THAILAND

WAITING FOR THE RETURN OF TOURISTS

After a severe recession in 2020, economic growth will rebound moderately in 2021-2022. The main growth engines – private consumption and the tourism industry – were weakened by the abrupt shutdown of economic activity as of Q2 2020, and the dynamics of the recovery will continue to depend on the evolution of the health situation. As in 2020, the authorities will take advantage of the comfortable manoeuvring room built up prior to the crisis to provide economic support. In the medium to long term, political tensions, exacerbated by the economic crisis, will continue to strain Thailand's long-term growth potential.

A LACKLUSTRE RECOVERY

After contracting by 6.1% in 2020, real GDP is expected to recover in 2021 and 2022, rising by 3.2% and 4%, respectively. Domestic demand has been drained by the economic shutdown in Q2 2020 (when GDP contracted by more than 12% y/y) and by strict social distancing measures maintained throughout most of H2. Despite massive government support, private consumption and investment contracted at an average annual rate of 1% and 4.8%, respectively. The absence of foreign tourists, supply disruptions and the desynchronisation of Asian supply chains also triggered a drop-off in exports of goods and services, down 19.4%.

Looking beyond a base effect, economic growth is expected to rebound moderately in 2021. Growth will get some support from the manufacturing and export sectors, which have been recovering since July according to monthly statistics. Given the composition of Thailand's exports, however, it will not benefit fully from the dynamic momentum of the electronics sector observed in the other ASEAN countries (electronics accounted for less than 15% of Thailand's 2019 exports).

In the short term, the dynamics of the recovery will continue to hinge on the evolution of the health situation. A new wave of Covid 19 cases, with the ensuing restrictions that would entail, could hamper and even halt an already fragile recovery.

Although the pandemic has not hit Thailand very hard so far –in early April 2021, it reported 95 deaths and fewer than 30,000 cases, or only 419 cases per million inhabitants– the government had to reintroduce severe restrictions between mid-December and mid-February (including curfews and the closing of schools, bars and restaurants, measures that had been gradually lifted between May and August 2020). During this period, the number of daily new cases averaged more than 300, after holding below 5 between May and November. Since mid-February, the number of new cases has levelled off at slightly under 100.

As a result of the restrictions, the rebound in domestic demand came to a halt in Q1 2021. After improving continuously since last July, consumer confidence indexes and household consumption declined in January and February. Weakened by the 2020 decline in household revenues and the under-utilisation of production capacity, private consumption and investment are both expected to remain sluggish at least through H1 2021. Production capacity utilisation rates have improved since June 2020, rising to 64% in February 2021 from 51% in May 2020, but they are still well below the pre-crisis 2019 level of 68%.

The tourism sector, which represents in the broad sense of the term more than 20% of GDP, will continue to be anaemic this year. The government announced several measures to spark a recovery in tourism. Since the beginning of December, foreign visitors from 56 countries have been authorised to enter Thailand (prior to that, the country's borders were closed), albeit under very strict conditions: visitors must stay at least one month, including a 14-day quarantine period. As of 1 April, the quarantine period was reduced to 10 days, except for countries where the majority of cases are Covid-19 variants.

Above all, the government announced that it plans to open the country's main tourist destinations more widely as of 1 July, three months earlier than the rest of the country. To accomplish this, the inhabitants of these areas (notably the Phuket Islands and Ko Samui) will be given priority for vaccinations, and the quarantine period for

FORECASTS

	2019	2020e	2021e	2022e
Real GDP growth (%)	3.7	-6.2	3.2	4.0
Inflation (CPI, year average, %)	1.3	-0.8	0.4	0.3
Gen. Gov. balance / GDP (%)	-2.3	-5.1	-4.9	-3.7
Gen. Gov. debt / GDP (%)	41.1	49.4	55.1	55.3
Current account balance / GDP (%)	7.3	3.3	2.6	4.9
External debt / GDP (%)	31.5	34.7	33.7	32.6
Forex reserves (USD bn)	224	258	270	287
Forex reserves, in months of imports	9.0	15.0	11.0	11.0

TABLE 1 e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS GROUP ECONOMIC RESEARCH

FOREIGN TOURISTS (MILLIONS OF PERSONS PER MONTH)

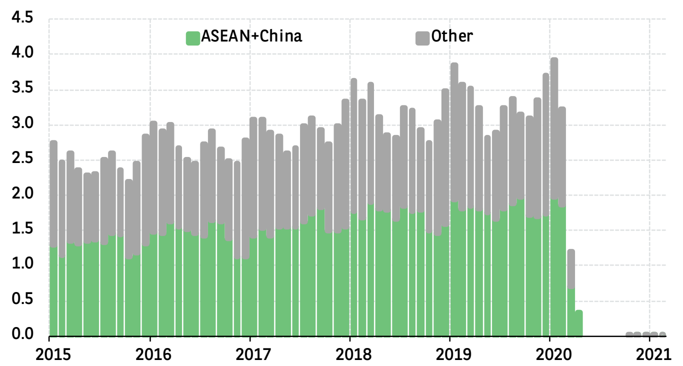

CHART 1 SOURCE: MINISTRY OF TOURISM

vaccinated tourists will be reduced to one week.

According to central bank estimates, these measures could allow Thailand to welcome a total of three million tourists in 2021. Over the past ten years, the number of tourists has increased continuously to nearly 40 million in 2019. Although very low, the central bank's estimates still seem to be optimistic. Vaccination campaigns have encountered numerous delays, not only in Thailand but also in the other Asian countries (in 2019, tourists from other ASEAN countries and China accounted for more than 55% of the total), and the government is having trouble procuring the necessary number of doses. Consequently, it seems highly unlikely that the number of tourists will increase rapidly, or that tourism revenues will recover significantly before Q1 2022.

ECONOMIC POLICY IS STILL ACCOMMODATING

As in 2020, the authorities will continue to provide economic support. On the whole, all of these measures, including state-backed guarantees, accounted for nearly 10% of GDP in 2020. The Thai government is taking full advantage of the manoeuvring room at its disposal: the fiscal deficit was limited through 2019 (at an average of nearly 3% of GDP between 2015 and 2019), fiscal savings were substantial, and the public debt was mild (41% of GDP in 2019), with a favourable profile. The government announced new support measures in early February equivalent to 1.3% of GDP (mainly in the form of tax exemptions and transfers to the most vulnerable households), and further measures could be taken over the course of the year.

The public deficit is expected to level off at about 5% of GDP in 2021, and the public debt will swell for the second consecutive year (to about 55% of GDP, up from 49% in 2020), without significantly increasing the vulnerability of public finances, at least not in the short term.

Similarly, monetary policy will remain accommodating. After lowering its key rate by 75 basis points to 0.5% in 2020, the central bank has maintained the monetary status quo ever since. Further rates cuts are unlikely in 2021, but new measures could be announced to make it easier for SMEs and households to access lending.

ONGOING POLITICAL TENSIONS

The ongoing social and political crisis is hampering the country's medium and long-term growth prospects and undermining its attractiveness, straining tourism revenues and discouraging domestic and foreign investment.

Social tensions rose significantly again in 2020. The poor track record on executing the reforms promised during the 2019 elections combined with the economic crisis have exacerbated feelings of mistrust towards the authorities.

Pro-democracy demonstrations have been held since last July. Initially led by students, these protests have rapidly spread to include a greater share of the population. The protesters' demands are extremely diverse, ranging from the economic situation to the military junta's repressive reforms. The demonstrations had to be halted in December and January after social distancing measures were reinstated and Bangkok was put under a strict lockdown (the city was not only the main site of demonstrations, but the surrounding province also had the highest virus infection rate).

FDI INFLOW (% OF GDP)

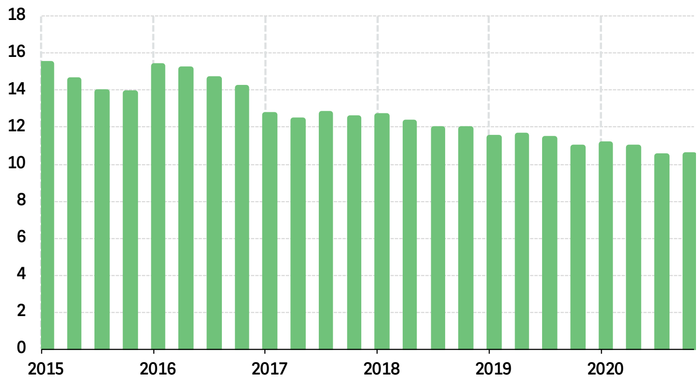

CHART 2 SOURCE: CENTRAL BANK

Demonstrations flared up again in early February. The political climate is still tense and could deteriorate further once the health crisis has stabilised. The protesters' biggest demand is for the government to modify the constitution to reduce the army's influence on domestic politics and the various public institutions. This demand is unlikely to be met. The military junta came to power after a coup in 2014, drafted a constitution in its favour in 2016 and then ratified it in 2017. The country's political and economic life is organised around a "strategic plan" (written by the military junta with its own interests in mind), and enshrined in the constitution. The 2019 elections strengthened the military junta's control over the country.

Yet the resurgence of political tensions and the multiplication of popular demands in the months and years ahead do not necessarily signal that a radical regime change is in the works. Given the country's political and social functioning as well as its recent political history, these tensions are more likely to persist without ever resolving the underlying social and political crisis.

Political risk is Thailand's main structural weakness and remains the biggest threat to economic growth. In the short to medium term, the mistrust of domestic and foreign investors will hinder the recovery, which in turn will strain the rebound in household revenues and the prospects for a healthier labour market. It will also handicap the country's positioning within Asian supply chains. Thailand's chronic political instability also hampers the implementation of the structural reforms needed to adapt to an ageing population, the lack of infrastructure, and the growing risk that the country will remain mired in a middle income trap.

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