

The Impact of Severe Acute Respiratory Syndrome (SARS) on Tourism in Thailand in 2003

Income from tourism exceeded that from exports of computers and parts, Thailand's leading goods export, for the first time in 2002. In 2002, the number of tourists grew by 7.3 per cent over the previous year to 10.8 million and total income from tourism reached 7.7 billion US dollars or around 6 per cent of GDP.

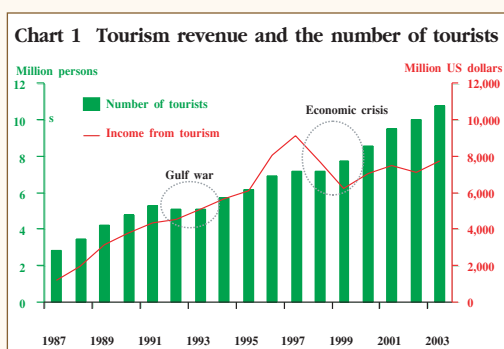
Growth in the number of tourists in the first two months of 2003 moderated following uncertainties from the war in Iraq. Although the war came to a close, the spread of Severe Acute Respiratory Syndrome (SARS) in the Asian region began to take its toll on tourism since the beginning of March 2003. The MPC put particular emphasis on the impact of SARS due to potential significant repercussions on growth and inflation projections in the near future.

1. Structure of foreign tourism income in Thailand

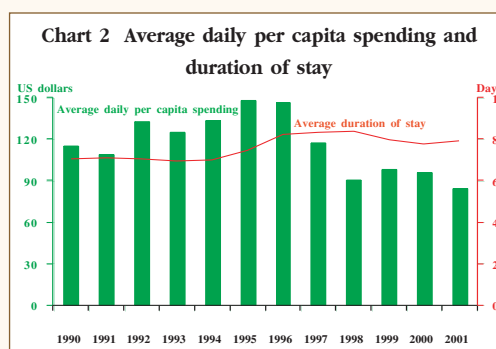
Number of foreign tourists entering Thailand by region

Region	1991			1995			2002		
	Number (Persons)	Share (Per cent)	%Δ	Number (Persons)	Share (Per cent)	%Δ	Number (Persons)	Share (Per cent)	%Δ
East Asia	2,960,173	58.2	-1.9	4,358,346	62.7	18.9	6,236,246	57.7	7.8
Europe	1,184,969	23.3	-3.7	1,564,838	22.5	3.7	2,650,992	24.5	5.7
Americas	326,812	6.4	-11.1	357,674	5.1	-4.3	730,402	6.8	6.9
South Asia	270,292	5.3	1.0	270,478	3.9	14.0	410,206	3.8	16.9
Oceania	229,757	4.5	-20.3	224,067	3.2	-2.3	427,107	4.0	1.6
Middle East	79,271	1.6	-12.1	123,711	1.8	21.0	245,822	2.3	14.3
Africa	35,625	0.7	-3.5	52,452	0.8	4.4	98,290	0.9	0.9
Total	5,086,899	100.0	-4.0	6,951,566	100.0	12.7	10,799,067	100.0	7.3

Source: Tourism Authority of Thailand



Source: Tourism Authority of Thailand and Bank of Thailand

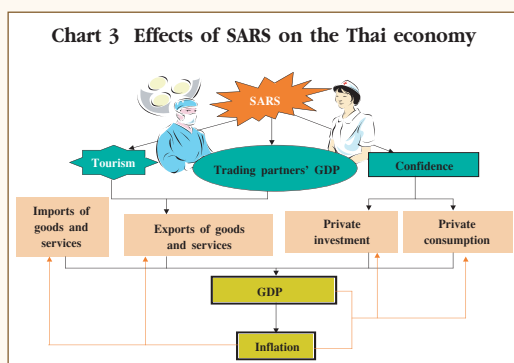


Source: Tourism Authority of Thailand

The structure of foreign tourists in Thailand has not changed much over the years with almost 60 per cent of total arrivals coming from East Asia. Revenue from tourism, amounting to around 7.7 billion US dollars in 2002, remained below the peak before the crisis of 9 billion US dollars reached in 1996, mostly a reflection of lower per capita daily spending by tourists.

The decline in per capita daily spending by tourists in US dollar terms is, for the most part, due to the baht depreciation that followed the move to a floating exchange rate regime in 1997, as well as increased competition from within the region that forced Thai operators to reduce prices to maintain market share. Nevertheless, increased price competition has, in turn, attracted more tourists from the lower income brackets into Thailand, which has helped to support tourism as an important source of foreign exchange for the economy.

2. Estimating the economic impact of SARS



Source: Bank of Thailand

In the meeting on 21 April 2003, the MPC noted that a great deal of uncertainty surrounded the SARS problem in Asia and that the impact on the economy was likely to come through 3 main channels: 1) lower tourist receipts; 2) indirect effects on exports from a slowdown in the regional economies; and 3) lower consumer and business confidence. The final size of the impact would depend on the severity and duration of the problem.

2.1 Impact on tourism receipts:

Preliminary estimates indicated that the economic impact of the SARS outbreak would be greater than that of the war in Iraq as the former had direct and immediate effects on tourism, aviation, hotels, and other tourist-related businesses such as retail and souvenir stores. The MPC expected tourism receipts to decline by more than the number of tourists as a result of the SARS problem since: 1) the number of tourists from distant countries that were typically high spenders and stayed for many days was expected to fall; 2) tourism promotion measures that emphasised lower air fares, hotel rates, and other services charges should reduce per capita spending; and 3) price competition, both domestically and abroad, was expected to intensify. The projected reduction in tourism receipts would lead to lower export of services, itself a component of GDP.

2.2 Indirect effects on exports from a slowdown in the regional economies: The SARS problem was expected to dampen economic growth in affected countries in the region (Singapore, Hong Kong, China, Taiwan, and Vietnam), which together accounted for 23 per cent of Thai exports (or around 15.7 billion US dollars). A slowdown in growth in these countries would lower Thai exports and affect Thai economic growth. Exports items that are likely to be affected include computers and parts, integrated circuits and parts, electrical appliances, transformers, plastic products, chemicals, petroleum products, rice, tapioca, natural rubber, and fabricated metal products.

2.3 Impact on consumer and business confidence: As of April 2003, the impact on consumer and business confidence was not expected to be as significant as the other two channels since Thailand was not listed by the World Health Organization as one of the countries susceptible to local transmission of the virus. Although the number of Thai tourists travelling to affected countries fell sharply, which lowered imports of services and had a positive impact on GDP, part of the decline reflected slower economic activity as well.

The MPC deemed that the SARS problem was clouded by a high degree of uncertainty that made it difficult to predict when the problem would be resolved. The assumption adopted was that the economic impact would last until the end of 2003 with the strongest effect coming in the 2003 Q2 before slowly dissipating in the latter half of the year. This cautious outlook should ensure that monetary policy remains vigilant in the near future.