



BANK OF THAILAND

Thailand's Economic Conditions in 2020

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Summary of the Global and the Thai Economies in 2020

Overall, the global economy in 2020 contracted from the previous year. Several countries responded to the spread of the COVID-19 by imposing strict containment measures which affected economic activities in several sectors, including tourism, international trade and domestic spending, despite the stimulus and relief measures from the government as well as accommodative monetary policy.

Going forward, the global economy was expected to recover gradually thanks to the improvement of domestic consumption and merchandise exports. Nonetheless, some risks remained and warranted a close monitoring. These included (1) the severity of the COVID-19 pandemic which may cause many countries to reimpose strict containment measures, (2) the distribution and efficacy of vaccines, and (3) the U.S. foreign trade policy implemented after the 2020 presidential election that would affect global trade conditions.

The Thai economy in 2020 contracted by 6.1 percent, close to the rate of economic contraction during the Asian Financial Crisis. This was due to the spread of the COVID-19 and the containment measures which affected economic activities in several sectors. The tourism sector was heavily hit by international travel restrictions which led to a collapse of foreign tourist figures in all nationalities even though the government has allowed foreigners, who held the Special Tourist Visa (STV), to enter Thailand since October 2020. Meanwhile, merchandise exports contracted at a faster pace in many product categories due to weaker demand from trading partners. However, exports of food and medical gloves expanded thanks to rising demand from several countries during the COVID-19 outbreak.

The collapse in external demand subsequently affected domestic demand as employment, household income, and consumer confidence severely deteriorated. As a result, private consumption contracted despite the income support schemes for those affected by the COVID-19 and stimulus measures from the government which partially supported household purchasing power. Although private consumption showed signs of recovery in the second half of the year after the COVID-19 outbreak subsided, the recovery remained fragile and uneven across income groups and geographical areas. Private investment also contracted as firms postponed their investment plans due to weak domestic and external demand, causing excessive capacity, while business sentiment deteriorated from high economic uncertainties. Nonetheless, government spending expanded at a higher rate and played a crucial role in supporting the economy, particularly after the enactment of the fiscal 2020 budget and the Emergency Decree Authorizing the Ministry of Finance to Raise Loans to Solve Problems, to Remedy and Restore the Economy and Society as Affected by the Coronavirus Disease Pandemic, B.E. 2020.

Economic and Financial Stability

The annual average headline and core inflation in 2020 recorded at -0.85 and 0.29 percent, respectively. Headline inflation became negative as domestic retail oil prices fell in line with global crude oil prices as well as due to the government subsidies which reduced costs of living by subsidizing electricity bill. Core inflation edged down from the previous year as a result of the government's subsidy on water bill and weak domestic demand, which suppressed prices of goods and services from rising. Meanwhile, labor market was severely hit by the COVID-19 outbreak as reflected by large increases in unemployment rate, the number of jobless and lay-off claims on the social security system, and the number of firms and employees registered for the temporary suspension of business in both manufacturing and service sectors, especially tourism-related businesses.

The stability of household and business sector became more vulnerable. Stalled economic activities reduced household income which deteriorated their debt serviceability. Meanwhile, many businesses faced liquidity problems, particularly SMEs which usually have lower financial buffer, thereby undermining their debt serviceability. Nevertheless, external and financial stability remained sound, especially the banking system which was able to preserve high levels of capital, loan loss provision, and liquidity. Risks in the banking sector, however, increased as the economy contracted, especially credit risks of households and businesses that suffered from income losses.

On exchange rates, the annual average of the baht against the US dollar in 2020 slightly depreciated from the previous year. The rapid spread of the COVID-19 led investors to sell risky assets, especially currencies of the economies that had high exposures to the external sector, in favor of holding the US dollar. Consequently, the Nominal Effective Exchange Rate (NEER) and the Real Effective Exchange Rate (REER) depreciated as the Thai economy relied on tourism sector more than other countries, resulting in the baht depreciated by a larger degree than major trading partners' currencies.

Financial conditions became more accommodative.

In 2020, the Monetary Policy Committee (MPC) voted to cut the policy interest rate three times to its historic low at 0.50 percent to alleviate impacts of the COVID-19 outbreak and support the economic recovery. Furthermore, the Bank of Thailand reduced the rate of the Financial Institutions Development Fund (FIDF) contribution based on deposits from 0.46 percent to 0.23 percent for two years. This was aimed at providing liquidity to firms and households by reducing interest burdens and financing costs of private sectors. Other measures such as soft loans and debt restructuring were also implemented to help

households and businesses, particularly SMEs that could not repay loans and required additional liquidity support.

Looking ahead, the Thai economy in 2021 would recover gradually on the back of export that would improve in line with trading partners as well as domestic spending which was expected to improve despite a slowdown in the first quarter due to the new wave of the COVID-19 outbreak. However, risks to economy remained, including 1) the development of new outbreak and its containment measures which would affect domestic activities, and 2) the distribution and efficacy of vaccines which would affect the recovery of the tourism sector and the development of labor market going forward.



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	2018	2019			2020		
	Year	H1	H2	Year	H1	H2	Year
<i>(Annual percentage change, unless specified otherwise)</i>							
Gross Domestic Product^{1/}	4.2	2.6	1.9	2.3	-6.9	-5.2	-6.1
Demand (expenditure)							
Private consumption expenditure	4.6	4.2	3.7	4.0	-2.1	0.2	-1.0
General government consumption expenditure	2.8	2.4	1.0	1.7	-0.7	2.2	0.8
Gross fixed capital formation	3.8	2.4	1.6	2.0	-7.1	-2.6	-4.8
- Private	4.1	3.0	2.3	2.7	-10.1	-6.7	-8.4
- Public	2.8	0.7	-0.5	0.1	1.3	10.2	5.7
Exports of goods and services	3.4	-4.5	-1.3	-3.0	-16.4	-22.3	-19.4
Imports of goods and services	8.3	-1.9	-8.2	-5.2	-13.3	-13.2	-13.3
Supply (production)							
Agriculture	5.8	-0.1	-1.2	-0.6	-6.8	0.1	-3.4
Manufacturing	3.4	0.0	-1.4	-0.7	-8.3	-2.9	-5.7
Construction	2.3	3.1	-0.1	1.6	-0.9	5.9	2.3
Services and others	4.7	4.4	4.4	4.4	-6.7	-7.1	-6.9
Domestic stability							
Headline Consumer Price Index	1.07	0.92	0.50	0.71	-1.13	-0.56	-0.85
Core Consumer Price Index (excluding raw food and energy)	0.71	0.58	0.46	0.52	0.33	0.25	0.29
Unemployment (percent of total labor force)	1.1	1.0	1.0	1.0	1.5	1.9	1.7
Public debt (end of period, billion baht) ^{2/}	6,834	6,883	6,954	6,954	7,433	8,136	8,136
Share of GDP (end of period, percent) ^{2/}	41.8	41.3	41.2	41.2	45.83	52.13	52.13
External Stability (billion U.S. dollars)							
Trade balance	22.4	12.7	14.0	26.7	18.0	21.8	39.8
Current account balance	28.4	15.8	22.4	38.2	11.1	5.4	16.5
Capital account balance ^{2/}	-0.6	0.0	0.0	0.0	0.0		
Financial account balance ^{2/}	-13.2	-8.6	-7.1	-15.7	1.4		
Balance of payments	7.3	5.6	8.0	13.6	15.4	2.9	18.4
Gross international reserves (end of period)	205.6	215.8	224.3	224.3	241.6	258.1	258.1
External debt (end of period) ^{2/}	163.1	167.2	171.9	171.9	171.7		
International reserves to short-term debt (ratio)	3.2	3.5	3.8	3.8	3.9	3.5	3.5
External debt to GDP (percent)	35.5	34.8	34.2	34.2	33.6		
External debt to export value (percent)	53.7	53.7	53.9	53.9	54.6		
Short-term debt to external debt (percent)	38.9	37.2	34.8	34.8	36.0		
Monetary statistics (end of period) (billion baht)							
Monetary base	2,000.7	1,905.1	2,071.5	2,071.5	2,315.0	2,331.6	2,331.6
Annual percentage change	3.3	5.5	3.5	3.5	21.5	12.6	12.6
Narrow money	2,095.2	2,103.8	2,214.4	2,214.4	2,406.7	2,529.2	2,529.2
Annual percentage change	2.8	6.8	5.7	5.7	14.4	14.2	14.2
Broad money	20,109.6	20,218.8	20,841.0	20,841.0	22,429.8	22,943.4	22,943.4
Annual percentage change	4.7	3.3	3.6	3.6	10.9	10.1	10.1
Financial institutions' deposits including bills of exchange ^{3/}	19,681.5	19,921.6	20,439.5	20,439.5	22,017.5	22,492.0	22,492.0
Annual percentage change	4.5	3.7	3.9	3.9	10.5	10.0	10.0
Financial institutions' private credits ^{4/}	24,095.8	24,586.1	24,978.5	24,978.5	25,497.9	26,178.9	26,178.9
Annual percentage change	6.7	5.9	3.7	3.7	3.7	4.8	4.8
Interest rates (end of period) (percent per annum)							
- Repurchase rate, one-day	1.75	1.75	1.25	1.25	0.50	0.50	0.50
- Overnight interbank rates (mode)	1.75	1.65	1.15	1.15	0.49	0.40	0.40
- Time deposit rate, one year ^{5/}	1.37	1.46	1.33	1.33	0.49	0.49	0.49
- Prime rate (MLR) ^{5/}	6.28	6.28	6.08	6.08	5.36	5.36	5.36
Exchange rate (average) (baht per U.S. dollar)	32.32	31.60	30.49	31.04	31.60	30.97	31.29
Nominal Effective Exchange Rate^{6/} (average) (2012=100)	115.56	120.35	125.90	123.17	122.93	122.25	122.60

หมายเหตุ: 1/ Chained volume measures

2/ Preliminary data as of 20 January, 2021

3/ Financial institution consist of all deposit-taking institutions except the Bank of Thailand

4/ Including (1) loans extended to household, NPISH, and other non-depository financial institutions;

(2) loans extended to non-financial corporates (excluding state enterprises) issued by other depository financial institutions, other non-depository financial institutions, and external sources; and (3) bonds issued by non-financial corporates (excluding state enterprises)

5/ Average rate of five largest commercial banks

6/ Higher NEER means that the baht appreciated compared to trading partners' and competitors' currencies

Sources: Office of the National Economic and Social Development Council, Ministry of Commerce, National Statistical Office, Public Debt Management Office and Bank of Thailand