THAILAND

Table 1	2019
Population, million	69.3
GDP, current US$ billion	562.7
GDP per capita, current US$	8119.1
Upper middle-income poverty rate ($5.5)[a]	8.4
Gini index[a]	36.4
School enrollment, primary (% gross)[b]	99.8
Life expectancy at birth, years[b]	76.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) Most recent WDI value (2018).

The Thai economy saw its worst contraction since the Asian Financial Crisis amid the COVID-19 outbreak and ongoing drought. The recovery is expected to be drawn out, taking more than two years to return to pre-COVID-19 GDP levels. While Thailand encountered relative success in containing the outbreak, the negative economic impact on the poor, informal workers and the middle class has proven to be substantial due to Thailand's openness to trade and tourism. Hard-won gains in poverty reduction are under threat, while some political tensions linger.

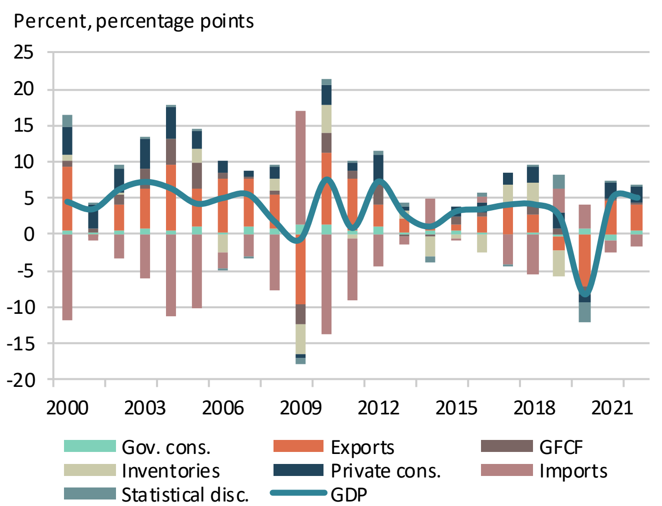
Recent developments

COVID-19 has severely impacted the economy due to Thailand's openness to trade and tourism, adding to pre-existing weaknesses. The economy contracted severely by 12.2 percent year-on-year in 2020 Q2 (-2.0 percent in 2020 Q1), the worst quarterly performance since the 1997-98 Asian Financial Crisis, as the economy was also hit by a major drought affecting agricultural production. Weaker global demand has led to a contraction in global trade, which, in turn, has disrupted global value chains, such as automobiles and electronics, in which Thailand is an active exporter. The tourism sector (18.6 percent of GDP) has been severely impacted with a near cessation of international tourist arrivals since March 2020. Finally, the mobility restrictions imposed in response to the outbreak, while critical to flattening the infection curve, have severely dented private consumption. This is reflected also in the sales of durables which plummeted by 30.2 percent in y-o-y terms in 2020 Q2.

Building on ample fiscal and monetary buffers, the authorities have approved monetary measures of 7.0 percent of GDP and fiscal response packages of 5.9 percent of GDP, totaling 12.9 percent of GDP. The government response was announced in three phases: (i) Phase 1 issued on March 10th was focused on providing financial assistance to SMEs; (ii) Phase 2 issued on March 24th included cash transfers to selected households and tax filing deferrals; (iii) Phase 3 announced on April 7th covered the most comprehensive fiscal measures and included the expansion of coverage of the one-time 5,000-baht (US$167) cash transfers to households and farmers impacted by the outbreak and funding for medium to long term economic and social rehabilitation projects. The fiscal deficit edged lower to -2.2 percent of GDP as of 2020 Q2, almost wholly funded by domestic borrowing given adequate fiscal space with public debt expected to reach 49.4 percent of GDP by the end of the year. The previously large current account turned negative at -0.8 percent of GDP (6.7 percent of GDP 2020 Q1). The Bank of Thailand lowered the policy rate from 1.25 percent to 0.5 percent since end-2019 and set up the Corporate Bond Stabilization Fund as a liquidity backstop to support the corporate bond market. Foreign currency reserves remain high at US$ 238.1 billion end-July 2020 (15.4 months of import value).

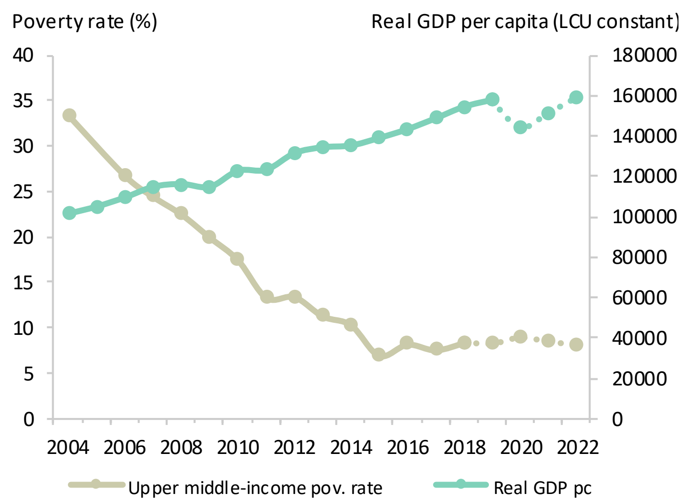
The impact on jobs and household welfare has proven to be severe. Services jobs, particularly in tourism, are at particular risk from the containment measures introduced by government. Around 8.4 million manufacturing and services jobs are estimated to be at risk from COVID-19 in 2020 Q2 and Q3. A third of all households rely on income from impacted sectors. In addition, 6 million farmers are at risk from drought. While the initial 3-month 5000-baht cash transfer programs was already disbursed to 15.1 million informal workers and 7.5 million farmers was generous and reached many in need, the program has since expired mid-2020.

FIGURE 1 Thailand / Real GDP growth and contributions to real GDP growth



Sources: World Bank staff calculations and NESDC.

FIGURE 2 Thailand / Actual and projected poverty rates and real GDP per capita



Sources: World Bank. Notes: see Table 2.

While the Thai financial sector exhibits some vulnerability, it remains largely stable and appears to have sufficient buffers to support maintaining financial stability going forward. Following the outbreak and global financial turbulence, the economy experienced record outflows. The Stock Index plunged by 35 percent between early January and mid-March 2020, before recovering about 25 percent by mid-August. The Thai baht depreciated by 7.2 percent against US dollar (7.1 percent in REER terms) since end-2019. As capital inflows returned in Q2, the baht appreciated by 3.4 percent against US dollar (3.2 percent in REER terms) from end-April to end-August 2020. Financial sector vulnerabilities, particularly from household debt (80 percent of GDP) and NPLs for SMEs are likely to worsen. At the same time, Thailand's financial system buffers remain adequate to support financial stability.

Outlook

The economy is projected to contract sharply in 2020, driven by a sharp deterioration in global and domestic demand. The economy is projected to contract by 8.3 percent in 2020, which is well below potential growth of 2.5-3.0 percent and among the sharpest projected declines in the East Asia region. While mobility restrictions and mandated business closures began to ease end of the second quarter, the economy will continue to face a sharp decline in net exports, particularly from tourism receipts and weakening global trade, and a slowdown in domestic demand reflecting weak consumer and investor sentiment. The decline in trade, particularly tourism, will also significantly reduce the previously large current account surplus to 0.6 percent of GDP in 2020 (5.0 percent of GDP in 2019). Inflation will turn negative at -0.9 percent due to lower energy and public utility prices. Severe drought and flood will hurt the agricultural sector, the main livelihood of most of the poor. The fiscal deficit is projected to rise to -5.0 percent of GDP due to the stimulus.

Poverty projections show that poverty rates will remain elevated over the near term due to not only the protracted recovery, but also deep-rooted challenges pre-COVID-19. Poverty reduction has made little progress since 2015 and poverty rates are projected to remain higher in 2020 and 2021 than in 2015. The profile of the poor may also change and include more households from services and tourism sectors falling into poverty.

Risks and challenges

There remains considerable downside risk to the outlook from both external and internal factors in the absence of a vaccine or treatment for COVID-19. A resurgence of COVID-19 in Thailand and globally is a key downside risk, which can adversely impact demand for Thailand's exports and impact domestic economic activity. Given its strong linkages to the global economy, Thailand is vulnerable to further global capital flow volatility and disruptions to global value chains. Flooding may further impact already impoverished agricultural households. Political tensions are also lingering with the resignation of key members of the economic team and ongoing anti-government protests that may lead to greater political uncertainty and diminished investor sentiment.

Responding to further weakening of economic activity may further strain monetary and fiscal policy space. The monetary policy rate is now close to the zero lower-bound while public debt is projected to rise further, closer to 50 percent of GDP in 2021. Implementation of the large fiscal stimulus (5.9 percent of GDP) to support employment-generating projects will prove challenging given historically low levels of disbursement rates.

TABLE 2 Thailand / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.0	4.1	2.4	-8.3	4.9	5.0
Private Consumption	3.1	4.6	4.5	-2.0	4.0	4.1
Government Consumption	0.1	1.8	-1.7	5.3	-5.3	3.8
Gross Fixed Capital Investment	1.6	5.4	3.3	-4.6	0.5	1.1
Exports, Goods and Services	5.2	3.3	-2.6	-10.0	6.8	4.8
Imports, Goods and Services	6.2	8.3	-4.4	-5.0	2.3	2.4
Real GDP growth, at constant factor prices	4.2	4.2	2.4	-8.2	5.0	5.0
Agriculture	3.7	5.0	2.0	-2.1	1.2	1.2
Industry	1.8	2.7	2.6	-7.2	4.2	3.9
Services	5.8	5.0	2.3	-9.4	6.0	6.1
Inflation (Consumer Price Index)	0.7	1.1	1.1	-0.9	1.0	1.0
Current Account Balance (% of GDP)	9.8	6.5	5.0	0.6	3.6	5.6
Net Foreign Direct Investment (% of GDP)	-2.4	-0.2	0.1	0.2	0.5	0.5
Fiscal Balance (% of GDP)	-1.6	-0.7	-1.1	-5.0	-3.4	-3.3
Debt (% of GDP)	41.7	42.2	42.5	49.4	49.4	49.0
Primary Balance (% of GDP)	-0.6	0.3	-0.1	-3.9	-2.4	-2.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	7.6	8.4	8.2	8.9	8.5	8.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on EAPPOV harmonization, using 2014-SES and 2018-SES.Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

(b) Projection using average elasticity (2014-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.