TOGETHER WE CAN TRANSFORM THAILAND

THAILAND ECONOMIC MONITOR

THAILAND IN THE TIME OF COVID-19

June 2020

WORLD BANK GROUP

Executive Summary

RECENT DEVELOPMENTS

The COVID-19 shock hit Thailand in early 2020 adding to pre-existing vulnerabilities. Economic growth slowed from 4.2 percent in 2018 to 2.4 percent in 2019, with particularly weak performance in Q4 2019. The key drivers of slowing growth were weaker demand for exports reflecting the impact of US-China trade tensions, slowing public investments driven by delay in the passage of the FY 2020 budget, and a drought, impacting agricultural production. The COVID shock hit Thailand in early 2020 and has already had a significant economic impact, with a sharp growth contraction of 1.8 percent y-o-y and 2.2 percent q-o-q in Q1 2020.

The economic impact of COVID-19 has been severe, particularly due to Thailand's openness to trade and exposure as a tourism hub. The Thai economy is projected to contract by 5 percent in 2020, which is among the sharpest projected declines in the East Asia and Pacific Region[1]. Weaker global demand has led to a contraction in global trade[2], which, in turn, has disrupted global value chains, such as automobiles, in which Thailand is an active participant, and hit exports. The tourism sector, which accounts close to 15 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, particularly for retail and recreational services. This is reflected also in the sales of durables, which have seen a sharp decline of nearly 12 percent in y-o-y terms in Q1 2020.

The outbreak will likely lead to severe job losses and its adverse impact on the labor market was already evident in Q1 2020. Jobs in services sectors, particularly in tourism, are at particular risk from transmission control and social distancing measures undertaken by government and individuals to limit the spread of COVID-19. Average working hours declined year-on-year[3] in Q1 and more than 170,000 people in the formal sector filed for unemployment benefits in Q1 2020. While significant uncertainty remains about the ultimate impact on the labor market, in late May 2020, the NESDC estimated that 8.4 million jobs were at risk from the COVID-19 outbreak in Q2 and Q3 2020, in addition to the 6 million farmers already at risk from drought.[4]

The impact on household welfare is also likely to be severe. The number of economically insecure, i.e., those living below USD 5.5 per day in PPP terms, is projected to double from 4.7 million in Q1 2020 to an estimated 9.7 million in Q2 2020, before recovering slightly to 7.8 million in Q3 2020. This is driven by an expected sharp decline in labor income for workers in affected manufacturing and services sectors, and a decline in remittance income, particularly for households without any affected workers. These income losses are only partially compensated by announced cash transfers.

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, volatility in the equities market rose markedly with the Stock Exchange of Thailand Index (SET) plunging by approximately 35 percent between early January and mid-March 2020, before recovering about 15 percent by mid-May, and Thailand experiencing record capital outflows. Financial sector vulnerability, particularly resulting from household debt to GDP and non-performing loans (NPLs) for SMEs, are likely to worsened by the economic impact of the outbreak. At the same time,

[1] "Global Economic Prospects: June 2020", World Bank, June 2020.
[2] Ibid.
[3] NESDC, 2020.
[4] https://www.bangkokpost.com/business/1925808/nesdc-14-4m-workers-at-risk

Thailand's financial system buffers remain adequate to support financial stability. As of March 2020, Thai commercial banking system maintained capital funds common equity Tier 1 and capital adequacy ratio (BIS ratio) at 15.16 percent and 18.73 percent of risk assets respectively, in line with the Basel III framework, to absorb losses arising from an unexpected crisis and continue providing key financial services. In addition, the banking system has continuously provided loan loss provision following the implementation of the Thai Financial Reporting Standard 9 (TFRS 9) with NPL coverage ratio of 143.3 percent while the liquidity coverage ratio (LCR) registered at 185.7 percent, as of March 2020. Nevertheless, the COVID-19 pandemic has unleashed a global economic and financial crisis of unprecedented scale with no clear end in sight which could pose stability challenges to any financial system. **Thailand's current account surplus has narrowed, and capital outflows have accelerated, but reserves cover remains adequate.** The current account surplus narrowed to 7.1 percent of GDP in Q1 2020 and is projected to narrow further in Q2 2020, with a marked decline in tourism receipts. Large portfolio outflows and an uptick in outward FDI flows led to net capital outflows of 4.1 percent of GDP in Q1 2020 as compared to 2.9 percent of GDP registered end-2019. As a result, the Thai baht saw a significant depreciation in Q1 2020, reversing its strong appreciation in 2019. As of end-May 2020, the exchange rate stood at 31.8 baht/USD, depreciating from 30.2 baht/USD at end-2019. Foreign exchange reserves remained high at USD 226.5 billion in end-March 2020, equivalent to 3.8 times the country's short-term external debt or 14 months of value of imports.

The government's public health policy response to the COVID-19 effectively stemmed the tide of infections within three months. The Government declared a nationwide state of emergency on March 26, expanded testing, treatment and quarantine facilities, equipped hospitals with personal protective equipment, issued travel bans and mandated a curfew and closures of malls, public venues and businesses deemed as high-risk of spreading COVID-19. As of June 21, 2020, there were 3,148 confirmed COVID cases, with 58 deaths in Thailand. Since early May, the number of daily new cases have been in single-digits mostly due to repatriation of nationals, prompting the Government to gradually reopen the economy.

The government has responded with a significant fiscal and monetary response to the COVID-19 outbreak. The Bank of Thailand cut the policy rate from 1.25 to 0.5 percent during February-May 2020 continuing the monetary easing cycle that began in August 2019. Inflation has declined sharply, with headline inflation falling to -3.44 percent and core inflation to 0.01 percent as at end May 2020, driven by a sharp decline in global energy and fuel price and weakening domestic demand. The cabinet approved a COVID-19 relief and recovery package in 3 phases amounting to 2.2 trillion baht (12.9 percent of GDP). The responses are primarily focused on supporting vulnerable households and firms, particularly workers in the informal sector and SMEs to cushion loss of incomes and avoid mass unemployment and bankruptcies (the section on supporting vulnerable firms and households examines the policy response in detail).

OUTLOOK AND RISKS

The Thai economy is projected to contract sharply in 2020, driven by a sharp deterioration in global and domestic demand. In the baseline (Table ES1), the economy is projected to contract by 5.0 percent in 2020, which is among the sharpest projected declines in the region. This is driven by a sharp decline in exports, particularly from tourism receipts and weakening global trade, and a slowdown in domestic demand reflecting the impact of mobility restrictions and mandated closures of businesses. The forecast is subject to future revisions, particularly on the downside, given heightened uncertainty surrounding the outbreak trajectory, globally and domestically.

The shape of the economic recovery will be drawn-out and uncertain. Domestic demand drivers such as consumption may pick up as Thailand starts to ease mobility restrictions, but remaining international travel restrictions, trade and supply chain disruptions, will continue to impact the economy, particularly through reduced tourism. Economic growth is projected to pick up in 2021 (4.1 percent) and 2022 (3.6 percent) (Table ES1), with a projected recovery to pre-COVID output levels in around two years. The strength of the economic recovery will also depend on an effective economic response to support vulnerable households and firms. **In the absence of a vaccine or treatment for COVID-19, there remains considerable downside risk to the outlook.** 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. 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 sharply, nearing the 60 percent of GDP statutory threshold by 2022.

SUPPORTING VULNERABLE HOUSEHOLDS AND FIRMS

Thailand's combined COVID-19 response packages amount to 12.9 percent of GDP, focused on providing relief to vulnerable households and affected firms. The programs are unprecedented for Thailand in terms of size, coverage and variety of instruments. A major component includes cash transfers to households and infrastructure projects in the local economy (5.9 percent of GDP) which will be partially funded through borrowing. In addition, the Bank of Thailand has set up a corporate bond market stabilization fund to help firms rollover maturing bonds (2.4 percent of GDP) and fund soft loans to SMEs (2.9 percent of GDP). Tax relief and debt restructuring for firms and households are also included.

The focus chapter provides a perspective on how Thailand can improve the effectiveness of these measures to support vulnerable households and firms. The chapter draws from international experience relevant to the specific context of Thailand – which has relatively high levels of human capital, a significant informal sector, developed financial markets, strong institutional capacities, some fiscal room and a vibrant tourism sector – to suggest how Thailand can improve ongoing policies.

In the near term, the chapter identifies challenges to be addressed and expanding coverage of supported households. While Thailand has announced sizeable response packages, challenges include connectivity to register for beneficiaries and building an integrated social registry that can provide timely information to target vulnerable groups and provide information to policymakers on program design and gaps. Several countries around the world can count on effective integrated social registries to design and target their programs and those registries have been fully utilized to rapidly respond to Covid-19 pandemic. The first step in this direction would be to agree on the protocol of interoperability of databases in country. There is also the challenge of supporting "missing middles" within households. Coverage of vulnerable households can be expanded to ensure that no gaps remain among, for example, the elderly and migrant workers.

Firm interventions could, going forward, be better tailored to sectors that have been especially hard hit by COVID-19 while maintaining coverage of vulnerable firms. While the impact has been felt on an economy-wide basis, some sectors, such as tourism—which have a large number of SMEs and are a significant source of employment and foreign exchange revenue for Thailand—are struggling more. Support to increase the digital presence of such firms will also be important to strengthen their resilience during the crisis and ensure they can more effectively compete in a post-COVID-19 world of increased demand for contact-free services. In addition, measures introduced to facilitate business environment such as fully automating the business registration process could be ramped up to facilitate new business formation while adhering to social distancing norms. In addition, while current firm liquidity support measures are aimed at both SMEs and large firms, micro enterprises, which have difficulty accessing credit, depend on savings, and are not enrolled in the social security system, may be inadvertently left out of the firm support measures.

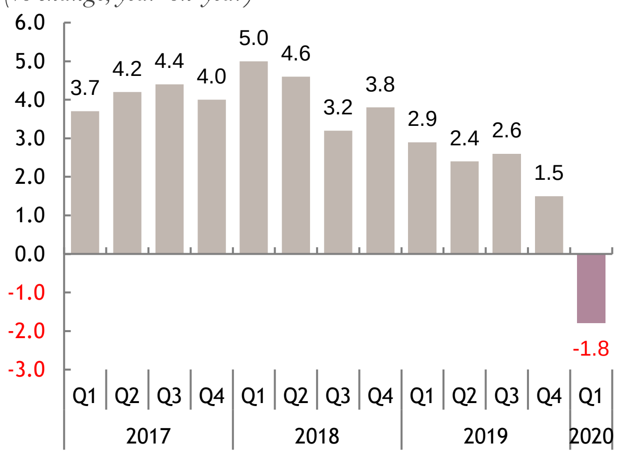
Higher rates of unemployment and underemployment and constrained human capital of the labor force calls for innovative solutions. Thailand will also need to invest in labor market policies and programs that can meet the changing needs of the economy. Training and employment services programs need to be reformed to reflect shifting demand in the labor market, toward more socioemotional skills as well as higher-order cognitive and technical skills. In particular, digital skills will be important for contact-less services. International migrant workers from other countries are also in a vulnerable position in Thailand, having lost income and employment and generally unable to travel home, policies on migrants and agreements with sender countries will need to ensure that migrants will receive the needed coverage and support.

In the longer term, policies to support resiliency will be critical. As fiscal space decreases, the rebuilding of fiscal buffers, particularly through enhanced revenue mobilization, will be critical to allow Thailand to respond to future shocks as well as implement planned public infrastructure investments. In addition, Thailand can benefit from the lessons learned from its swift response to COVID-19 to move beyond the traditional employment-based social protection system towards a better targeted system that is able to ensure minimum package of benefits for the most vulnerable, identify and target vulnerable groups for support, and support re-skilling to meet the needs of a knowledge-based economy.

Recent developments in charts

Figure ES 1: Thailand's GDP contracted and recorded its lowest yoy growth rate in five years…

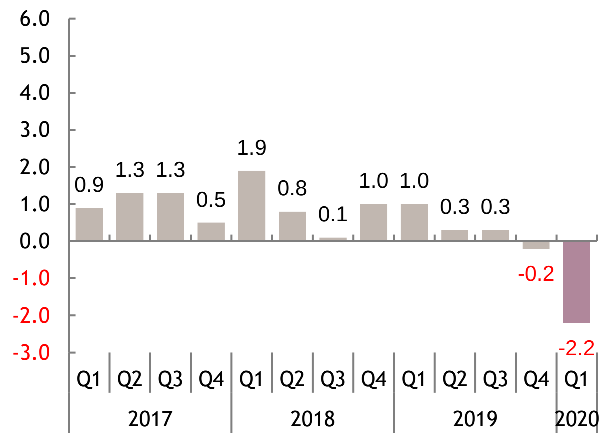
(% change, year-on-year)



Source: Office of the National Economic and Social Development Council (NESDC)

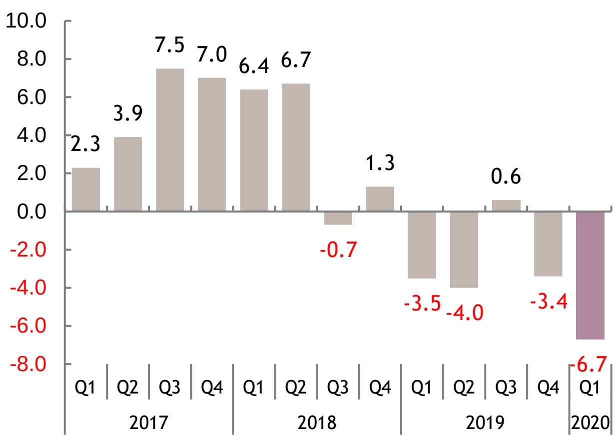
Figure ES 2: …with quarterly momentum contracting…

(% change, quarter-on-quarter, seasonally adjusted)



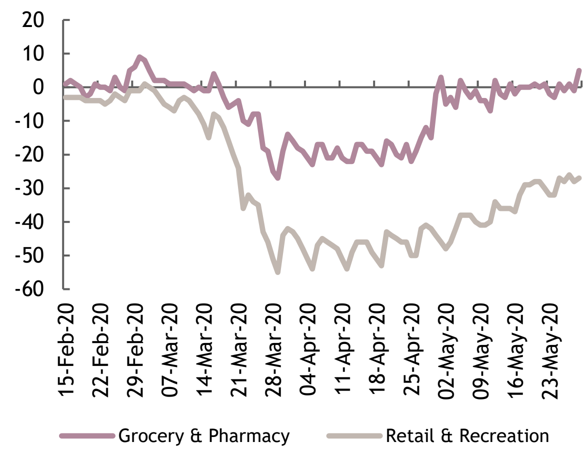
Source: NESDC

Figure ES 3: …as exports, particularly tourism, was hit hard by the COVID-19 outbreak
(% change, value, year-on-year)



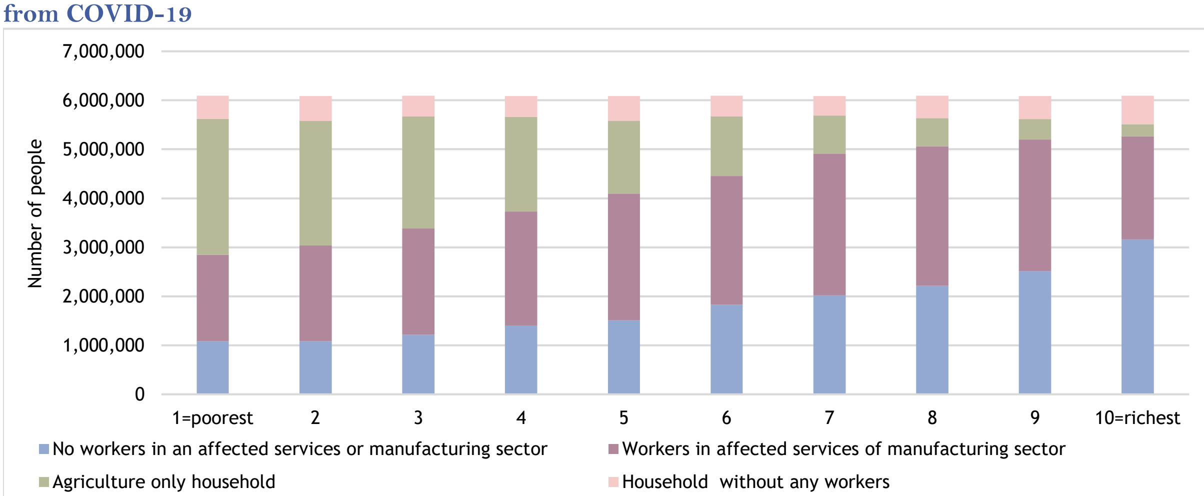
Source: NESDC

Figure ES 4: …and domestic demand drivers worsened with mobility restrictions
(Change in visits relative to baseline)



Source: Google Community Report
Note: Grocery & Pharmacy represents mobility trends for places like grocery markets, food warehouses, farmers markets, specialty food shops, drug stores, and pharmacies. Retail & Recreation represents mobility trends for places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters

Figure ES 5: Jobs are at risk, and households along the entire income distribution will face negative impacts from COVID-19



Source: World Bank staff calculations from THA SES-2017

Table ES 1: Macroeconomic indicators

	2018	2019	2020f	2021f	2022f
Real GDP Growth Rate (at constant market prices)	**4.1**	**2.4**	**-5.0**	**4.1**	**3.6**
Private Consumption	4.6	4.5	-4.0	4.0	4.1
Government Consumption	1.8	-1.7	16.3	-15.0	-17.4
Gross Fixed Capital Investment	5.4	3.3	-1.3	-2.5	1.7
Exports of Goods and Services	3.3	-2.6	-6.3	2.2	2.5
Imports of Goods and Services	8.3	-4.4	-4.0	2.3	2.4
Real GDP Growth Rate (at constant factor prices)	**4.2**	**2.4**	**-5.0**	**4.1**	**3.6**
Agriculture	5.0	2.0	-1.0	1.5	2.0
Industry	2.7	2.6	-4.6	2.5	3.0
Services	5.0	2.3	-5.6	3.3	4.2
Inflation (Consumer Price Index)	1.1	1.1	-0.9	1.0	1.0
Current Account Balance (% of GDP)	6.5	5.0	2.3	1.7	1.1
Fiscal Balance (% of GDP)	-0.7	-1.1	-8.5	-5.4	-3.1
Debt (% of GDP)	42.2	42.5	50.2	54.9	56.4

Source: NESDC; World Bank staff calculations

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