TOWARDS A GRADUAL RECOVERY

The economic rebound expected in H2 2020 has been slow in the making. For the moment, the pandemic seems to be under control, and there have already been several phases of reopening, but domestic demand remains sluggish. Exports also fell sharply again in May. Above all, it is the absence of international tourists that is straining growth prospects, at least in the short term, because fiscal and monetary support measures – though massive – will not suffice to totally absorb the shock. As a result, the recovery is likely to be more restrained than in the other Asian countries.

A GRADUAL REOPENING

The Covid-19 state of emergency is still in effect in Thailand. Introduced in late March, emergency powers have been extended until the end of July. Yet there have been fewer than 10 new cases reported daily since the end of April (only 5 cases on 9 July) and the country has begun to reopen for business through a series of phases beginning in early May. Fewer than 3,500 cases have been reported since the pandemic began (46 cases for 1 million inhabitants), and the total number of deaths has held at 58 since 2 June.

For the moment, Thailand's borders are still almost completely closed. Entry is authorised only for a very restricted number of cases (Thai citizens and their family members as well as foreign residents), and limited to 500 people a day. A period of self-isolation is also imposed systematically. The number of visas should gradually increase by the end of July, depending on the amount of room capacity to accommodate the quarantine period.

TOURISM COMES TO A STANDSTILL

For the moment, it is uncertain when the borders will reopen for tourists. In June, the government announced plans to create a "travel bubble" i.e. to partially open its borders to tourists from a restricted number of countries (like Japan, China and South Korea, where the epidemic has not spread much). Due to the resurgence in new cases in these partner countries, plans to start up the "travel bubble" -- initially scheduled for early August – have been postponed to an unspecified date.

Consequently, the tourism sector should make a very small contribution to growth in the quarters ahead, straining GDP in H2 2020 and full-year 2021.

In late May, the government announced a support package for the tourism sector to encourage Thai residents to travel domestically, through subsidies for domestic travel and by "offering" several extra days of vacation to replace bank holidays that occurred during the lockdown period. Yet the revenues generated by this domestic travel plan would not offset the loss of revenues arising from the absence of foreign tourists.

According to Ministry of Tourism data, "domestic" tourism revenue accounted for nearly USD 10 bn in 2018, or 2% of GDP (2019 data was not available yet), while international tourists generated more than USD 58 bn in revenue, or nearly six times more (nearly 12% of GDP), with four times as many visitors (3.3 million visitors per month on average in 2019, and nearly 4 million on average in January-February 2020, before the first lockdown restrictions).

The sector's economic weighting in the broad sense of the term (including the multiplier effects of tourism revenues) is estimated at more than 20% of GDP. The Tourism Ministry is expecting nearly a million job losses in the formal sector (out of a total of 4.5 million jobs). This would drive up the unemployment rate by at least two percentage points (according to the most recently available statistics, the unemployment rate was stable at 1% in March) and strain private consumption.

FORECASTS

	2018	2019	2020e	2021e
Real GDP growth (%)	4.2	2.4	-9.0	5.3
Inflation (CPI, year average, %)	1.1	0.8	-2.0	0.0
Gen. Gov. balance / GDP (%)	-0.8	-1.0	-6.0	-3.5
Gen. Gov. debt / GDP (%)	40.6	41.3	48.1	53.7
Current account balance / GDP (%)	5.6	6.9	2.5	5.1

TABLE 1

e: ESTIMATES AND FORECAST
SOURCE: BNP PARIBAS GROUP ECONOMIC RESEARCH

TOURISM SECTOR HIT HARD

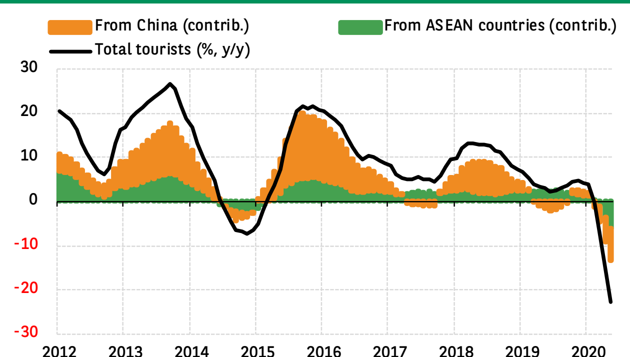

CHART 1

SOURCE: MINISTRY OF TOURISM

SUPPORT FROM THE POLICY MIX

From the beginning of the crisis, the authorities have expressed their determination to boost the economy. The government harnessed its fiscal policy leeway to support growth. A series of measures have been announced since March accounting for a total of nearly 10% of GDP. The first support measures mainly targeted the healthcare sector and the most vulnerable workers and companies (including workers without access to the social security system). The next measures were designed

to provide broader support to households and companies. Lastly, a tourism support package was announced in May.

The public deficit is expected to swell significantly in 2020, but will still account for "only" 6% of GDP (up from 1% of GDP in 2019), since the government intends to finance part of the stimulus package through public organisations and enterprises, whose accounts do not appear in the budget. The government plans to borrow THB 1 bn (about 6% of GDP) in the form of bond issues, most of which will be in domestic bonds spread out through September 2021. All in all, public debt is expected to increase to 48% of GDP in 2020 (from 41% in 2019), but will remain under the 60% threshold set by the country's fiscal rule.

Even so, public finances are not expected to become significantly more vulnerable, at least not in the short term. The temporary nature of some measures combined with an economic recovery should foster a gradual reduction in the public deficit as of 2021. The debt profile is also favourable, since less than 2% is denominated in foreign currency, and only a small share, estimated at less than 15%, of government bonds is held by non-resident investors.

As to the central bank, it has cut its key rate by 75 basis points (bp) since the beginning of the year, to 0.5%. It has also implemented several measures to support financial sector stability and facilitate access to lending for the most vulnerable companies. In its latest press release, the central bank warned that the recovery of domestic demand would be less robust than initially expected, and that additional support measures would probably be needed for the most vulnerable households and SME (which account for nearly 9% of employment). This, plus the recent strengthening of the baht (which regained pre-crisis levels after depreciating by 8% against the USD between January and April) and the revision of inflation forecasts (-2% in 2020 and 0% in 2021), justify the ongoing easing of monetary policy, as well as the announcement of new unconventional monetary measures by the end of the year.

A LESS ROBUST REBOUND

Fiscal and monetary support measures have raised high hopes that economic growth will rebound in Q3 2020, but the size of the recovery will probably be hampered. In addition to the absence of international tourists, maintaining the coronavirus state of emergency and social distancing will continue to curb growth. Although the reopening process is well underway, monthly indicators of private consumption and investment have deteriorated sharply (-12.5% each on average in April-May, year-on-year). At the same time, supply chain disruptions, the desynchronization of global value chains and the decline in external demand are heavily straining exports. After April's rebound, exports contracted sharply again in May (-22% year-on-year).

All in all, GDP is expected to contract by nearly 9% in 2020 (vs. average growth of 3.5% over the past five years), before rebounding to more than 5% in 2021.

Looking beyond 2021, it is highly likely that the pandemic will cause lasting changes in household and corporate behaviour, notably in terms of consumption and investment, curbing the growth of global trade. Under this environment, the erosion of Thailand's economic competitiveness, an aging population and a chronically fragile political situation could tarnish the country's attractiveness in the eyes of investors (both foreign and local) and lower its potential growth rate.

INFLATION AND POLICY RATE

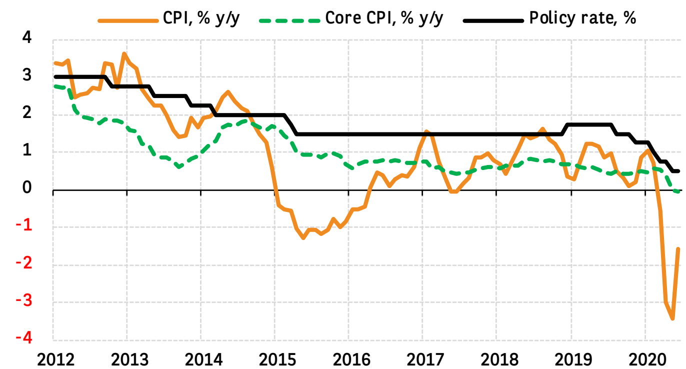

CHART 2

SOURCE: BANK OF THAILAND

The vast infrastructure investment plan presented by the government in early 2020, which was designed to improve the country's infrastructure and competitiveness, could make a difference. The big question is whether it will be actually implemented.

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