THAILAND

LIFE WITHOUT TOURISTS

Thailand's economic growth prospects over the short and medium term are limited. Private consumption and the tourist sector, the main engines of growth, will remain weak for some time. In tourism in particular, it is highly unlikely that the activity levels of 2019 will return before 2024. Moreover, the structural weaknesses of the economy (lack of investment and infrastructure) have been worsened by the pandemic and will hold back the recovery, particularly in exports. This said, although the country's external vulnerability has increased over the last two years, it remains moderate for the time being.

MODERATE ECONOMIC GROWTH IN 2021

After contracting by nearly 7% in 2020, Thailand's GDP bounced back only slightly in 2021. Economic growth was feeble in the first half (2.5% y/y) and was then held back in the second half by restrictions introduced to tackle a new wave of Covid-19 cases. Real GDP fell 0.3% y/y in the third quarter and we are expecting to see an additional fall in the fourth.

Given the faltering start to the vaccination campaign (a series of delays in ordering vaccines followed by problems in their supply and distribution), a very low percentage of the population had been vaccinated by the beginning of July when case numbers started to rise rapidly again (only 14% of the population had received their first dose, and less than 5% had received two doses). The restrictions introduced by the government were therefore very strict, hitting the services sector, private consumption and investment very hard despite new support measures from the authorities (most notably a sizeable increase in government investment). At the same time, the reopening of borders, which had been planned at least for the most popular tourist regions, was delayed until November.

Net exports also made a negative contribution to growth in the second half: imports (mainly of capital goods) continued to rise, whilst Thailand benefitted less than other countries in the region from the strength of global demand for electronic products. Supplychain disruptions, including the temporary closure of some factories (in Malaysia for example), the global shortage of semiconductors and the rising cost of transport also hit exports. Overall, we estimate that Thailand's real GDP grew by less than 1% in 2021.

RECOVERY UNDERMINED

Given the rapid increase in new Covid-19 infections since the beginning of January, the prospects of a strong economic recovery have been seriously compromised.

Although the government's vaccination target has nearly been met (some 68.5% of the population had received two vaccine doses by the end of December, against a target of 70%), a new set of restrictions was announced by the government on 6 January.

The country has returned to alert level 4 (of 5): working from home is strongly advised, many sites identified as 'presenting a high risk of transmission' could be closed, whilst those places that remain open are subject to strict rules and gatherings of more than 500 people are banned.

Apart from the 8 provinces most visited by tourists (called 'pilot zones'), all provinces have now returned to their 'orange zone' classification.

FORECASTS

	2019	2020	2021e	2022e	2023e
Real GDP growth (%)	3.7	-6.8	0.9	3.3	3.5
Inflation (CPI, year average, %)	1.3	-0.8	1.2	1.4	1.3
Gen. Gov. balance / GDP (%)	-2.3	-5.1	-7.2	-4.5	-2.8
Gen. Gov. debt / GDP (%)	41.1	49.4	58.8	62.2	61.5
Current account balance / GDP (%)	7.3	3.3	-3.4	0.8	1.9
External debt / GDP (%)	31.5	38.1	36.2	36.1	36.0
Forex reserves (USD bn)	224	258	246	233	221
Forex reserves, in months of imports	9.0	15.0	11.0	9.0	9.3

TABLE 1

e: ESTIMATE & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

COVID NEW CASES & VACCINATION

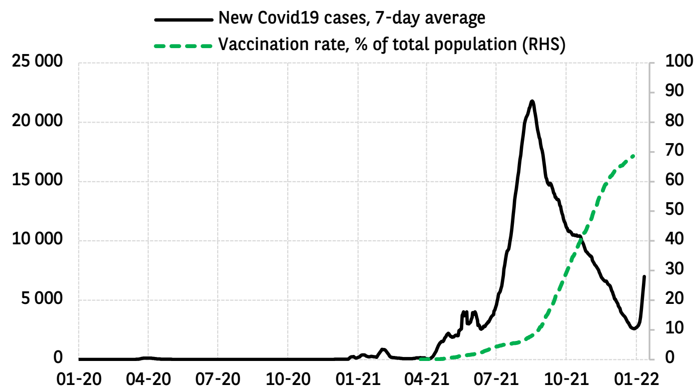

CHART 1

SOURCE: MINISTRY OF HEALTH

Against this background, and bearing in mind that even stricter measures cannot be ruled out in the short term (alert level 5 would allow the introduction of curfews and a ban on gatherings of more than 5 people), the authorities will need to continue to prop up the economy.

The 2023 budget, put before parliament in December 2021, already included a 'Covid-19' component, and the central bank left its policy rate unchanged at 0.5% (as it has been since May 2020) at its most recent meeting, given limited inflationary pressures (inflation was 2.2% y/y in December, giving an annual average of 1.2%). The central bank also believes that the negative output gap could persist until at least 2023.

These measures will probably not be enough to stimulate domestic demand, which is likely to remain sluggish in the first quarter, before recovering gradually. Similarly, exports could be hit by slower global demand in the early part of this year. Overall, real GDP growth is unlikely to be above 3.5% in 2022.

THE RETURN OF TOURISTS DELAYED AGAIN

Even in this relatively pessimistic scenario, the risks to growth in the short and medium term are on the downside. Structural weaknesses in the Thai economy (lack of investment, lack of infrastructure, very high level of political risk) will limit the scale of any recovery. Potential growth, which was put at over 3.5% before the Covid crisis, is now estimated at around 2%.

In the tourism sector (which in broad terms represents nearly 20% of Thailand's GDP), a return to the levels seen in 2019 looks likely to be delayed for a number of years, holding back growth and the current account surplus.

On the one hand, several countries in the region, including China (whose citizens made up nearly 30% of total tourists in 2019) are still operating very strict quarantine measures for travellers returning from abroad. On the other, by partially reopening its borders in November 2021, the government sought to encourage a gradual return of tourists. Fully vaccinated visitors from a list of 63 countries (which in 2019 accounted for more than 90% of total tourists) were able to enter Thailand without needing to quarantine.

These conditions were adjusted on 22 December 2021: even fully vaccinated visitors must now isolate for seven days in a government-certified hotel, and provide two negative PCR tests before moving around within Thailand (including the pilot zones).

The number of tourists will remain very low in the short term: the government estimates that around 45,000 and 90,000 arrivals were registered in the third and fourth quarters respectively, only one-third of the target the government had initially set. In 2019, the monthly average was nearly 3.3 million arrivals.

In its scenario established at the beginning of December 2021, the World Bank predicted a very gradual increase in tourist numbers, to a total of 7 million in 2022 (nearly all of them in the second half), followed by a stronger increase to 20 million in 2023, or around half of the 2019 total.

EXTERNAL VULNERABILITY REMAINS LIMITED

Thailand's external vulnerability has increased over the last two years, but remains relatively low. For the first time in more than ten years, the current account is likely to have been in deficit in 2021. The deficit was probably around 3.5% of GDP (compared to a surplus of 3.3% in 2020, when imports collapsed even more brutally than exports and tourist revenue). The current account surplus in 2019 was 7% of GDP, and averaged 8% between 2014 and 2018.

BALANCE OF PAYMENTS

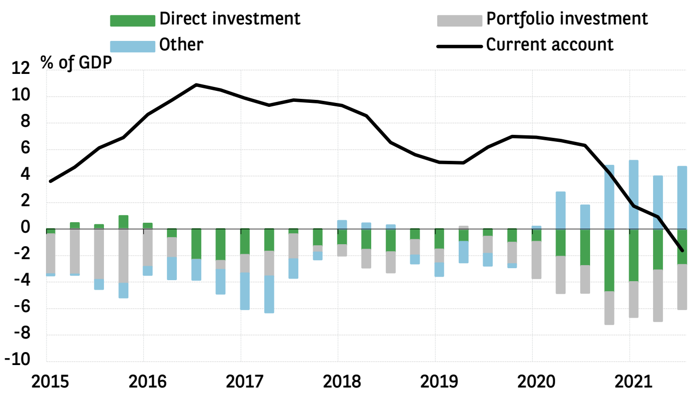

CHART 2

SOURCE: CENTRAL BANK

The short-term outlook is not positive: higher energy and transport prices, persistent pressure on value chains, the slowdown in exports and very low levels of revenue from tourism are unlikely to allow the current account surplus to be much more than 1% of GDP in 2022 and 2% in 2023.

The capital account also remained in deficit, with capital outflows (something seen for a number of years now, due to Thai investors' preference for direct and portfolio investments abroad rather than in Thailand) continuing over recent quarters.

This said, the very moderate level of external debt and very comfortable foreign reserves (USD 246 billion in December 2021), built up over a decade of current account surpluses, continue to protect Thailand from external shocks, most notably the effects of a tightening of US monetary policy.

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