

THAILAND

9

CAUTIOUS OPTIMISM

The recovery is continuing in Thailand. The rebound in private consumption and the gradual return of tourists should help, at least in the short term, to compensate for the slowdown in exports. However, the risks to growth remain on the downside, due to rising inflation, monetary tightening, the weakness in global demand and the absence of Chinese tourists. In the run-up to the elections in May 2023 political tensions could increase again. However, medium-term strategic investments, including the Eastern Economic Corridor programme, should not be jeopardised.

EXPORTS SLOW

The upturn in economic activity continues to be evident in Thailand. GDP grew by 2.3% and 2.5% respectively year-on-year in the first two quarters of 2022. This dynamic should accelerate in the second half of the year, supported by strong private consumption; this is being boosted by the removal of all lockdown measures and the recent increase in the minimum wage by 5%, as well as by a budgetary policy that continues to be accommodative. The agricultural sector (which still represents 30% of total jobs) should also benefit (in terms of volume and market share) from the new restrictions on Indian exports (last September the Indian government banned exports of broken rice and imposed a customs duty of 20% on sales of other categories of rice).

At the same time, the number of tourists arriving in the country continues to rise. It has been increasing since May, following the partial reopening of borders. All restrictions have since been lifted. However, the recovery is likely to be very gradual due to the almost complete lack of Chinese visitors. While they accounted for over 30% of total arrivals in 2019, Chinese tourists have been fewer than 3% of the total since the start of 2022. It will probably take several years to get back to the previous level – around 40 million visitors registered in 2019 (chart 1).

Overall, real GDP is expected to grow by 4% in 2022 after 1.5% growth in 2021. That said, the risks to growth remain on the downside. The rapid deterioration in regional trade (in the context of a slowdown in global demand) is hampering the recovery and contrasts with the momentum in private consumption.

Exports of goods slowed in July and August (to 8% year-on-year, after having risen by more than 15% on average in the first six months of the year), and the PMI index of new export orders also declined over the last two months. The gradual normalisation of production in the automotive sector (globally) has helped to prevent an even more marked slowdown in exports. However, this respite is likely to be short-lived, as the consumption of automotive products is particularly sensitive to the current environment of rising interest rates.

MORE RATE HIKES CAN BE EXPECTED

Furthermore, the high rate of inflation continues to weigh on the outlook for growth. Inflation has continued to rise steadily since the last quarter of 2021. It has been above the central bank's target (between 1 and 3%) since the beginning of 2022, due to rising energy and food prices. The inflation rate stood at 7.9% year-on-year in August, after 7.6% in July, and is likely to remain high in the short term given the series of adjustments expected (20% increase in the price of electricity, 5% increase in the minimum wage, increase in taxi fares, etc.).

For the first time since May 2020 the central bank raised its key interest rate by 25 basis points (to 0.75%) at its monetary policy meeting on 10 August. Another rate hike was announced at the meeting on 30

FORECASTS

	2019	2020	2021	2022e	2023e
Real GDP growth (%)	2.2	-6.2	1.5	4.0	4.7
Inflation (CPI, year average, %)	0.9	-0.3	2.2	6.4	4.2
Gen. Gov. balance / GDP (%)	-0.8	-4.5	-7.9	-3.9	-3.8
Gen. Gov. debt / GDP (%)	41.1	49.4	58.4	60.6	59.6
Current account balance / GDP (%)	7.0	4.2	-2.2	-2.9	2.3
External debt / GDP (%)	31.5	38.1	39.0	40.9	39.6
Forex reserves (USD bn)	224	258	246	205	218
Forex reserves, in months of imports	9.0	15.0	11.0	9.0	9.3

e: ESTIMATE & FORECASTS

TABLE 1

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

THAILAND: INFLATION AND POLICY RATE

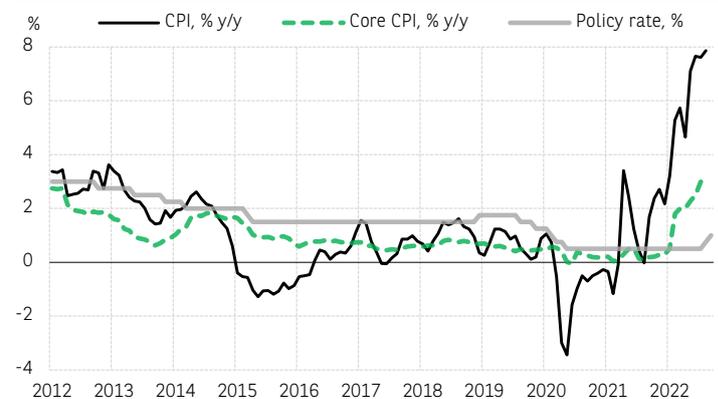


CHART 1

SOURCE: BANK OF THAILAND, BNP PARIBAS

September, bringing the key rate to 1%. This is now 25 basis points (bps) below its pre-Covid level. In its latest statement the central bank has indicated that further short-term rate increases are likely, given the context of strengthening domestic demand and tightening of international monetary conditions.

However, the statement indicates that the central bank intends to establish its key interest rate at a level that is "compatible with sustainable long-term growth". Given the structural weaknesses affecting Thai growth (ageing population, relatively high household debt, relatively weak net FDI inflows), the end of the tightening cycle could occur before inflation has been fully stabilised.



FISCAL POLICY REMAINS ACCOMMODATIVE

Since 2020 the government has been making full use of the room for manoeuvre that it has to support the economy. Numerous measures were implemented in 2020-2021, deepening the public deficit (to 4.5% and 7.9% of GDP respectively, after an average of 3% in 2015-2019). The government is also planning a very gradual consolidation, with priority given to supporting growth.

The various subsidies designed to mitigate the rise in energy and food prices have gradually replaced the measures put in place during the Covid-19 crisis, and the deficit is expected to be around 4% of GDP in 2022 and 2023. Public debt should remain well below the regulatory ceiling of 70% of GDP.

POLITICAL TENSIONS ON THE RISE AS THE ELECTIONS APPROACH

The biggest risk to growth, and the country's main structural weakness, remains the political climate. Following several years of apparent calm, political tensions have been increasing since 2020. The political climate could become even more difficult in the run-up to the legislative elections¹, scheduled for May 2023.

In the very short term political tensions could increase after the decision of the Constitutional Court to keep the Thai Prime Minister in office. Last August several opposition parties had asked the Court to rule on the legitimacy of the latter remaining in his post, as the constitutional limit of eight consecutive years for the exercise of power had been reached. However, the Court ruled that the number of years that Prayuth Chan-ocha had been in power should be counted from 2017 (the year of the referendum and the year when the constitution came into effect) and not from 2014 (the year of the coup d'état which enabled Prayuth Chan-ocha to take power, as commander of the armed forces).

On the basis of the judgment the Prime Minister could therefore remain in power until 2025, two years after the elections. If he were to be elected again to the position of Prime Minister, he would therefore be required to resign mid-term and new elections would have to be organised. In these circumstances it is unlikely that he would be selected by his party to be a candidate for his own succession.

In addition, the election of the former Minister of Transport (a member of Pheu Thai, the party ousted by the 2014 coup d'état) to the position of Governor of Bangkok last May, the internal dissensions of the governmental party as well as the absence of a natural (and agreed) successor to the current Prime Minister have weakened the government coalition, leading some parties to form new coalitions, and strengthened the opposition parties.

¹ As a reminder, since the constitution came into effect in 2017, the lower house of representatives has consisted of 500 seats: 350 members are elected via a one-round first-past-the-post ballot and the other 150 are elected via a proportional representation list system. The term of office is four years. The Prime Minister is then elected (also for a period of four years) following a vote organised in the House of Representatives (consisting of the lower chamber and the Senate, whose 250 members are appointed by the National Council for Peace and Order, a military institution created in 2014 following the coup d'état).

NUMBER OF TOURISTS IN THAILAND

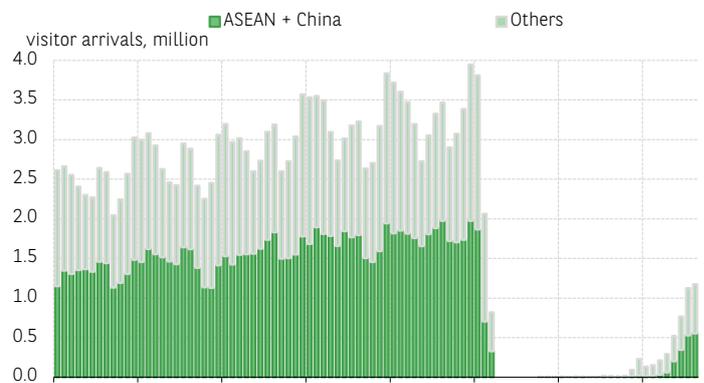


CHART 2

SOURCE: MINISTRY OF TOURISM

That said, the political noise around the elections should not affect Thai investment strategy over the next five years. For the time being, all parties seem to be intent on implementing the policies undertaken by the current government, particularly with regard to the second phase of the EEC (Eastern Economic Corridor) project. This is a wide-ranging investment plan primarily aimed at facilitating investment in the technology sectors and improving the country's infrastructure through public-private partnerships. This project, which was launched in 2017, has slowed considerably since 2020 due to the health crisis. The second phase is expected to be completed in 2026.

Hélène DROUOT

helene.drouot@bnpparibas.com