

Thai economy to see uptick in 2022

- A Monitor Desk Report

Date: 31 January, 2022



Thai economy will continue to recover from last year, but is yet to reach its pre-Covid level.

In 2022, economic growth is expected to be 3.0-3.5pc, against 0.8pc last year and -6.1pc in 2020. This growth rate, however, still does not put the Thai economy back to its value in 2019. The value of the Thai economy or its gross domestic product (GDP) is forecast to reach its 2019 level in 2023.

Economic growth this year will be led by the recovery of business activities and purchasing power, provided there are no extended lockdowns from the pandemic. Consumption spending is expected to grow more than last year. Due to the gradual recovery and uncertainty related to future income as the pandemic persists throughout 2022, the value of spending will not return to its pre-Covid level until next year.

Exports to major markets, namely the United States, China, the European Union and Japan will continue to grow from last year as the demand from these economies steadily recovers from the pandemic. Exports were the main driver of Thailand's growth last year, increasing by almost 15pc, and they are expected to grow again this year albeit at a slower rate, perhaps 10pc at best. More than three-quarters of Thai exports have already exceeded their pre-Covid value, particularly processed foods, computers and parts, automobiles and parts, and rubber and rubber products. These have had a positive trickle-down effect on their domestic supply chains.

Private investment will continue to rise this year with expected recovery in both domestic and external demand. Indeed, investment from local and foreign companies has gradually rebounded since the first quarter of 2021. Sources of foreign direct investment (FDI) are due to the relocation of Chinese and non-Chinese firms from China, particularly in the automotive and parts, electronics, and platform and digital information cloud services industries. Several foreign companies have also entered into joint ventures with Thai companies to produce bio-products as investment promotions are now being granted by the Board of Investment to promote bio, circular, and green (BCG) production and services. Moreover, Thailand has an abundant and diverse supply of agricultural raw materials to produce bio-products.

Tourism, on the other hand, will take another two to three years to recover to its pre-Covid level. Last year, fewer than 300,000 international tourists entered the country. The number is expected to rise to 3-4 million this year, compared to nearly 40 million in 2019. Chinese tourists, who accounted for a third of all international tourists before the pandemic, are expected to be permitted to travel overseas at the end of this year, as Beijing strictly adheres to its "Zero-Covid" policy. The pandemic will also continue to discourage international tourists from other countries. Much fewer flights and new travel requirements will make travel more expensive. Domestic tourism, while recovering faster than international tourism, is forecast to return to its pre-Covid level next year as fears of outbreaks and uncertainty in terms of people's income delay travel decisions. This will continue to adversely affect SMEs as well as over 400,000 workers in the tourism-related sector.

While the government still has funds to support the economy, it will only do so if there are future outbreaks that affect economic activities and incomes. The government has issued royal decrees since 2020 to borrow 1.5 trillion baht to support the economy, of which it has spent 1.2 trillion, mostly on cash transfers to affected groups. This has raised the public debt to around 60pc of GDP. There's still room to borrow another 1 trillion baht this year, if needed, as the government has raised its public debt to GDP ratio to 70pc.

Nevertheless, there are several risks that could derail the nation's recovery this year. New Covid variants remain a threat. The rapidly rising prices of energy, freight and other costs in major economies such as the United States, Europe and China will raise production costs and lower profit margins of business. The US-China trade and technology wars will

continue to limit global trade growth and result in supply chain disruptions such as the semiconductor shortages seen last year.

Interest rates in Thailand should remain unchanged this year, while the baht will be weaker than its average level last year. Although policy rates in the United States are likely to be hiked by mid-year, the policy rate in Thailand will probably remain unchanged until the economy sees more solid signs of recovery. The Thai baht will continue to be weak this year as the greenback strengthens with the discontinuation of quantitative easing (QE) measures. We will likely see 32 baht to the dollar by the end of 2022, making it the weakest currency in the region.

While many businesses, especially those related to tourism, are yet to recover to their pre-Covid levels, several industries will continue to grow. These include exports and digital business and their supply chains. Notable examples are automobiles and parts, food products, e-commerce, delivery and packaging services, logistics and warehouses, IT solutions, cybersecurity services, telemedicine, hard disk drives, cloud data centers, and digital asset platforms.