



Thailand Monthly Economic Monitor

23 September 2022

The economy picked up in Q3 2022, as mobility, tourist inflows, and employment improved, in line with a projected strengthening domestic recovery in H2. However, goods exports softened due to weakened global demand. Inflation remained the highest among the major ASEAN economies, driven by supply-side factors, while demand-pull pressure remained muted. The authorities responded with social assistance as well as food and fuel subsidies. While the fiscal consolidation path has been largely maintained thus far, additional borrowing to support energy subsidies may be needed. The recently announced average minimum wage increase of 5% is intended to help alleviate the pressure of elevated costs on lower income groups. While the magnitude is not large compared to past wage and inflation developments, it may contribute to inflation and underemployment. The Thai baht depreciated due to expectations of the Fed tightening and the widening current account deficit.

Consumption remained strong in July from improved mobility and employment.

The private consumption index expanded in July as domestic mobility and tourism sector continued to improve (Fig. 1). The Google mobility index has returned to the pre-pandemic level. A strong labor market also supported private consumption. The unemployment rate fell to 1.4% in Q2, down from the COVID crisis peak of 2.0%, but above the 1.0% seen pre-pandemic.

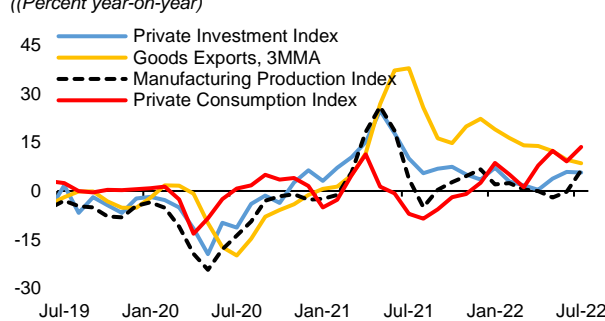
Inflationary pressure remained high, driven mainly by supply side factors and increases in regulated prices.

Inflation rose to 7.9% (yoy) in August, due to rising prices of food-related categories (Fig. 2). Food prices rose following domestic flooding and food shortages. Rising meat prices reflected the high prices of animal feed. Although energy prices moderated following the fall in the global crude oil price, natural gas prices continued to climb, and rising subsidy costs have pressured the government to raise regulated prices. Over January-September, the caps on diesel, electricity, and cooking gas prices increased by 17%, 30%, and 28%, respectively. In contrast, demand-pull pressure generally associated with price increases across broad categories remained muted; non-food, energy, and transportation-related inflation remained contained at 2.1% (yoy).

The economic recovery has benefited from a regional surge in tourism.

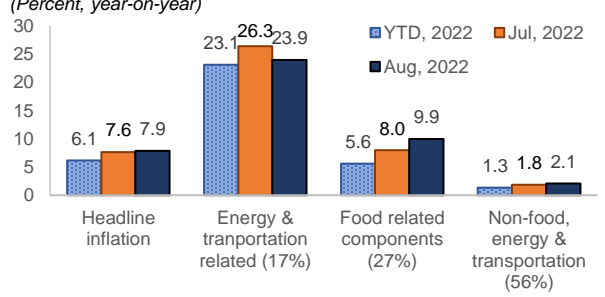
Tourist arrivals in July increased by 46% (mom) to 1.12 million, reaching 34% of the same period of 2019. This pattern reflects a trend observed in major ASEAN countries (Fig. 3). Asian tourists, especially from ASEAN nations, continued to rise substantially as border restrictions were relaxed, accounting for 67% of total tourists in July. Arrivals are projected to continue to surge in the second half of 2022. However, lingering concerns about future COVID outbreaks, ongoing travel restrictions imposed by China, the slowing global economy and rising inflation remain the key risks surrounding the tourism outlook.

Figure 1: Domestic Activity Supported the Recovery, While Exports Slowed (Percent year-on-year)



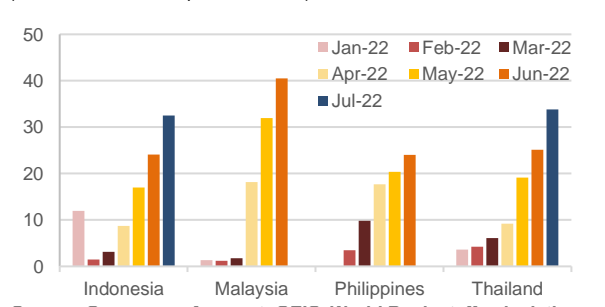
Source: Haver analytics; World Bank staff calculations

Figure 2: Inflation Picked up in August due to Food and Fuel Prices (Percent, year-on-year)



Note: Numbers in parenthesis indicate shares of the CPI basket
Source: MOC; CEIC; World Bank staff calculations

Figure 3: Tourist Arrivals Surged in line with ASEAN (Percent of the same period in 2019)



Source: Consensus forecast; CEIC; World Bank staff calculations

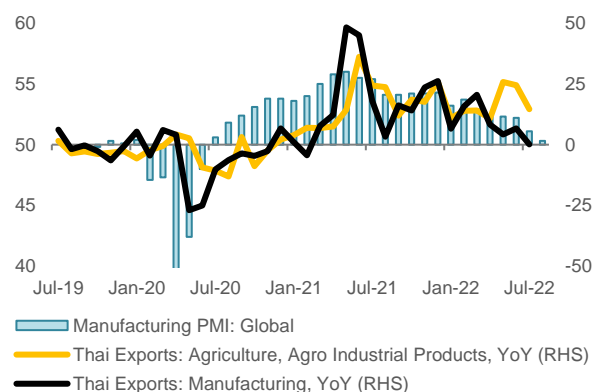
Goods exports softened in July following weaker global demand. The export growth moderated to 3.4% (yoy) in July, down from 11.6% in the previous month. Exports expanded 10.8% in the first 7 months of 2022, though manufacturing goods dragged overall growth, due to contractions in electronics and automotive exports, as the demand from major trading partners weakened. Export growth to the US moderated; exports to China and Japan contracted sharply by 20.6% (yoy) and 4.7%, respectively. However, exports to the EU, ASEAN, Australia, and the Middle East sustained their strong recovery. The outlook has dimmed as the global manufacturing PMI in August indicated a further slowdown of global demand (Fig. 4).

The fiscal consolidation path, although set back by measures to mitigate food and fuel prices, has been largely maintained. The central government's deficit narrowed to 5.9% of GDP in the first ten months of FY22 (Oct 2022-July 2022), down from 7.9% in the same period last year. This was driven mainly by spending on social assistance as well as healthcare and energy subsidies. However, the fiscal deficit remained larger than the pre-pandemic period, which averaged 2.7% in FY 2017-19 (Fig 5). The fiscal deficit in FY22 is expected to remain substantial as the government rolled out another set of relief measures, amounting to THB 27.4 billion (0.2% of GDP) from September to October. The measures include the subsidy program (Kon La Krueng) in which the government subsidizes 50% of the purchase of goods and services up to THB 800 per person (USD 23) and cash transfers to 13.3 million low-income earners at THB 400 (USD 11). In addition, the government is expected to continue to subsidize energy prices, including diesel oil, electricity, and cooking gas.

Pressure on public debt has risen as the government may need to borrow to support energy subsidies. The State Oil Fund, which has been used to subsidize diesel and cooking gas prices, recorded a deficit of THB 120 billion (0.7 % of GDP) in August (Fig 6). In addition, the Electricity Generating Authority of Thailand (EGAT) reported that in the first 9 months of FY2022, the government cost of the electricity subsidy approached THB 100 billion (0.6% of GDP). The risk of higher public debt has risen further following cabinet approval of loan guarantees for EGAT up to THB 85 billion (0.5% of GDP), as well as for the State Oil Fund up to THB 150 billion (0.9% of GDP), should the need arise.

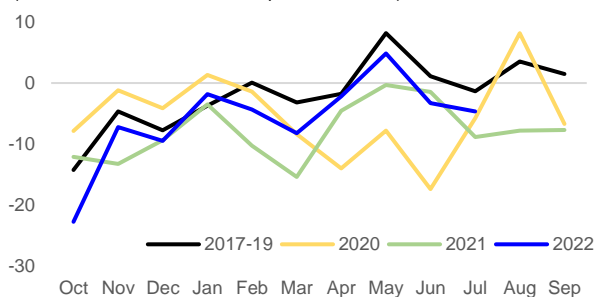
A minimum wage hike, intended to help lower income groups facing elevated living costs, will start in October. The minimum wage is set to rise by 5% on average to THB 328-354 per day. This will be the highest hike since 2011-2013, when the wage rose an unprecedented 60% in real terms. In the recent past (2017-2022), Thailand's minimum wage hikes proved to be the lowest among major ASEAN

Figure 4: Manufacturing Exports Continued to Slow
(left: PMI Index, right: YoY, percent)



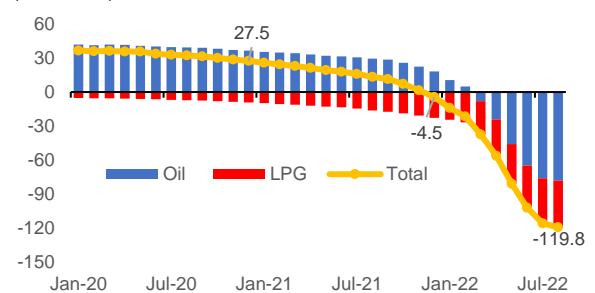
Source: MOC, CEIC; World Bank staff calculations

Figure 5: The Fiscal Deficit is Narrowing and Approaching Pre-Pandemic Levels
(Central Government balance, percent of GDP)



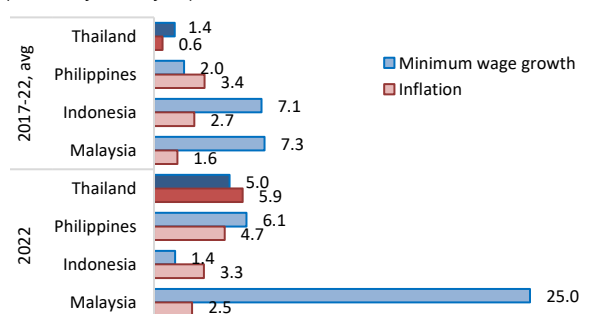
Source: MOF; Haver Analytics; World Bank staff calculations

Figure 6: The State Oil Fund Deficit Widened due to Oil and Gas Subsidies
(THB billion)



Source: Oil Fuel Fund Office; World Bank staff calculations

Figure 7: Average Minimum Wage Growth was the Lowest in ASEAN Countries
(Percent, year-on-year)



Note: Philippine minimum wage non-agriculture sector
Source: CEIC; ILO; World Bank staff calculations

countries, averaging 2.0% (Fig 7). Minimum wage growth has not been significant, being largely in line with average private sector wage (2.4%) and low inflation (1.4%) over the same period (Fig 8). While a minimum wage may help segments of the formally employed, it may have negative effects on employment, small firms, and inflation if hikes surpass labor productivity growth.

The current account deficit deepened, putting pressure on the Thai baht. The current account deficit increased in July to 9.7% of GDP due to increased fuel imports and weakened goods exports (Fig. 10). The deficit was the largest among ASEAN countries. The Nominal Effective Exchange Rate (NEER) continued to depreciate at 0.9% in Q3 (to September 15) following expectations of Fed tightening and a widening current account deficit. International reserves were at 10 months of imports in August, down from an average of 14 months over the past 3 years, the largest decline among the ASEAN countries. The reserves declined due to valuation change from the strengthening USD as well as foreign exchange intervention amid a widened current account deficit.

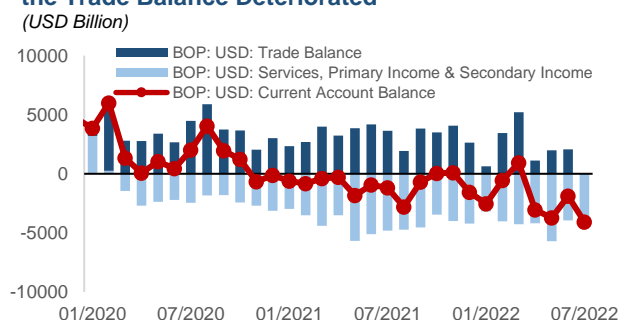
The banking system remained resilient with sufficient capital and liquidity buffers, and improved asset quality. The system-wide regulatory capital to risk-weighted assets (CAR) remained adequate as of Q2, at 19.6%, above the minimum regulatory requirements (Figure 9). Thai commercial banks also maintained adequate liquidity, with a liquidity coverage ratio of 185.5%, well above the minimum regulatory requirement of 100 percent. Growth of gross loans from commercial banks has slowed in 2022 and registered a 3.9% growth (yoy) in Q2, compared to 6.2% at the end of Q1. However, SME loan growth stood at 6.1% in Q1 and 3.6% in Q2, a notable improvement compared to -0.4% at the end of 2021. Nonperforming loans to total loans decreased to 2.9% in Q2 from 3.1% at the end of 2021 (Figure 8), primarily through debt restructuring and management of banks' loan portfolio

Figure 8: Minimum Wage Hikes Have Been in Line with Average Wage Growth and Inflation (2017-22)
(THB, Percent)

Year	Daily minimum wage*	Daily minimum wage, Change, %	Avg Monthly Private Wage, Change, %	Inflation, %
2010	165	2.0	6.1	3.3
2011	176	6.4	6.7	3.8
2012	245	39.4	16.6	3.0
2013	300	22.4	10.2	2.2
2014	300	0.0	11.9	1.9
2015	300	0.0	2.1	-0.9
2016	300	0.0	1.1	0.2
2017	305	1.8	-0.3	0.7
2018	316	3.5	2.2	1.1
2019	316	0.0	3.3	0.7
2020	321	1.6	1.6	-0.8
2021	321	0.0	0.9	1.2
2022	337	5.0	6.4	5.6

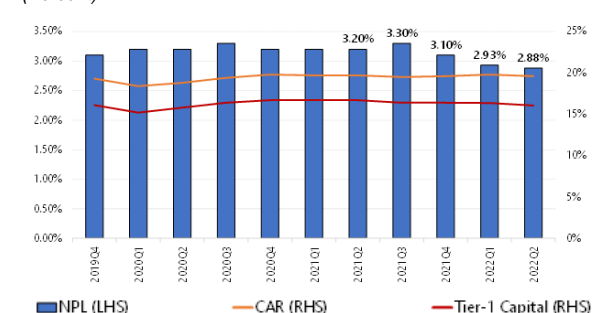
Source: CEIC; World Bank staff calculations

Figure 10: The Current Account Deficit Increased as the Trade Balance Deteriorated
(USD Billion)



Source: CEIC; World Bank staff calculations

Figure 9: Capital Adequacy Remained Sufficient
(Percent)



Source: BOT; IMF FSI; World Bank staff calculations

Issues to Watch:

- **Inflation:** Will rising prices derail the recovery of private consumption?
- **Tourism:** Will the inflows of foreign tourists continue to accelerate in the second half of 2022?
- **Exports:** Will goods exports be significantly affected by the global economic slowdown?

News Highlights:

- Thailand Approves First Wage Hike Since 2020 as Inflation Spikes (Bloomberg, [Link](#)).
- The stronger dollar has weakened the international reserves, but the external position and financial stability remain strong (Bangkok Post, [Link](#)).
- The cabinet approved a proposal for the ministry to guarantee the THB 85 billion loan for EGAT (Bangkok Post, [Link](#)).

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Selected Economic and Financial Indicators

	2021	2021		2022		2022				
		Q3	Q4	Q1	Q2	Apr	May	Jun	Jul	Aug
GDP and Inflation (%YoY)										
GDP growth (real)	1.5	-0.2	1.8	2.3	2.5					
Contribution to GDP growth:										
Private consumption	0.2	-1.9	0.2	1.8	3.9					
General Government consumption	0.5	0.3	1.2	1.0	0.4					
Gross fixed capital formulation: Private	0.6	0.4	-0.2	0.5	0.4					
Gross fixed capital formulation: Public	0.3	-0.5	0.1	-0.3	-0.7					
Net Exports of goods and services	-4.1	-9.2	0.5	3.5	-0.4					
Change in Inventory	0.0	7.2	-1.1	-2.0	1.0					
Residual and errors	4.1	3.5	1.0	-2.1	-2.1					
GDP, nominal (USD Billion)	506	119	129	130	123					
GDP, nominal (THB Billion)	16,179	3,918	4,294	4,308	4,228					
Consumer Prices Index: Headline	1.2	0.7	2.4	4.7	6.5	4.7	7.1	7.7	7.6	7.9
Consumer Prices Index: Core	0.2	0.1	0.3	1.4	2.3	2.0	2.3	2.5	3.0	3.1
Output Indicators										
Manufacturing Production Index (%YoY)	6.5	-0.3	4.7	1.6	-0.7	0.0	-2.0	-0.2	6.4	
Capacity Utilisation (%)	63.0	58.5	64.5	66.5	61.1	58.5	62.3	62.5	61.0	
Farm Production Index (%YoY)	1.3	6.9	-3.6	6.5	5.7	1.5	9.1	6.5	1.1	
Service Index (%YoY)	0.3	1.5	5.6	8.8	13.2	12.4	12.6	14.7	16.6	
Labor Market										
Unemployed workers (Thousand Persons)	748	871.3	631.9	607.6	546.6					
Unemployment rate (%)	2.0	2.3	1.6	1.5	1.4					
Underemployment/1 (Thousand Persons)	584	778	438	319	264					
Underemployment (%)	1.5	2.1	1.2	0.8	0.7					
Balance of Payments (USD million)										
Current account	-11,018	-4,686	-1,436	-2,189	-8,647	-3,057	-3,716	-1,873	-4,068	
Current account (% of GDP)	-2.2	-3.9	-1.1	-1.7	-7.0	-7.3	-8.9	-4.5	-9.7	
Trade Balance	39,885	9,391	10,225	9,282	5,170	1,126	1,985	2,059	-401	
Exports of goods (%YoY)	20.0	16.1	22.3	14.4	9.7	6.6	11.3	11.1	3.4	
Imports of goods (%YoY)	25.0	32.0	23.1	16.3	22.4	19.4	23.3	24.3	25.3	
Service, primary and secondary Income	-50,903	-14,077	-11,661	-11,471	-13,816	-4,183	-5,702	-3,932	-3,667	
Tourist Arrivals (Thousand Persons)	428	45	342	498	1,582	293	521	767	1,124	
Financial account	-2,126	2,636	2,306	3,996	-					
Financial account (% of GDP)	-0.3	2.2	1.8	3.1	-					
Foreign direct Investment, net	-5,651	-763	-4,266	1,607	-					
Portfolio flows	-11,468	158	1,829	2,592	-					
Others Investments	16,149	3,410	5,029	-43	-					
Central Government Budget (Fiscal Year, THB billion)²										
Revenue	2,857	805	643	632	883	235	307	341	228	
Expenditure	4,124	1,124	1,188	840	892	266	238	388	294	
Central Government balance	-1,266	-319	-545	-208	-9	-31	69	-47	-66	
Central Government balance (% of GDP)	-7.9	-8.1	-12.7	-4.8	-0.2					
Public debt (% of GDP)	58.8	58.4	59.6	60.6	60.9	60.8	60.8	60.9	60.8	
Financial Markets Indicators										
Policy rate (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75
M2 (%YoY)	6.0	4.9	5.4	5.9	6.1	6.3	5.8	6.3	5.1	-
Household Debt (sa, % of GDP)	89.6	89.9	89.6	89.2						
SET Index	1,658	1,606	1,658	1,695	1,568	1,667	1,663	1,568	1,576	1,639
Thai government bond yield, 10 year (%)	1.90	1.89	1.90	2.26	2.81	2.72	2.86	2.81	2.50	2.43
Foreign exchange reserve and FX forward position (USD billion)	279	277	279	273	251	261	260	251	248	242
USD/THB, end of period	33.42	33.92	33.42	33.30	35.30	34.35	34.19	35.30	36.81	36.48
THB NEER, average	117.4	114.8	114.5	116.7	116.0	116.4	116.3	115.3	112.7	114.3

1/ Underemployment account for workers who work less than 35 hours per week and available for additional work (defined by BOT)

2/ Fiscal Year 2022 starts in October 2021 to September 2022, 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