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2021 Recap: Two COVID-19 waves undermined economic recovery

- In 2021, the Thai economy was adversely affected by two waves of infections. The Delta-dominant wave and tight containment measures caused 3Q21 GDP to contract quarter-on-quarter, the first negative growth since 2Q20. However, for the whole of 2021, GDP growth is estimated to turn positive at +1.2%, compared to -6.1% in 2020, underpinned by fewer daily infections and accelerating mass vaccination in 4Q21, coupled with additional spending by the government and impressive export performance.
- Export sector was the main economic growth driver, marking double-digit growth following (i) the global economic recovery, especially in core countries with high vaccination rates; (ii) rising demand for products that support work-from-home policy, infection prevention and containment measures; and (iii) a surge in commodity prices in late 2021 which also supported growth of related export goods.
- Despite reopening, Thailand's tourism sector has not recovered from the global pandemic which has prompted travel restrictions in many countries. Thailand had been listed as high-risk due to the large number of daily cases. The Phuket Sandbox program starting July 2021 and allowing quarantine-free entry to vaccinated foreign tourists since November have helped to nudge up foreign tourist arrivals.
- Private consumption is supported by government measures, but remains weak. Economic activity had been suspended for several months, resulting in subdued wages and sluggish domestic spending. The government's relief program and subsidy measures boosted household spending but there was limited positive impact because of legacy high household debt and rising unemployment.
- Private investment has been improving, led by strong export growth and a low base in 2020. However, SMEs, especially in tourism-related services sector, continued to suffer from tight liquidity as a result of extended COVID-19 outbreaks in 2021.
- Public spending helped to cushion COVID-19 impact on the Thai economy. Thailand experienced two waves in 2021. To ease the economic impact, the government approved an additional THB500bn loan decree after the THB1trn loan decree in 2020, to ease the impact and revive the economy.
- Thai baht was volatile and weak, because of (i) severe pandemic impact on Thailand, (ii) the country's current account deficit, and (iii) US dollar appreciation as the US economy continued to improve, prompting the Fed to unwind monetary easing earlier than market expectation.
- The Bank of Thailand (BOT) kept policy interest rate at a record low and introduced more targeted measures as economic recovery had been delayed and uneven due to the pandemic impact. The BOT focused on targeted monetary policy, including on hard-hit sectors, and included soft loan facility for businesses, debt restructuring through asset warehousing, and subsidy for retail debtors.

2022 outlook: First steps on the path to recovery

- Thailand's economic activity (or GDP) is expected to return to pre-pandemic level in 2H22; full-year 2022 growth is projected at +3.7%. Improving economic activity, rising exports, rising FDI, and accelerating infrastructure projects, would lead to a new investment cycle. Reopening effects and lockdown easing would encourage tourism activity and consumption. Fiscal supports will continue to relieve the pandemic impact and help to revive the economy.
- Consumption is recovering unevenly amid easing restrictions and stimulus measures; rising income is key to sustainable spending. Private consumption is projected to improve by 3.6% in 2022. Although the relaxation of control measures, progress in domestic vaccination program, and government stimulus spending will help in the near-term, labor market will remain weak. We expect average wage to rise in 2022 but remain below pre-pandemic level. Consumption recovery is also patchy by region, income group and business sector, and so income and expenditure in harder-hit sectors will remain weak.
- Exports will grow further following global economic recovery and regionalization; export growth could be above-trend. We project 2022 export growth at 5.0%, higher than average of 2.9% during 2001-2019 (pre-pandemic), supported by widespread vaccination programs and recovery in the world economy. In addition, Thailand will benefit from greater regionalization, including the enforcement of the RCEP from 2022.
- Recovery in domestic and external demand will spur a new investment cycle. Businesses will also invest in response to the '*new normal*', accelerating digitalization, and signs of rising foreign direct investment (FDI). Pushing ahead with government infrastructure spending will also induce private investment, with most projects organized as public-private partnerships (over 80% of infrastructure investment during 2022-2026 are PPPs). Alongside this, private investment is projected to grow by 4.6% in 2022.
- Tourism sector shows signs of nascent recovery; will take several years to return to pre-pandemic level. We expect foreign tourist arrivals to increase to 7.5 million in 2022, but that would still be far below 40 million registered in 2019. Domestic tourism is expected to improve to 90 million trips in 2022, supported by the nationwide vaccination program and measures to boost domestic tourism. Tourism is expected to reach pre-pandemic level in 2024, one year sooner than the inbound tourism sector.
- Expect BOT to hold policy rate at a record low of 0.50%, at least until the end of 2022. Even though domestic inflation will rise and possibly climb close to 3% in 1Q22 driven by a low base and cost pass-through effect, the impact would soften later. In 2H22, inflation is likely to drop back closer to 1%, the lower bound of the BOT's inflation target, as global crude oil prices are likely to decline and domestic demand would recover only gradually. As such, the MPC is expected to keep policy rate low to support a still-fragile recovery and below-potential economic growth.
- Risks & Challenges: (i) Still-fluid COVID-19 situation with concerns over mutant strains and vaccine efficacy; (ii) side-effects of US unwinding monetary stimulus on financial markets; (iii) lingering global supply-side issues despite an improvement following rising investment; (iv) geopolitical risk and conflicts between major countries; and (v) domestic political risk and its impact on continuity of economic policies.

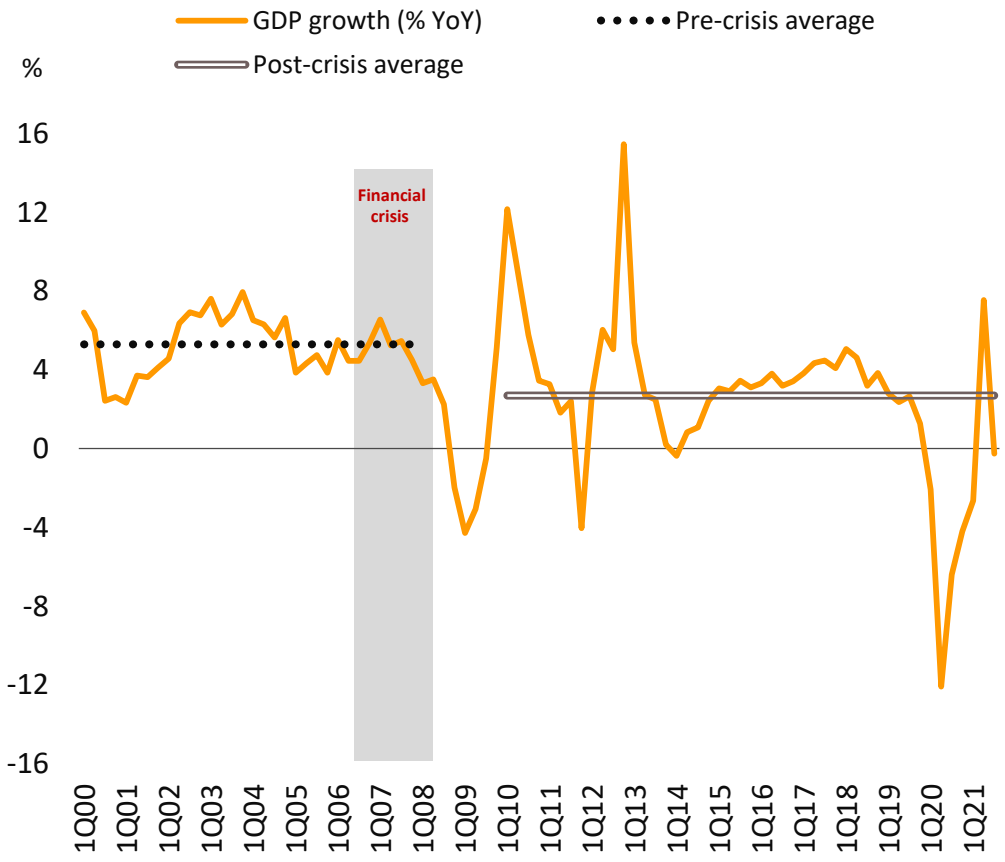
Krungsri Research forecasts 2021-2022

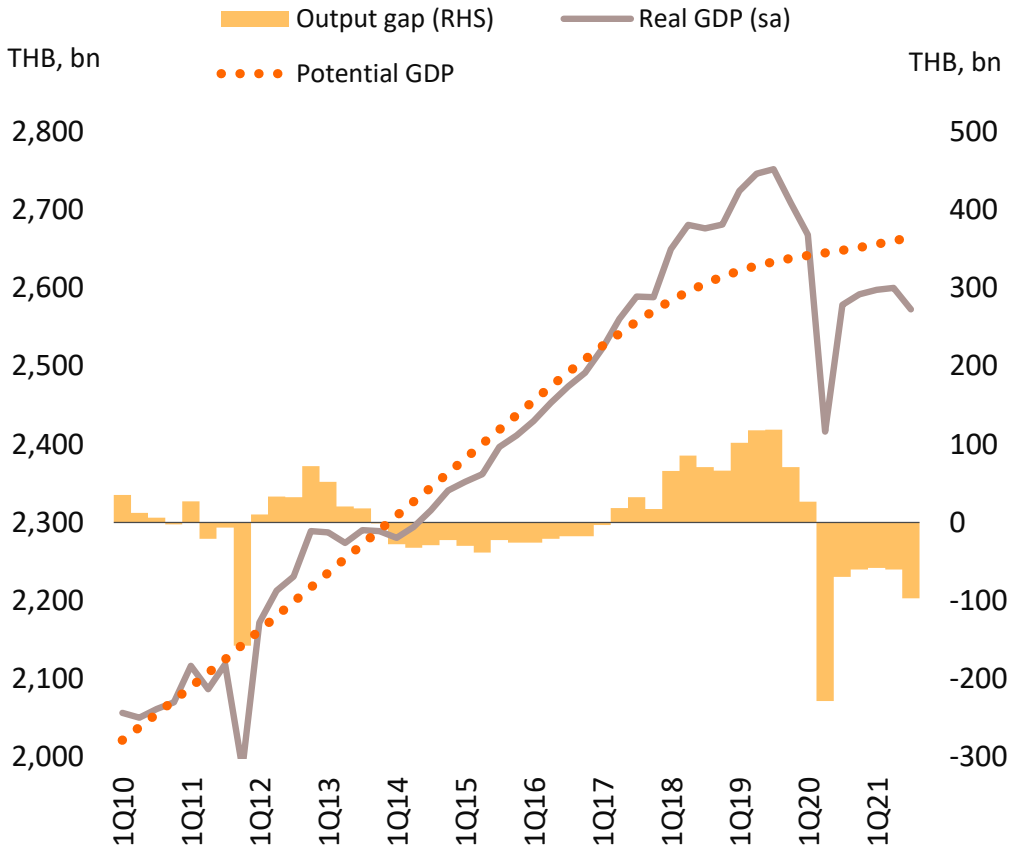
Krungsri Research Forecast		2019	2020	2021F	2022F
GDP growth	YoY (%)	2.3	-6.1	1.2	3.7
Private Consumption Expenditure	YoY (%)	4.0	-1.0	1.1	3.6
Government Consumption Expenditure	YoY (%)	1.7	0.9	2.3	0.3
Private Investment	YoY (%)	2.7	-8.4	4.2	4.6
Public Investment	YoY (%)	0.1	5.7	4.8	4.2
Nominal Exports in USD (f.o.b.)*	YoY (%)	-3.3	-6.5	16.5	5.0
Nominal Imports in USD (f.o.b.)	YoY (%)	-5.6	-13.8	23.0	6.0
Current Account Balance	USD, bn	38.0	20.3	-12.5	5.8
Tourist Arrivals	Mn, persons	39.9	6.7	0.35	7.5
Headline Inflation	YoY (%)	0.7	-0.8	1.2	1.5
Exchange rate (end of period)	THB/USD	30.1	30.0	33.3	32.0
Policy Interest rate (end of period)	(%)	1.25	0.50	0.50	0.50
Dubai crude price - period average	USD/bbl	63.0	41.5	69.5	73.5

* Customs-based export growth forecast: +15.0% in 2021, +4.5% in 2022

Source: NESDC, BOT, MOC, MOTS, Bloomberg, Krungsri Research

2021 growth to turn mild-positive after largest drop in more than two decades in 2020; output gap remains in negative territory





Source: Office of the National Economics and Social Development Council (NESDC), Krungsri Research

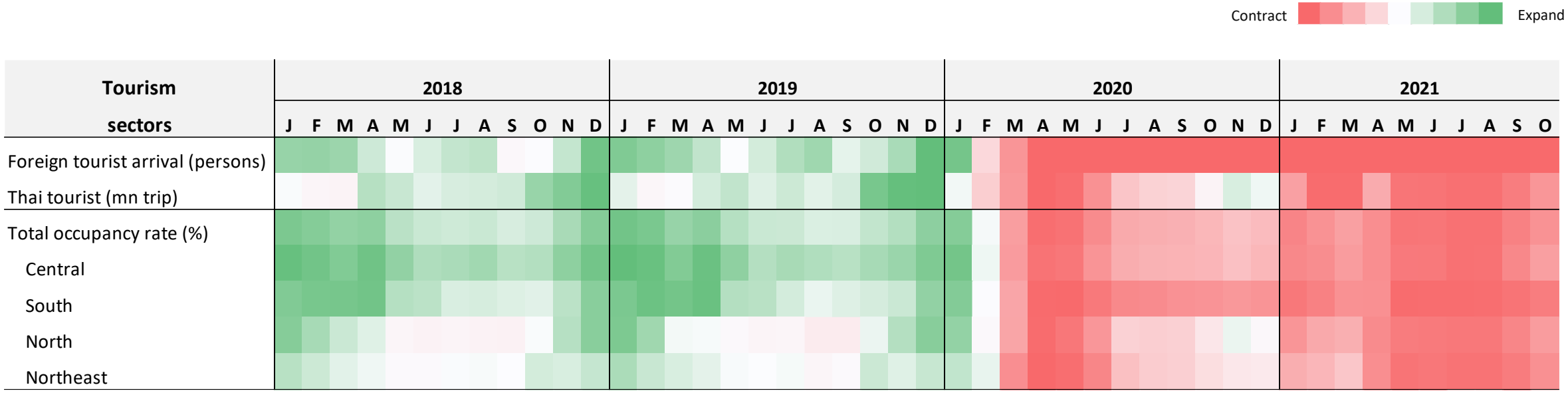
Severe impact of Delta-dominant outbreak hit domestic demand and disrupted manufacturing and construction activities; export sector was key growth engine



(% YoY)	Share 2020	2018				2019				2020				2021		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
GDP growth	**100.0%**															
Demand-side data																
Private Consumption	52.9%															
Government Consumption	17.7%															
Gross Fixed Capital Formation	23.1%															
Private Investment	*16.6%*															
Public Investment	*6.4%*															
Exports of Goods & Services	51.5%															
Exports of Goods	*45.2%*															
Exports of Services	*6.3%*															
Imports of Goods & Services	46.5%															
Imports of Goods	*37.2%*															
Imports of Services	*9.3%*															
Supply-side data																
Agriculture	6.3%															
Manufacturing	26.5%															
Construction	2.9%															
Wholesale & Retail trade	*15.8%*															
Accommodation & Food Service	*4.3%*															
Transport & Storage	*5.7%*															
Financial & Insurance	*7.9%*															
Real Estate Activities	*4.2%*															

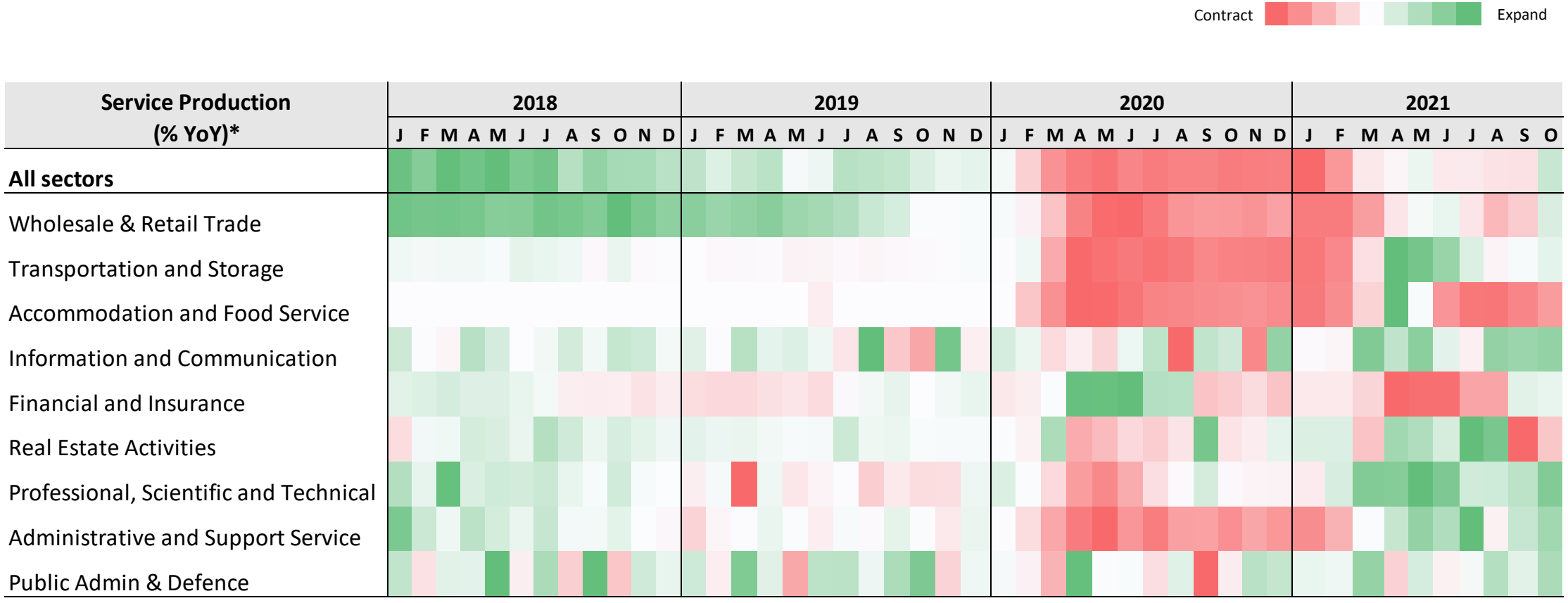
Source: NESDC, Krungsri Research

Tourism sector has been hit hard by pandemic-induced international travel restrictions in Thailand and abroad



Source: Ministry of Tourism and Sports (MOTS), Krungsri Research

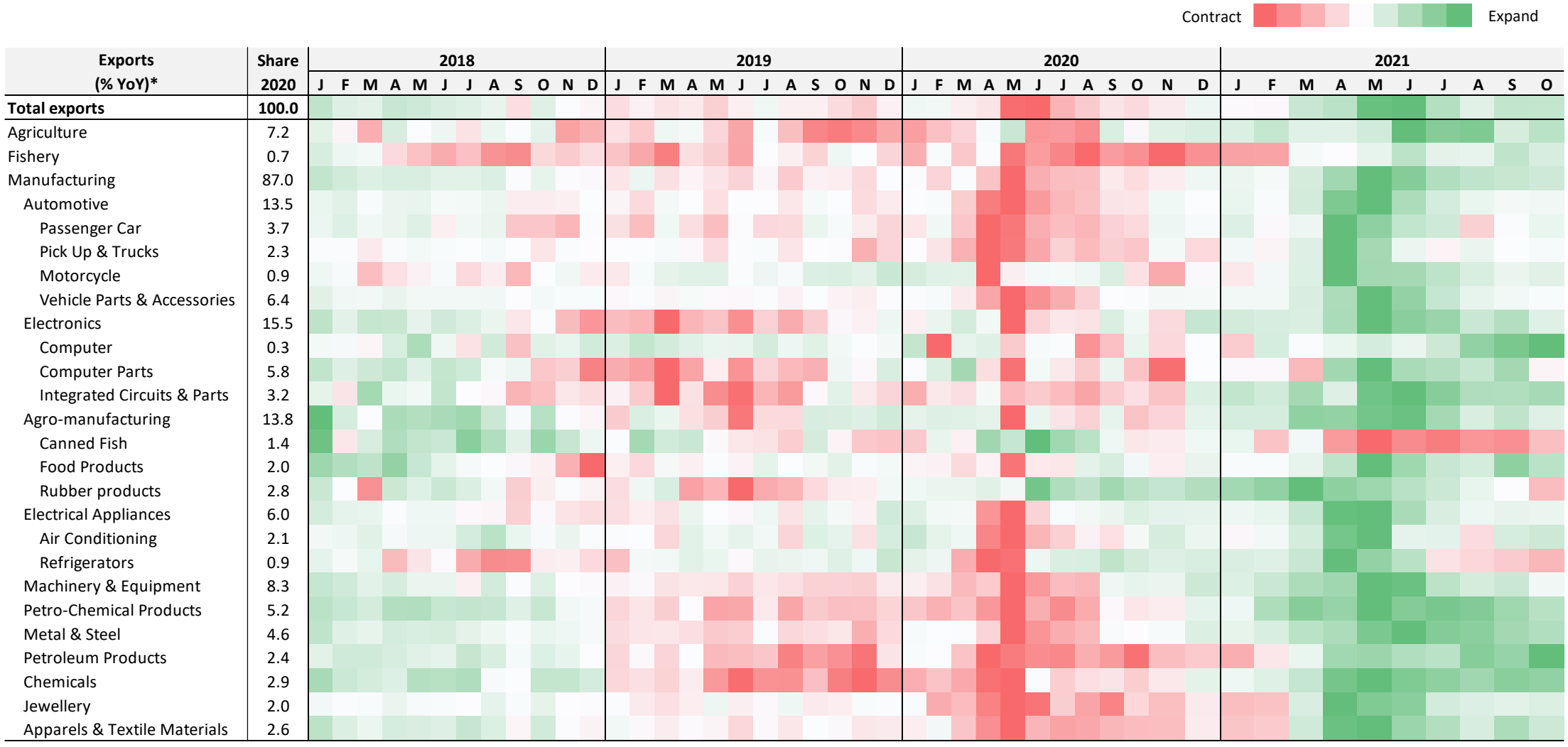
Services sectors, especially those related to tourism, recovered at slower pace than other sectors



**Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum*

Source: Bank of Thailand (BOT), Krungsri Research

Exports expanded favorably driven by improving global demand and growth is more broad-based across product items

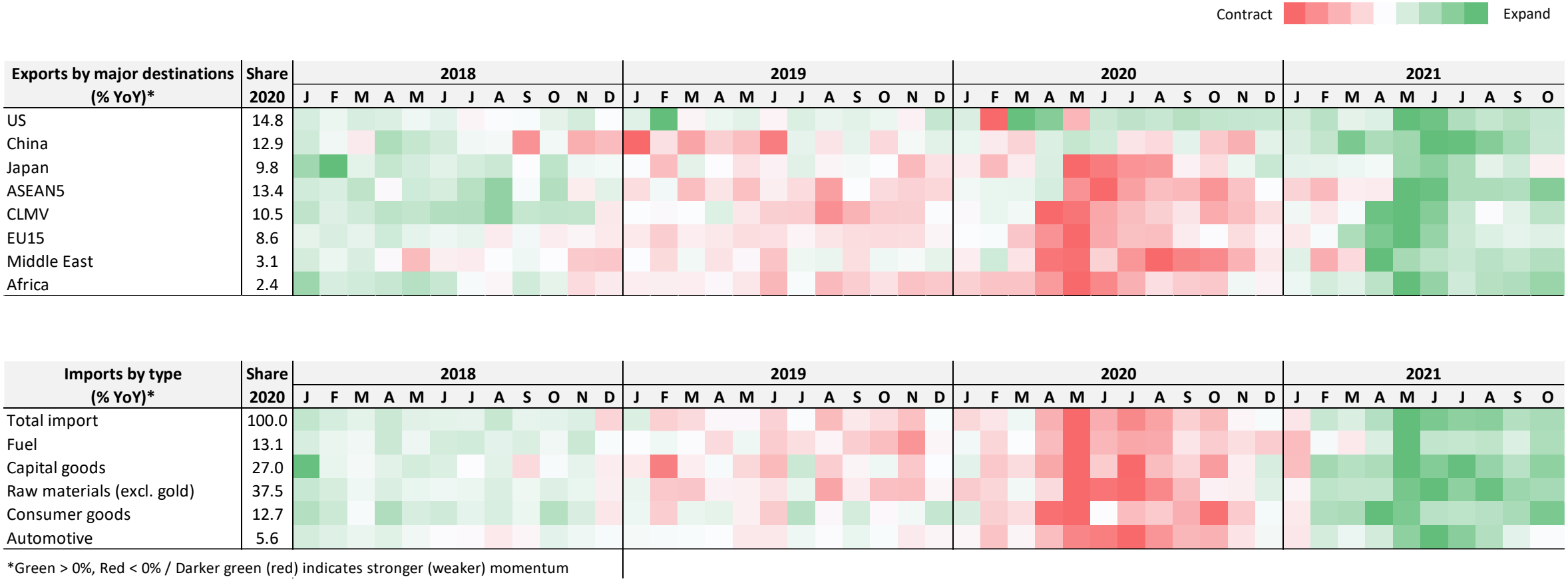


Exports (% YoY)*	Share 2020	2018 J	F	M	A	M	J	J	A	S	O	N	D	2019 J	F	M	A	M	J	J	A	S	O	N	D	2020 J	F	M	A	M	J	J	A	S	O	N	D	2021 J	F	M	A	M	J	J	A	S	O
Total exports	**100.0**																																														
Agriculture	7.2																																														
Fishery	0.7																																														
Manufacturing	87.0																																														
Automotive	13.5																																														
Passenger Car	3.7																																														
Pick Up & Trucks	2.3																																														
Motorcycle	0.9																																														
Vehicle Parts & Accessories	6.4																																														
Electronics	15.5																																														
Computer	0.3																																														
Computer Parts	5.8																																														
Integrated Circuits & Parts	3.2																																														
Agro-manufacturing	13.8																																														
Canned Fish	1.4																																														
Food Products	2.0																																														
Rubber products	2.8																																														
Electrical Appliances	6.0																																														
Air Conditioning	2.1																																													
Refrigerators	0.9																																														
Machinery & Equipment	8.3																																														
Petro-Chemical Products	5.2																																														
Metal & Steel	4.6																																														
Petroleum Products	2.4																																														
Chemicals	2.9																																														
Jewellery	2.0																																														
Apparels & Textile Materials	2.6																																														

*Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum

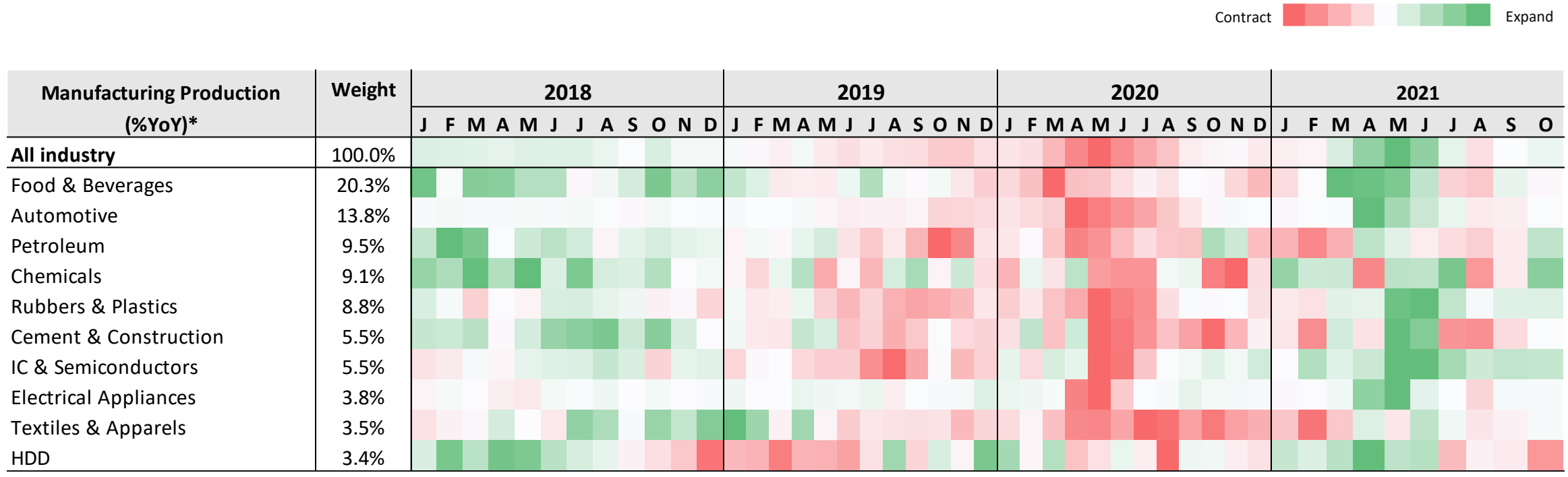
Source: BOT, Krungsri Research

Exports to major economies grew following economic recovery in those countries; stronger raw material imports suggest exports will remain robust



Source: Ministry of Commerce (MOC), Krungsri Research

Manufacturing production expanded in line with robust export growth and improving domestic demand after lockdown easing



Manufacturing Production (%YoY)*	Weight	2018												2019												2020												2021									
		J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O
All industry	100.0%																																														
Food & Beverages	20.3%																																													
Automotive	13.8%																																													
Petroleum	9.5%																																													
Chemicals	9.1%																																													
Rubbers & Plastics	8.8%																																													
Cement & Construction	5.5%																																													
IC & Semiconductors	5.5%																																													
Electrical Appliances	3.8%																																													
Textiles & Apparels	3.5%																																													
HDD	3.4%																																													

**Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum*

Source: Office of Industrial Economics (OIE), Krungsri Research

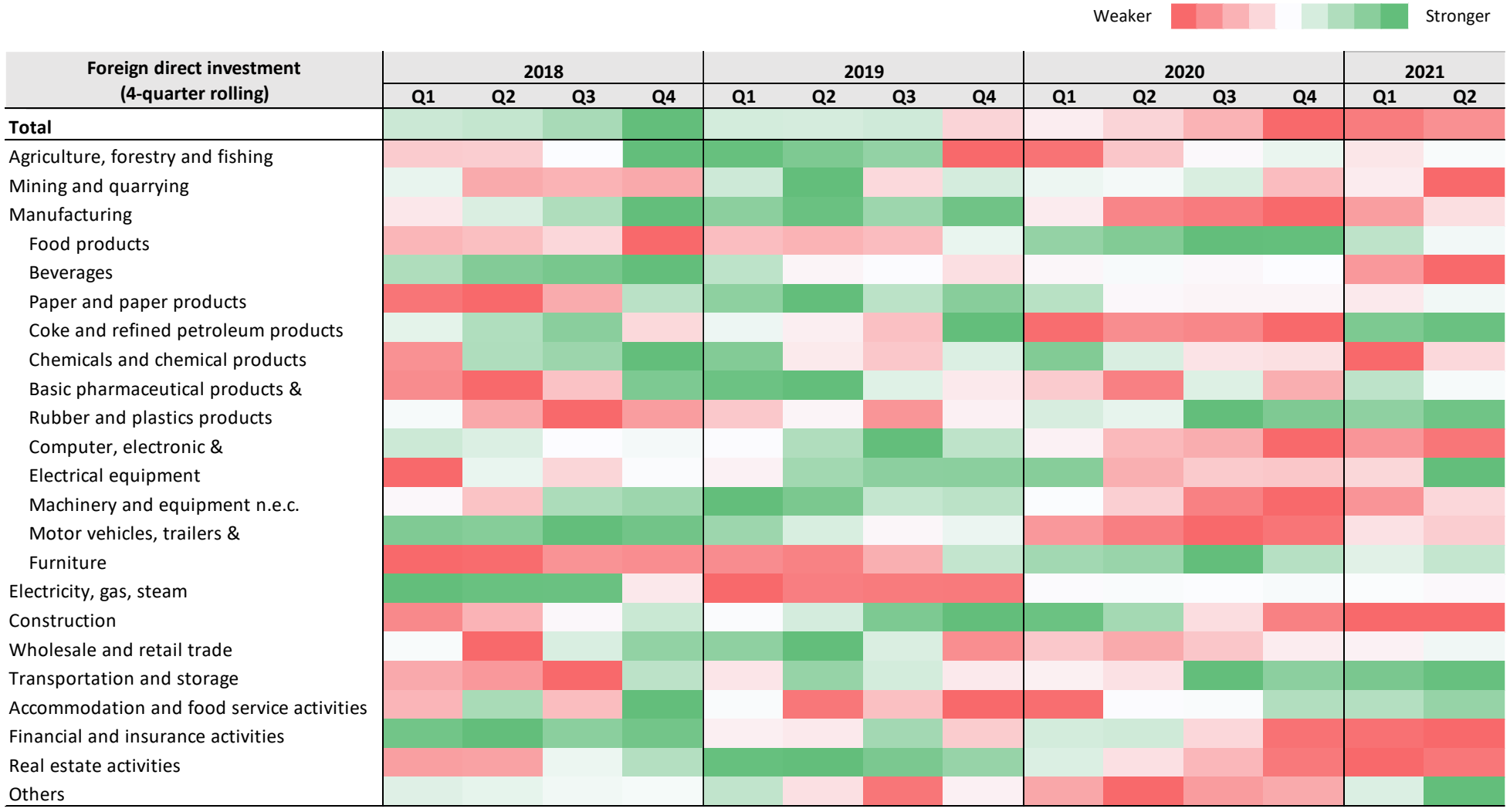
Capacity utilization in several sectors showed positive signs driven by strong export performance



Capacity utilization	Share	2018												2019												2020												2021									
		J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O
All industry	100																																														
Food & Beverages	20.3																																													
Automotive	13.8																																													
Petroleum	9.5																																													
Rubbers & Plastics	8.8																																													
Chemicals	8.0																																													
Non ferrous material	5.5																																													
IC & Semiconductors	5.5																																													
Ferrous material	3.6																																													
Textiles & Apparels	3.5																																													
HDD	3.4																																													
Electrical Appliances	3.0																																													
Machinery	2.7																																													

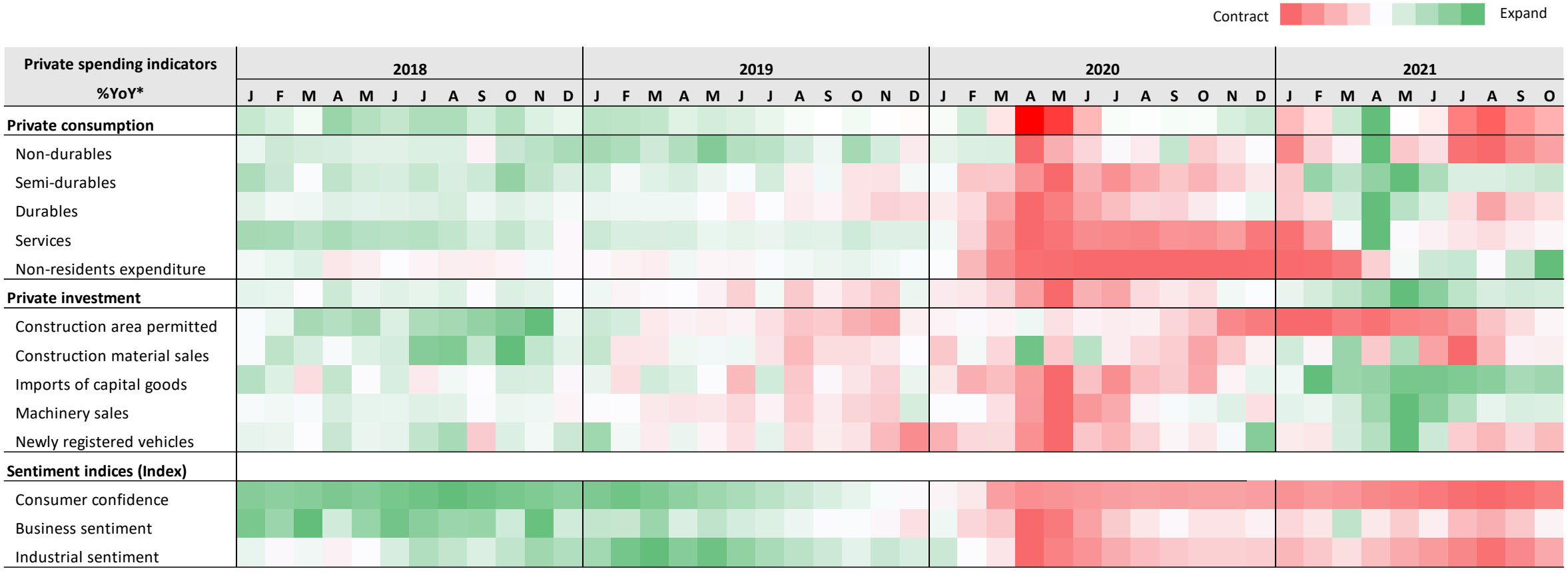
Source: OIE, Krungsri Research

FDI starting to register net inflows in several industries, including food, rubber products, and electrical equipment



Source: BOT, Krungsri Research

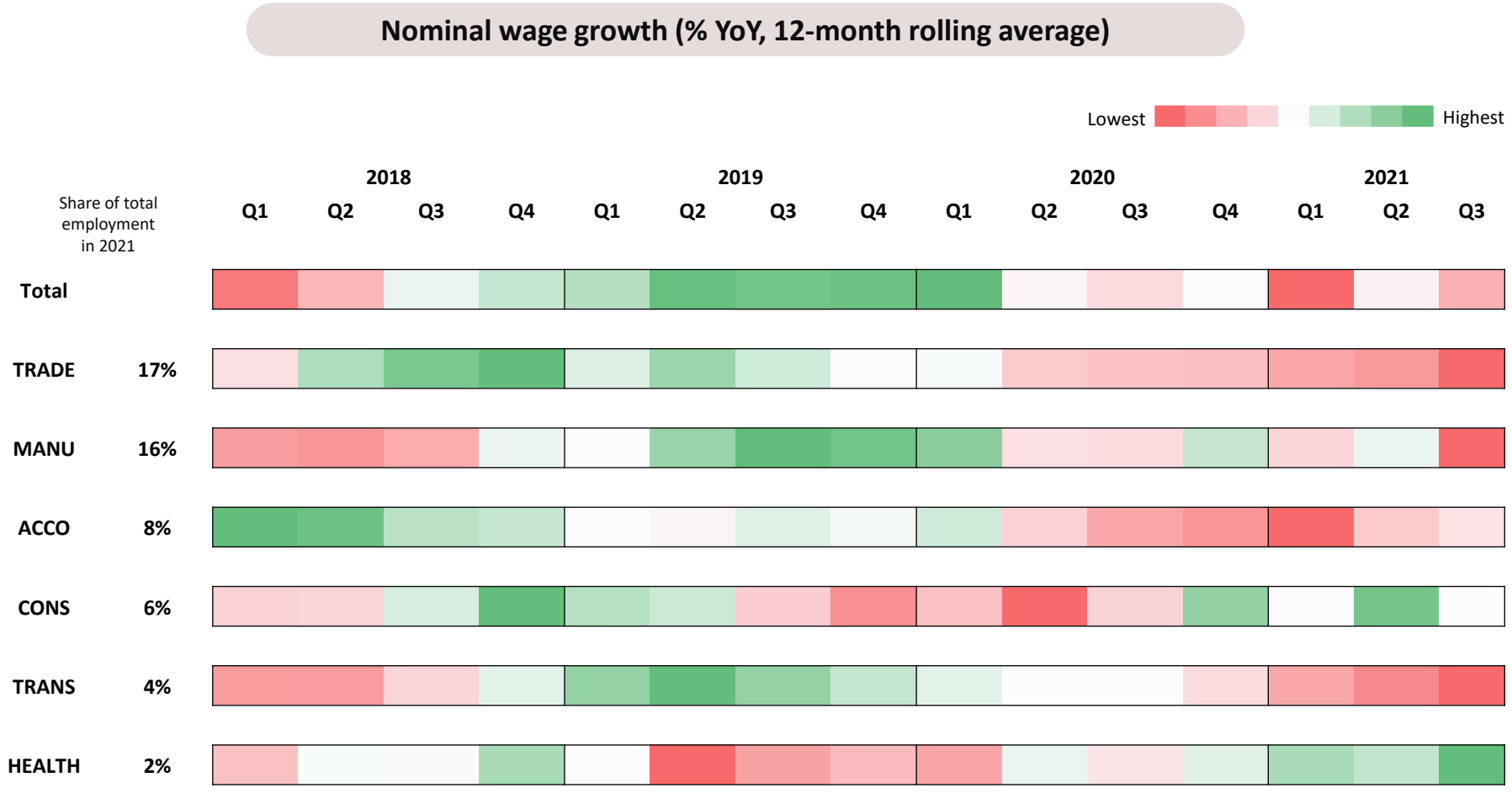
Domestic economy has been severely hurt by the pandemic; investment looks set to recover faster than consumption



**Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum*

Source: BOT, University of the Thai Chamber of Commerce (UTCC), Federation of Thai Industries (FTI), Krungsri Research

Non-farm income remains weak compared to pre-pandemic level



Note: Sectoral code: TRADE = Wholesale and retail trade, MANU = Manufacturing, ACCO = Accommodation and food service activities, CONS = Construction, TRANS = Transportation and HEALTH = Human health

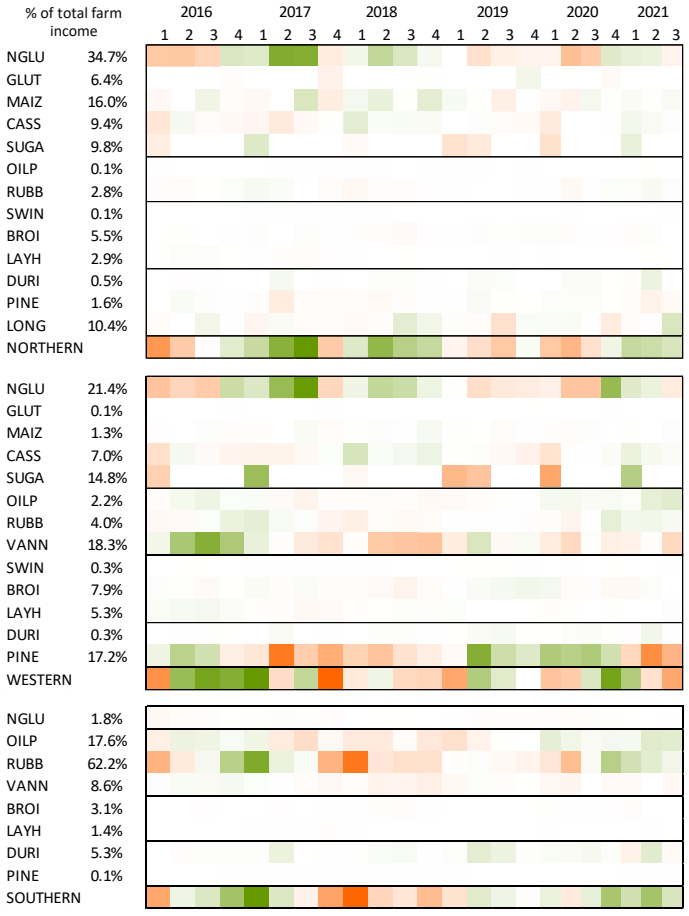
Source: BOT, National Statistical Office of Thailand (NSO), Krungsri Research

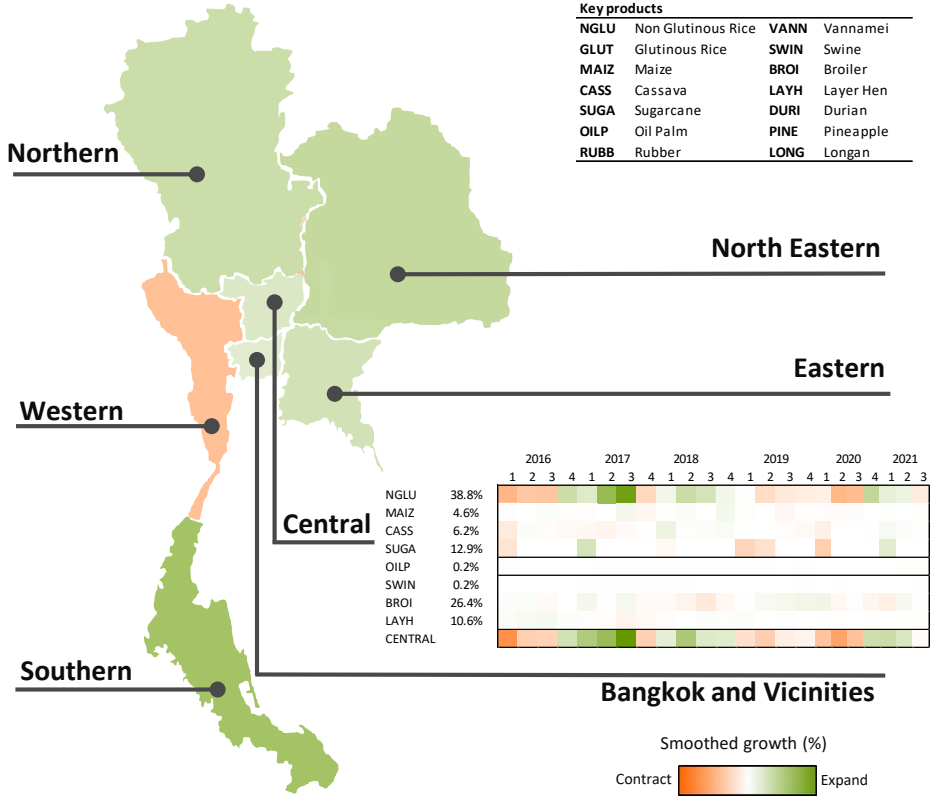
Farmers will benefit from recovering global demand, favorable weather, and higher prices for major crops under farm income guarantee scheme

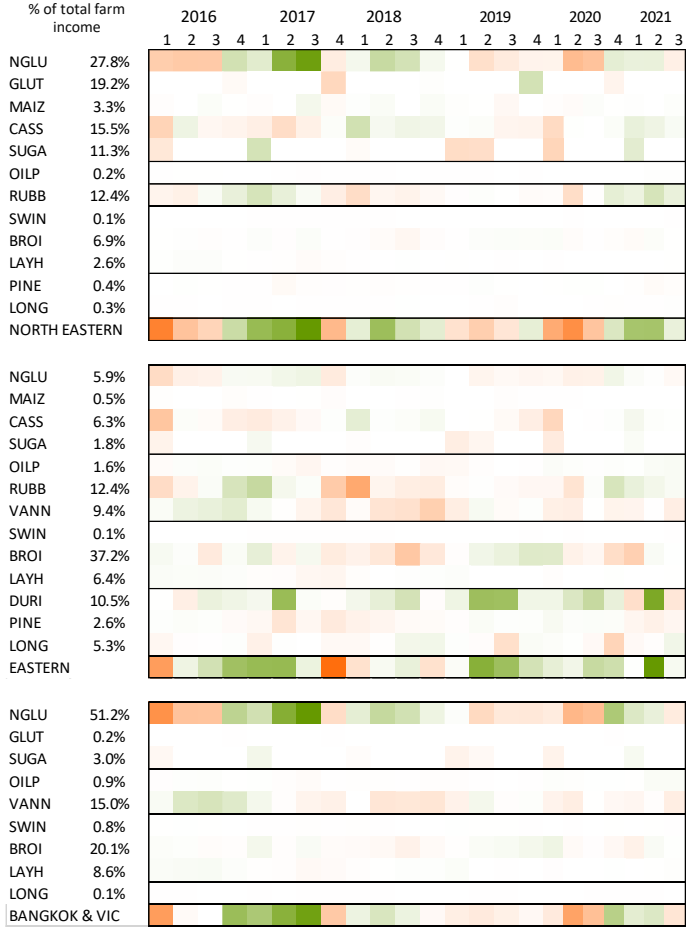
Regional Box: Color intensity indicates relevance of product, measured by share of total regional farm income.

Farm income growth (% YoY)

In the first 10 months of 2021, agricultural prices rose 4.2% YoY and output increased 3.6%, causing farm income to surge 7.4%. Prices and quantities of agricultural outputs will continue to benefit from (i) rising global demand especially from China, (ii) favorable rainfall and weather, (iii) positive impact of government income guarantee scheme, and (iv) expansion of cultivation areas induced by favorable farm prices.

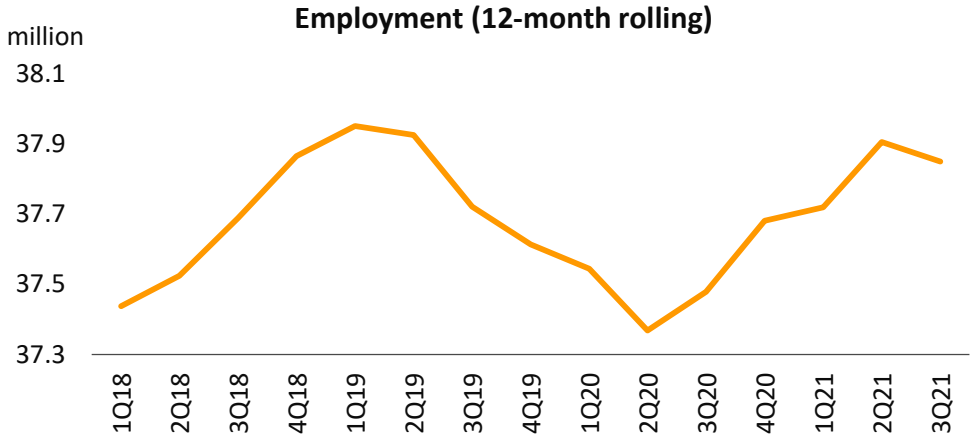


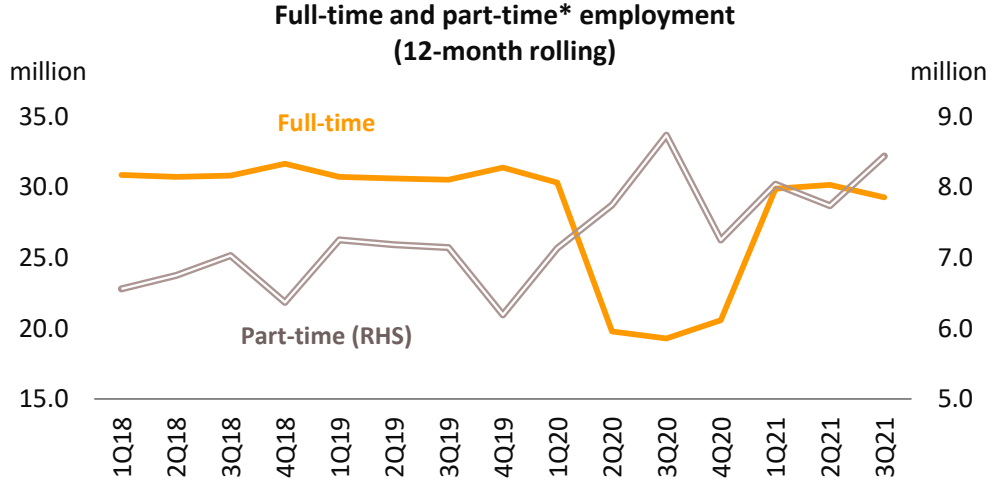




Source: Office of Agricultural Economics (OAE), Krungsri Research

Employment conditions reflect a return of full-time workers in several sectors, but recovery is uneven with weakness in accommodation sector



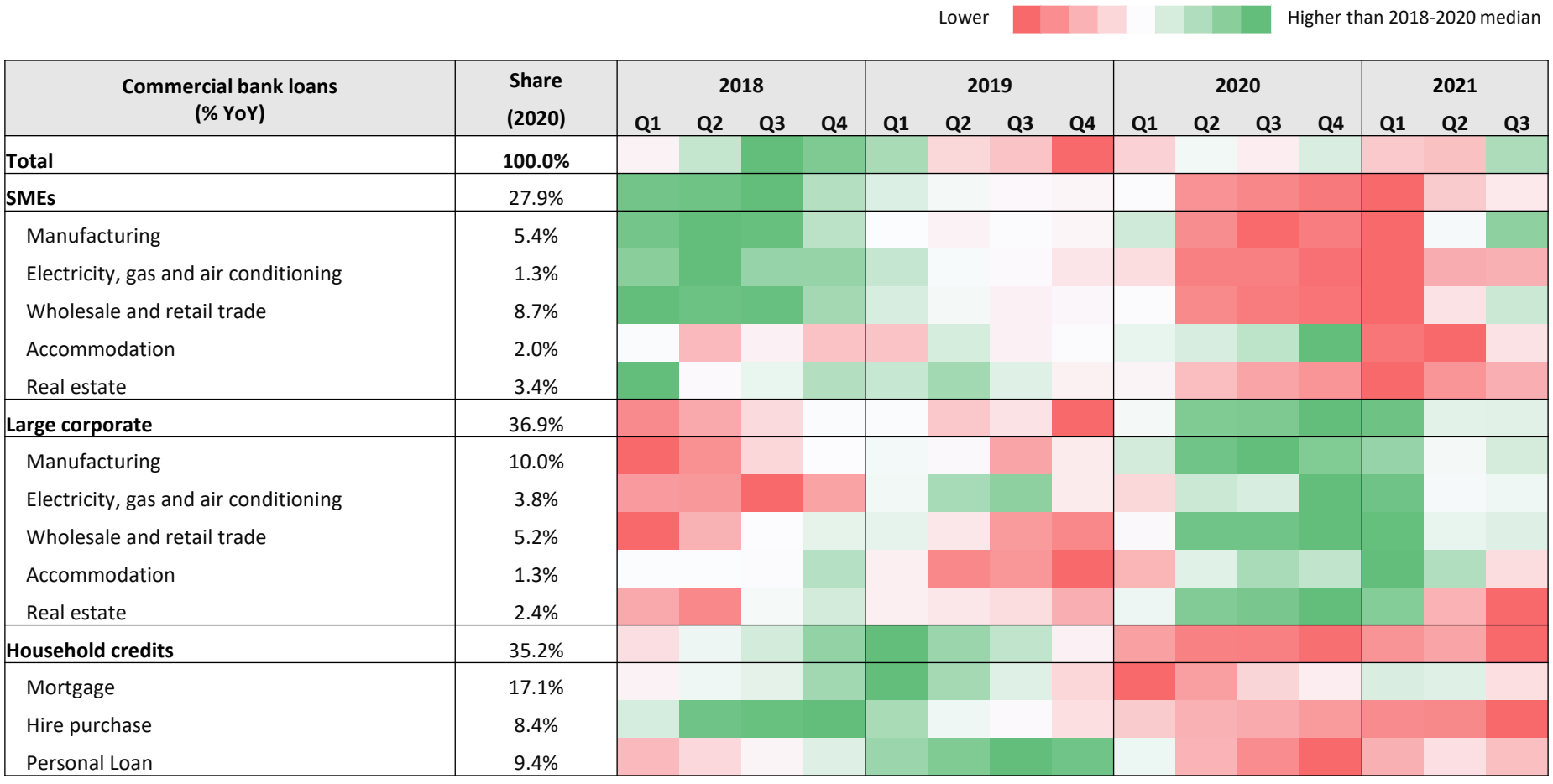




Note: Sectoral code: AGRI= Agriculture, TRADE = Wholesale and retail trade, MANU = Manufacturing, ACCO = Accommodation and food service activities, CONS = Construction
TRANS = Transportation and HEALTH = Human health
* Part-time job is defined by those who work less than 34 hours a week. Full time job is defined by those who work more than 34 hours a week

Source: BOT, National Statistical Office of Thailand (NSO), Krungsri Research

Bank lending has improved moderately led by large corporates; SMEs show early signs of access to credit supported by BOT's assistance programs



Commercial bank loans (% YoY)	Share (2020)	2018				2019				2020				2021		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Total	**100.0%**															
SMEs	27.9%															
Manufacturing	5.4%															
Electricity, gas and air conditioning	1.3%															
Wholesale and retail trade	8.7%															
Accommodation	2.0%															
Real estate	3.4%															
Large corporate	36.9%															
Manufacturing	10.0%															
Electricity, gas and air conditioning	3.8%															
Wholesale and retail trade	5.2%															
Accommodation	1.3%															
Real estate	2.4%															
Household credits	35.2%															
Mortgage	17.1%															
Hire purchase	8.4%															
Personal Loan	9.4%															

Source: BOT, National Statistical Office of Thailand (NSO), Krungsri Research

Inflation moved into positive territory driven by rising energy and commodity prices in late 2021

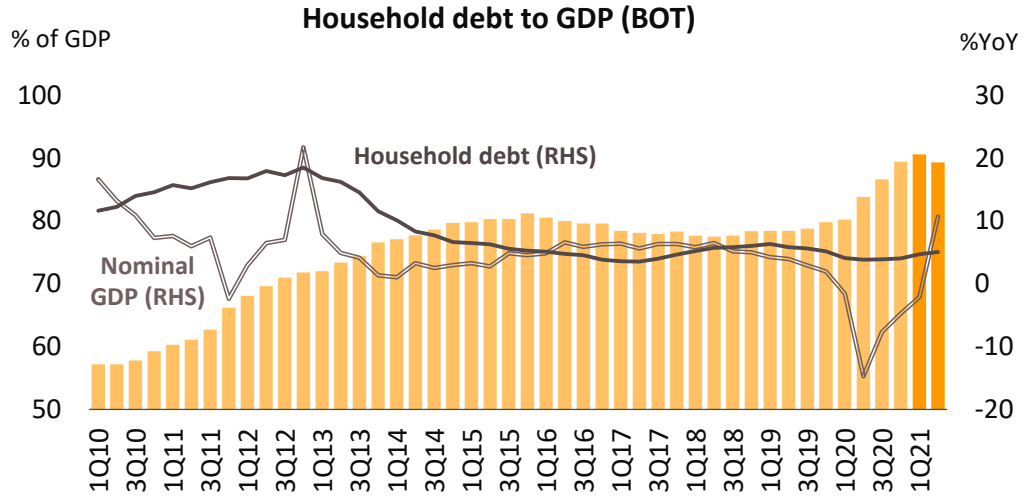


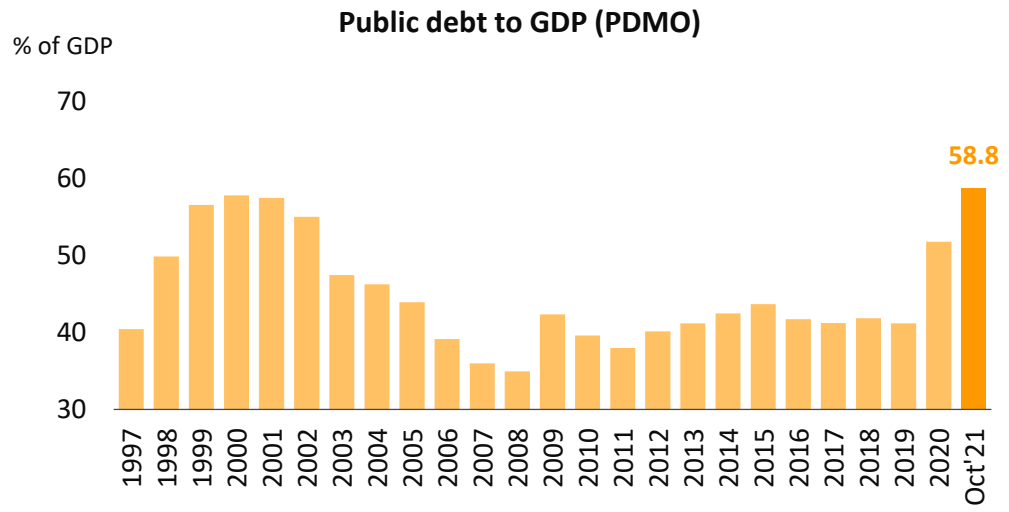
Consumer Price Index (% YoY)*	Weight	2018												2019												2020												2021										
		J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N
Headline CPI	**100.00%**																																															
Food & beverages	40.29%																																														
Apparel & footwears	2.20%																																														
Housing & furnishing	22.80%																																														
Medical & personal care	5.64%																																														
Transportation & communication	23.28%																																														
Recreation & education	4.41%																																														
Tobacco & alcoholic beverages	1.38%																																														
Raw food	20.37%																																														
Energy	13.02%																																														
Core CPI	**66.61%**																																														

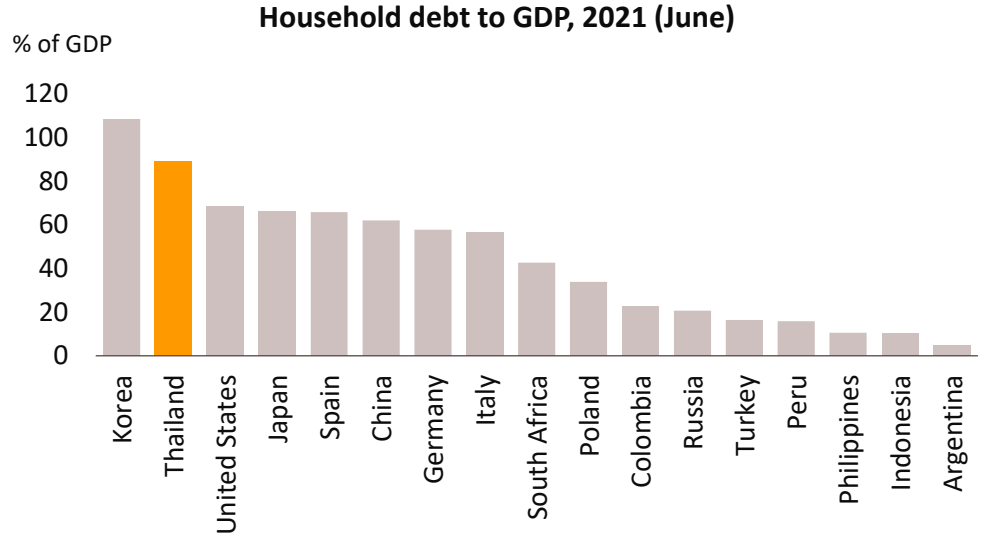
** Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum*

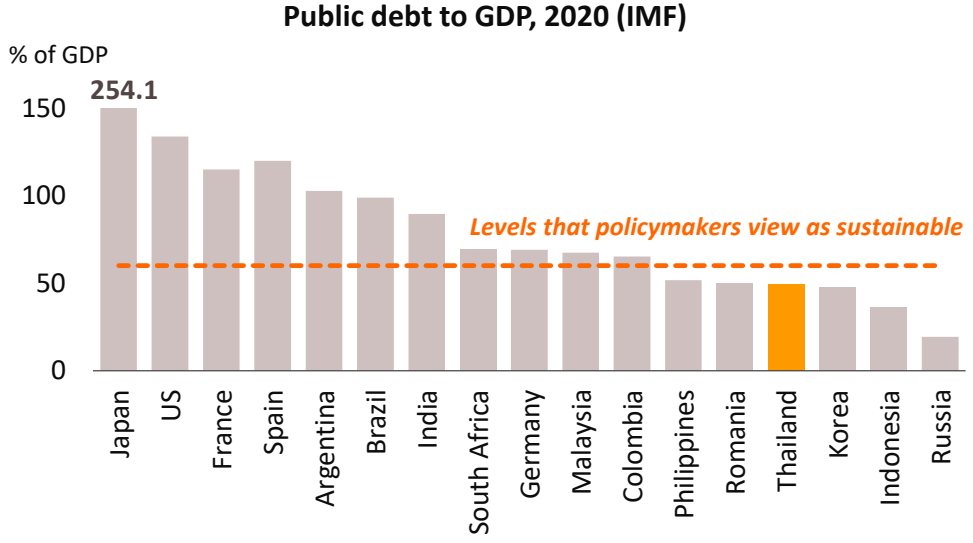
Source: MOC, Krungsri Research

Sustainable Debt levels: Public and household debts are at record highs but economic recovery should cushion the impact in the period ahead



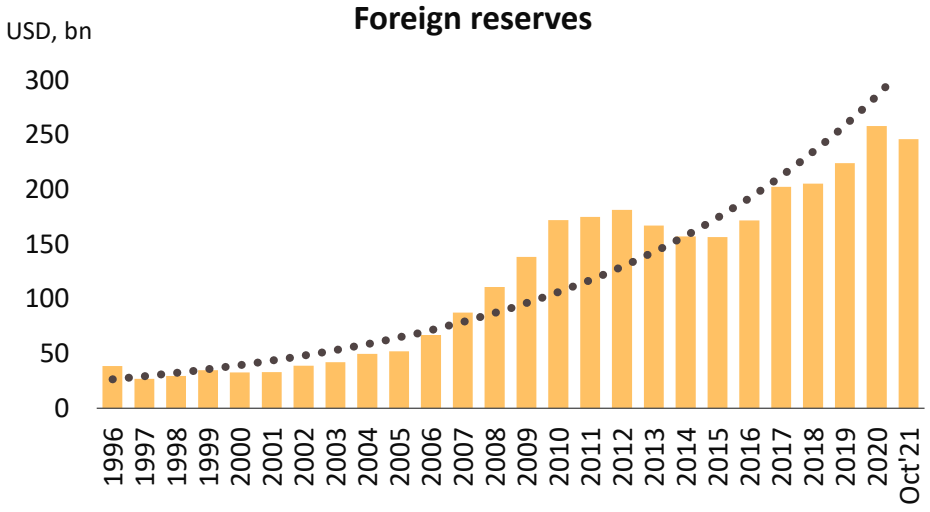


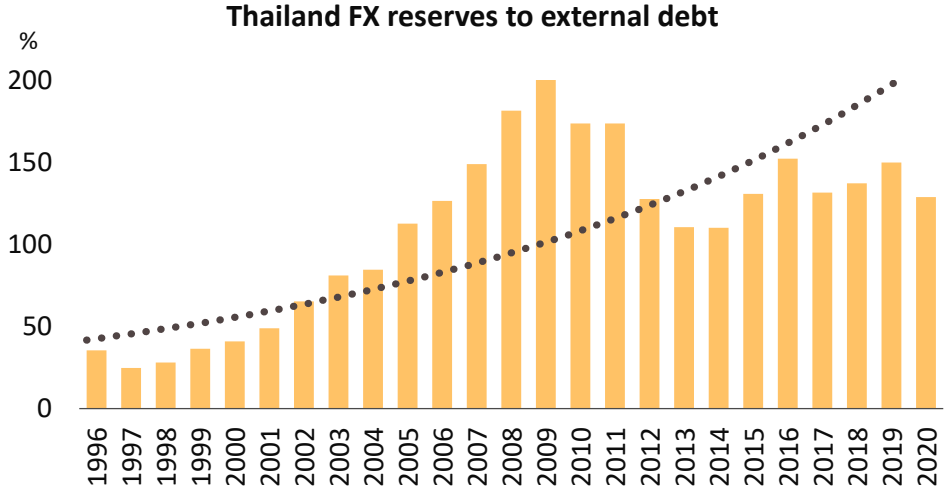


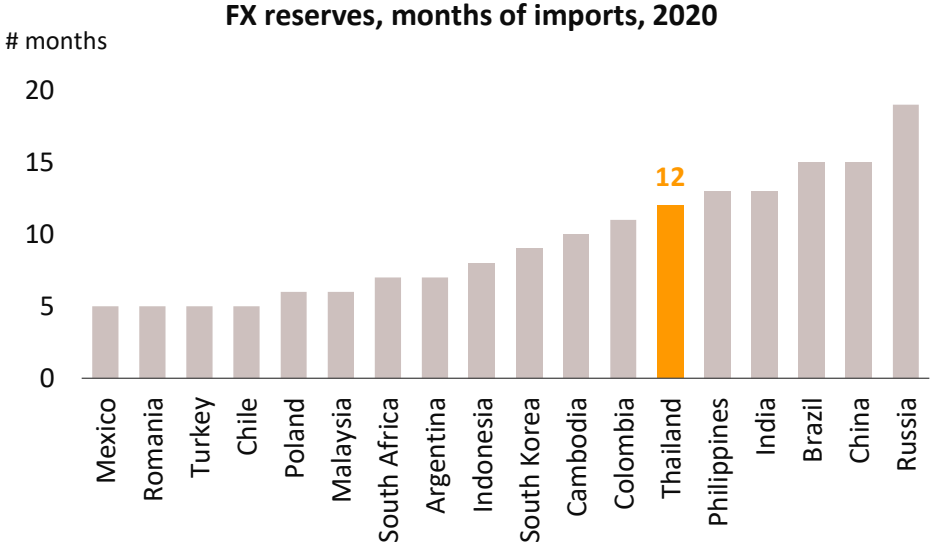


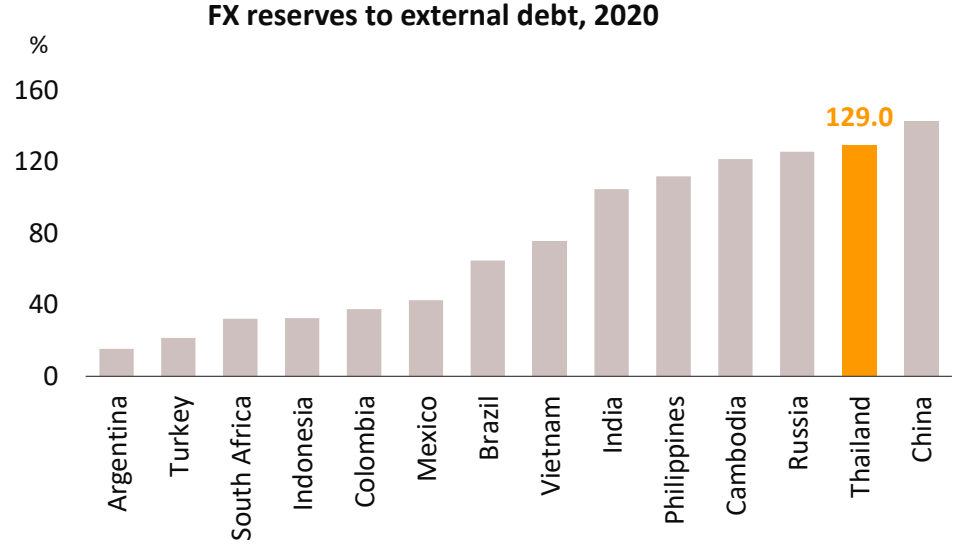
Source: Bank for International Settlements (BIS), BOT, CEIC, Public Debt Management Office (PDMO), Krungsri Research

External stability remains strong with high foreign reserves; current account could turn from deficit in 2021 to a moderate surplus in 2022 driven by improving tourism activity









Source: BOT, World Bank, Krungsri Research

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