



Bank of Thailand

Thailand's Economic Conditions in 2022



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Summary of the Global and the Thai Economies in 2022

Overall, the global economy in 2022 expanded at a slower pace from the previous year. Although, economic activities improved as many countries relaxed the containment measures and adopted “living with COVID” strategy, the recovery was affected by the prolonged conflict between Russia and Ukraine. Negative supply shocks such as elevated energy and commodity prices, together with problems of supply chain disruptions, caused inflation to reach a multi-decade high, which prompted central banks across the globe to tighten their monetary policies in order to curb inflation. Furthermore, the recovery was additionally affected by the slowdown in the Chinese economy due to its lockdown of Zero-COVID policy and the crisis within the real estate sector.

Going forward, for 2023, global economic expansion was expected to slow down and would be affected by several factors such as high inflation, tightening financial conditions, banking crisis in major economies and geopolitical tensions. Nevertheless, China's reopening, improved situation in supply disruptions as well as recovery in emerging economies would be the major driving forces of global growth.

For Thailand, the economy in 2022 expanded by 2.6 percent from the previous year. This was mainly driven by recoveries in domestic demand and tourism, thanks to the easing of COVID-19 and travel restrictions. Even though high cost of living continued to add downward pressure on household spending, private consumption expanded well, supported by the government's stimulus measures such as co-payment schemes in the first half of the year. For in the second half of the year, improvement in household income was in tandem with recovery in tourism, which further enhanced consumer confidence. Private investment also increased from investment in the machinery and equipment, which was in line with the economic recovery and improved business sentiment. Investment in construction, however, declined due to higher prices of construction material and labor shortages.

Merchandise exports contracted in consistent with the slowdown in trading partners' demand, shortages of electronic components and structural changes caused by technological change and consumer behavior. For instance, demands for consumer hard disk drives have trended downward, while China's dual circulation policy encouraged import substitution of petrochemical products with higher domestic production capacity. Furthermore, contraction in exports was partly due to a temporary shutdown of several oil refineries for maintenance in the fourth quarter

of the year. Exports of services, on the other hand, rose significantly thanks to the easing of travel restrictions. In addition, registration requirement of Thailand Pass was removed since 1st of July 2022, which promoted inbound foreign tourists, especially short-haul tourists, such as those from Malaysia, Vietnam, Singapore, and India.

Government expenditure contracted from the previous year due to a sharp decline in expenditure related to mitigation of economic and social impacts from the COVID-19 pandemic. Central government's investment also declined mainly from lower investment in transportation agencies, while investment of state-owned enterprises expanded following a higher disbursement of energy and infrastructure related projects.

Economic and Financial Stability

The annual headline and core inflation registered at 6.08 and 2.51 percent, respectively. Headline inflation increased from the previous year due to higher energy and raw food prices, which further pushed up electricity and retail oil prices. Raw food inflation was elevated, following higher pork prices in which output was affected by the outbreak of African Swine Fever. Core inflation followed suit, edging higher from prepared-food prices. The labor market improved along with the economic conditions which improved after the relaxation of COVID restrictions towards the end of 2021. This was reflected by the decline in numbers of unemployment and underemployment, increases in the number of insured persons in the social security system, which increased near the pre-COVID level by the end of the year, as well as continued improvement in positive sentiments among the self-employed.

The overall stability in the household and corporate sectors improved, especially debt serviceability due to improvement in income and economic recovery. However, financial conditions of certain groups of SMEs and household remained fragile as their incomes were not fully recovered, causing them to be more sensitive to rising living costs. External stability remained sound despite having a continued current account deficit as improvement in income from exports of services was still nascent, while import value of crude oil increased due to the elevated global crude oil prices. Nevertheless, external debt to GDP ratio was low and gross reserves to external short-term debt ratio remained relatively high compared to the international benchmark. In addition, financial institutions system remained resilient with ample levels of capital, loan loss provisions and liquidity.

On exchange rate, both the annual average of Thai Baht against US Dollar and the Nominal Effective Exchange Rate (NEER) in 2022 depreciated from the previous year as the US Federal Reserve continuously tighten its monetary policy. Towards the end of the year, the baht appreciated due to the lower market expectations of an additional interest rate increase from the US Federal Reserve, along with positive investors' sentiment on the outlook of the Thai economy, especially tourism sector, thanks to the easing of China's Zero-COVID policy.

Financial conditions

Overall financial conditions remained accommodative. In 2022, gradual increases in the policy rate from 0.50 percent to 1.25 percent by the end of the year caused financing cost in both credit and bond markets to increase gradually. Commercial banks slowly transmitted the higher financing costs to the minimum retail rate (MRR) at a lesser degree compared to the transmission on the minimum loan rate (MLR) to soften the impact on vulnerable borrowers, most of whom were subject to the MRR. Short-term bond yields increased in line with the higher policy rate. Nonetheless, the increased financing costs did not impede private sector ability to finance as reflected by a continued expansion in private credit, especially for large corporate loans and bond issuance. On the other hand, SMEs credit slightly contracted towards the end of 2022 mainly due to repayments on maturing soft loans.

Looking forward to 2023, the Thai economy would continue to expand, driven mainly by domestic demand and recovery in tourism, which would promote employment and labor income, especially in the service sector and within the self-employed workers. Meanwhile, merchandise exports would be negatively affected by the global economic slowdown, despite some expansions of a few export categories such as agricultural and agro-manufacturing products. Several downside risks to the economy still warranted a close monitoring. These included (1) volatility and uncertainty of the global economy and financial markets, (2) ability of business adjustment to accommodate Chinese tourists after the China's reopening, and (3) potential increases in cost pass-through which could put downward pressure on the overall consumption.



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	2020	2021		2022			
	Year	H1	H2	Year	H1	H2	Year
<i>(Annual percentage change, unless specified otherwise)</i>							
Gross Domestic Product ^{1/}	-6.2	2.2	0.9	1.6	2.3	2.9	2.6
Demand (expenditure)							
Private consumption expenditure	-0.8	2.5	-1.3	0.6	5.3	7.4	6.3
General government consumption expenditure	1.4	0.8	6.3	3.7	5.4	-4.7	0.0
Gross fixed capital formation	-4.8	7.0	-0.6	3.1	0.1	4.7	2.3
- Private	-8.1	5.7	0.4	3.0	2.6	7.6	5.1
- Public	5.1	10.4	-3.3	3.4	-6.3	-3.3	-4.9
Exports of goods and services	-19.7	6.5	15.9	11.1	9.8	3.9	6.8
Imports of goods and services	-13.9	14.4	21.2	17.8	5.9	2.4	4.1
Supply (production)							
Agriculture	-3.3	-0.5	3.8	2.3	-0.1	1.5	2.5
Manufacturing	-5.5	4.7	-3.2	4.9	3.9	-3.6	0.4
Construction	1.3	14.2	-15.0	2.2	12.1	-11.1	-2.7
Services and others	-6.6	0.9	-0.2	0.4	3.9	0.9	4.3
Domestic stability							
Headline Consumer Price Index	-0.85	0.89	1.56	1.23	5.61	6.54	6.08
Core Consumer Price Index (excluding raw food and energy)	0.29	0.27	0.19	0.23	1.85	3.14	2.51
Unemployment (percent of total labor force)	1.7	2.0	2.0	2.0	1.5	1.2	1.3
Public debt (end of period, billion baht) ^{2/}	8,136	8,825	9,644	9,644	10,204	10,587	10,587
Share of GDP (end of period, percent) ^{2/}	52.0	55.4	59.6	59.6	60.9	60.7	60.7
External Stability (billion U.S. dollars)							
Trade balance	40.4	16.7	15.7	32.4	9.7	1.1	10.8
Current account balance	20.9	-4.5	-6.2	-10.6	-10.5	-6.8	-17.2
Capital account balance ^{2/}	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance ^{2/}	-11.7	-9.4	3.4	-6.0	3.6	-1.3	2.2
Balance of payments	18.4	-8.5	1.4	-7.1	-7.4	-2.9	-10.2
Gross international reserves (end of period)	258.1	246.5	246.0	246.0	222.3	216.6	216.6
External debt (end of period) ^{2/}	190.7	185.2	196.3	196.3	194.1	199.8	199.8
International reserves to short-term debt (ratio)	3.0	2.9	2.7	2.7	2.4	2.3	2.3
External debt to GDP (percent)	36.9	35.7	38.0	38.0	37.8	39.9	39.9
External debt to export value (percent)	62.8	62.5	67.1	67.1	65.9	68.1	68.1
Short-term debt to external debt (percent)	39.2	38.6	38.1	38.1	39.5	40.1	40.1
Monetary statistics (end of period) (billion baht)							
Financial institutions' deposits including bills of exchange ^{3/}	22,478.3	22,694.3	23,499.9	23,499.9	24,055.4	24,573.5	24,573.5
<i>Annual percentage change</i>	10.1	3.2	4.5	4.5	6.0	4.6	4.6
Financial institutions' private credits ^{4/}	26,232.4	26,739.1	27,488.6	27,488.6	27,974.8	28,619.5	28,619.5
<i>Annual percentage change</i>	5.0	4.8	4.8	4.8	4.6	4.1	4.1
Bank Liquidity Indicator (end of period) (percent)							
Loan / Deposit and B/E ratio (Excluding Interbank)	92.3	92.8	94.2	94.2	93.8	92.2	92.2
Liquidity Coverage Ratio: LCR	179.5	186.5	189.2	189.2	185.4	197.3	197.3
Interest rates (end of period) (percent per annum)							
- Repurchase rate, one-day	0.50	0.50	0.50	0.50	0.50	1.25	1.25
- Overnight interbank rates (mode)	0.40	0.40	0.50	0.50	0.50	1.25	1.25
- Time deposit rate, one year ^{5/}	0.49	0.42	0.45	0.45	0.45	0.98	0.98
- Prime rate (MLR) ^{5/}	5.36	5.36	5.49	5.49	5.49	6.00	6.00
Exchange rate (average) (baht per U.S. dollar)	31.29	30.81	33.14	32.00	33.71	36.37	35.06
Nominal Effective Exchange Rate ^{6/} (average) (2012=100)	122.60	121.05	114.69	117.81	116.37	114.71	115.53

Note: 1/ Chained volume measure

2/ Preliminary data as of 12 June, 2023

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 six largest commercial banks (TMBthanachart was included since July, 5 2021)

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