	820	601	591	848	251	350	221	226	
Expenditure	3,730	858	1,062	938	1,051	1,022	946	259	375	348	355	
Central Government balance	-896	-162	-432	-118	-450	-432	-98	-8	-26	-128	-129	
Central Government balance (% of GDP)	-5.8	-3.9	-12.2	-3.1	-10.9	-10.6	-2.5					
Public debt (% of GDP)	46.2	41.6	44.6	46.9	50.5	51.4	55.4	55.4	56.09	55.6	57.01	
Financial Markets Indicators												
Policy rate (%)	0.50	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
M2 (%YoY)	9.2	5.1	10.7	11.3	10.4	9.5	4.1	4.1	3.5	4.1	4.9	
SET Index	1,449	1126	1339	1237	1449	1587	1588	1,594	1,588	1,522	1,639	1,606
Thai government bond yield, 10 year (%)	1.13	1.40	1.18	1.33	1.13	1.76	1.57	1.73	1.57	1.56	1.57	1.89
Foreign exchange reserve and FX forward position (USD billion)	274	251	255	263	274	267	263	266	263	263	261	259
USD/THB, end of period	30.04	32.67	30.89	31.66	30.04	31.34	32.05	31.26	32.05	32.90	32.39	33.92
THB NEER	123.2	121.7	124.2	121.1	121.9	121.9	118.9	119.17	118.91	115.80	114.27	114.35

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