

# THAILAND ECONOMIC MONITOR

RESTORING INCOMES  
RECOVERING JOBS

January 2021



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# Preface

The Thailand Economic Monitor (TEM) reports on key developments in Thailand's economy over the past six months, situates these changes in the context of global trends and Thailand's longer-term economic trajectory, and updates Thailand's economic and social welfare outlook. Each edition of the TEM also provides an in-depth examination of selected economic and policy issues and an analysis of Thailand's medium-term development challenges. The TEM is intended for a wide audience, including policymakers, business leaders, financial-market participants, and the community of analysts and professionals engaged in Thailand's evolving economy.

The TEM is produced by the staff of the World Bank's Bangkok office, consisting of Kiatipong Ariyaprichya, Kim Alan Edwards, Harry Edmund Moroz (Task Team Leaders), Indira Maulani Hapsari, Phonthanat Uruhamanon, Francesca Lamanna, Robert J. Palacios, Judy Yang, Nadia Belhaj Hassine Belghith, Ekaterine T. Vashakmadze, Radu Tatu, and Ratchada Anantavasilpa. Birgit Hansl, Ndiame Diop, Lars Christian Moller, and Souleymane Coulibaly provided overall guidance. The team is grateful to Charl Jooste, Ergys Islamaj, and Mauro Testaverde for their constructive peer review comments. Clarissa Crisostomo David, Panithida Phongphaew, and Buntarika Sangarun are responsible for external communications related to the TEM, as well as the production and design of this edition.

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## Abbreviations

|       |                                                  |       |                                                                |
|-------|--------------------------------------------------|-------|----------------------------------------------------------------|
| AFC   | Asian Financial Crisis                           | GSB   | Government Savings Bank                                        |
| ASEAN | Association of Southeast Asian Nations           | GVC   | Global Value Chains                                            |
| BAAC  | Bank of Agriculture and Agricultural Cooperative | IMF   | International Monetary Fund                                    |
| BOI   | Board of Investment                              | NEER  | Nominal Effective Exchange Rate                                |
| BOT   | Bank of Thailand                                 | NESDC | Office of the National Economic and Social Development Council |
| EAP   | East Asia and Pacific                            | NPI   | Non-Pharmaceutical Interventions                               |
| EMDEs | Emerging Markets and Developing Economies        | NPL   | Non-Performing Loans                                           |
| FDI   | Foreign Direct Investment                        | REER  | Real Effective Exchange Rate                                   |
| FPO   | Fiscal Policy Office                             | RCEP  | Regional Comprehensive Economic Partnership                    |
| FSAP  | Financial Sector Assessment Program              | SFI   | Specialized Financial Institution                              |
| FTA   | Free Trade Agreement                             | SME   | Small and Medium Enterprises                                   |
| FY    | Fiscal Year                                      | SSO   | Social Security Office                                         |
| GSB   | Government Savings Bank                          | UMIC  | Upper Middle-Income Country                                    |
| GDP   | Gross Domestic Product                           | yoy   | year-on-year                                                   |

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## EXECUTIVE SUMMARY

### Recent Developments

**COVID-19 has severely affected the Thai economy, which was already weakening even prior to the global outbreak.** US-China trade tensions, domestic political uncertainty and the ongoing drought caused growth to slow in 2019 and early 2020. While the spread of COVID-19 was successfully contained within Thailand's borders for most of 2020, the economic impact has been pronounced. Weak global demand, a near cessation of international tourist arrivals, and domestic mobility restrictions have depressed goods and services exports and private consumption. Private investment has also declined amid continued uncertainty around the medium-term outlook for exports and growth.

**While signs of improvement have emerged in the most recent national accounts data, the second surge in COVID-19 cases is likely to constrain the recovery in the near-term.** The economy contracted by 6.4 percent (yoy) in 2020 Q3, a smaller fall than the 12.1 percent contraction in Q2. Services exports remained very weak, but an easing of mobility restrictions and government stimulus provided some support, as did an agricultural sector slowly recovering from drought. Nevertheless, the economy is expected to have shrunk by 6.5 percent in 2020. This is an upward revision from the 2020 forecast in October, reflecting the stronger-than-expected Q3 performance and Thailand's success in containing COVID-19 throughout most of the year. Core price inflation resumed in Q3 (after prices declined in the previous quarter) reflecting increased domestic demand and the expiration of discounts on electricity and water bills. However, the second wave of COVID-19 – which began in December – and the associated renewal of domestic restrictions is likely to have a negative impact on consumer spending in early 2021.

**The current account surplus has narrowed sharply, but net inflows on the financial account supported the Thai baht and reserves coverage remains strong.** The current account surplus fell to 0.6 percent of GDP in 2020 Q2 (from 6.6 percent in the previous quarter) due to the large contraction of tourism receipts. On the other hand, financial inflows associated with the sale of foreign assets and the repatriation of deposits held abroad have supported the local currency. Nevertheless, the baht has appreciated only modestly compared with the currencies of other countries in the region as of the end of the second quarter. In the fourth quarter, the baht has resumed the appreciation trend due to the depreciation of the US dollar.

**Despite global volatility in financial markets, Thailand's financial system remains stable, though there are pockets of vulnerability.** Significant liquidity and capital buffers and high rates of regulatory compliance have meant that the financial sector has so far been able to weather the pandemic shock. However, increased corporate vulnerabilities and elevated levels of household debt pose significant risks, particularly if the economic recovery is slower than expected and debt service obligations become harder to bear. Household debt in Thailand is the second highest in East Asia (at 80.2 percent of GDP in March 2020). Though non-performing loans (NPLs) were stable at 3.1 percent of total loans at end-June 2020, they remain at a relatively high level. NPLs are particularly high for SMEs and could increase in the future if SMEs struggle to service loans provided in response to COVID-19 or adapt to the eventual withdrawal of financial support measures such as deferred loan payments.

**With low inflation and a slowing economy, the Bank of Thailand maintained the policy rate at 0.5 percent to support economic recovery.** The BOT also implemented a series of measures to support financial stability and ensure that adequate liquidity is available to banks and non-financial corporates. This included the establishment of a Corporate Bond Stabilization Fund (BSF) to provide bridge financing of up to 400 billion baht as a liquidity backstop for firms with bonds maturing during 2020.



**The implementation of measures to provide soft loans to SMEs - as part of the overall pandemic response package - has proved challenging.** SMEs account for over 40 percent of GDP and around 80 percent of private sector employment, but many have limited access to finance. As part of the government's approved fiscal and financial response to COVID-19 (equivalent to around 13 percent of GDP), the Bank of Thailand on-lent 500 billion baht (around 3 percent of GDP) to commercial banks to fund a dedicated SME lending program. But the disbursement of soft loans to SMEs has fallen below expectations while overall credit growth to SMEs has slowed. The government has more recently revised some of these programs to expand coverage, address credit risk issues, and extend the time frame.

**The fiscal deficit widened sharply as the government ramped up spending to mitigate the economic impacts of the virus on households and firms.** Revenue declined in FY2020 (year ended September) due to the impact of COVID-19 on trade and economic activity, and policy measures including a temporary reduction in withholding tax and expanded payroll tax deductions for SMEs. Spending rose, mainly due to the roll-out of pandemic relief measures. As a result, the budgetary central government deficit expanded to 5.9 percent of GDP in FY2020, from 2.3 percent of GDP in FY2019. The deficit was financed by domestic borrowing. As a result, public debt rose sharply to 49.4 percent of GDP in September 2020, its highest level since the early 2000s.

**Progress has been made in implementing fiscal measures to support the most vulnerable.** The fiscal response has centered on authorized borrowing of up to 1 trillion baht (about 6 percent of GDP) to fund cash transfers, the medical response, and economic and social rehabilitation (e.g. job-creating public works), in the aftermath of COVID-19. Of the 555 billion baht authorized to be spent on cash transfers for households, farmers, and entrepreneurs, around 300 billion baht has been disbursed. Despite some implementation challenges, the government has acted quickly to leverage existing social assistance mechanisms and set up new large-scale cash transfer programs to cover vulnerable individuals who would not otherwise have been covered. Overall, Thailand has performed relatively well compared to its peers in the region in terms of the scale, speed, and targeting of its response.

## Outlook and Risks

**The economy is expected to recover gradually over the next two years, but the outlook remains highly uncertain.** Growth is projected to rebound to 4.0 percent in 2021 and pick up further to 4.7 percent in 2022, at which point output will return to its pre-pandemic 2019 level. Nevertheless, compared with our pre-COVID-19 (January 2020) projections, economic output is projected to be almost 8 percent lower per year (on average) between 2020 and 2022. In the first quarter of 2021, domestic demand will be adversely affected by the recent resurgence of COVID-19. But assuming that this outbreak is successfully contained, and vaccine distribution proceeds as planned, domestic activity is expected to recover through the remainder of the year as domestic mobility returns to pre-pandemic levels consumer and business confidence improves, and fiscal policy remains supportive. External demand will recover more slowly, reflecting only a modest recovery in global goods trade and an increase in foreign tourist arrivals from mid-2021 onwards, when borders are assumed to gradually reopen. In the absence of mitigating policy responses, the effects of the pandemic on investment, human capital accumulation, and productivity may also have longer-run impacts on potential output.

**With COVID-19 cases still surging globally, risks to the outlook are skewed to the downside.** The recovery could be slow and start-stop in nature if the Government is forced to reimpose stringent lockdowns, if progress on developing and distributing a vaccine is slower than anticipated, or if global activity remains weaker than expected. Relatedly, the recovery of the tourism sector will be dependent on when international borders reopen, and whether hesitation to travel internationally persists, as well as the success of efforts to promote domestic tourism as a substitute, all of which remain uncertain. Negative impacts on potential output would be exacerbated if these downside risks are realized, and financial vulnerabilities associated with SME



and household balance sheets may be exposed. In such a downside scenario, growth could drop further to 2.4 percent in 2021.

**Besides COVID-19, several other sources of domestic and external risk exist.** Prolonged political unrest could undermine consumer and business confidence, hindering the economic recovery. It will also distract attention from the critical policy reforms needed to support recovery and bolster long-term growth, such as those outlined below. The premature removal of fiscal and financial relief could stymie Thailand's recovery, even if the pandemic is successfully controlled in the coming months. A resumption of trade tensions and/or supply chain disruptions would stall the recovery of the external sector, although recently signed and pending trade agreements could provide some support.

### Thailand's Labor Market: Challenges and Policy Responses to Drive a Jobs Recovery

**The labor market faced several challenges prior to the pandemic.** COVID-19 struck a labor market already suffering from weaknesses, including lackluster job creation, a prevalence of low-quality jobs and informal employment, declining labor force participation, and a rapidly aging workforce. The movement of workers into higher-productivity sectors has stalled in recent years, and COVID-19 is likely to have reinforced some of the trends inhibiting the movement of workers into higher productivity jobs.

**As a result of the pandemic, hours worked fell sharply and people resorted to agricultural employment as a safety net, likely increasing hardship for many households.** The official unemployment rate doubled from 1.0 percent in the first quarter of 2020 to 2.0 percent in the second quarter, the highest level since 2009, with a particularly large increase for young people. By the second quarter of 2020 there were 700,000 fewer jobs in aggregate than a year earlier, and 340,000 fewer than the previous quarter. Employment losses were widespread across sectors, but a large proportion of workers who lost their jobs in other sectors seem to have moved into the low-productivity agricultural sector, which gained more than 700,000 jobs between the first and second quarters, an atypically large gain even for a sector that generally grows at that time of year. Hours worked fell by 5.7 percent for men and 7.2 percent for women between the first and second quarters of 2020, reflecting a spike in zero-hour workers and an increase in workers working fewer than 40 hours a week. The reduction in hours worked and other labor market adjustments resulted in a decline of private sector average monthly wages of 5.4 percent in the agriculture sector and 1.9 percent outside of it. These income losses likely created economic hardship for many households. Recent projections indicate that an additional 1.5 million people may have entered poverty in 2020 due to the economic impacts of COVID-19, based on a poverty line of US\$5.50 (2011 PPP) per day.

**Some of these employment impacts moderated toward the end of 2020.** The labor force participation rate increased in the third quarter and employers added nearly 850,000 jobs resulting in year-on-year job growth of more than 1 percent. This continued in the first two months of the fourth quarter. Still, the unemployment rate remained elevated toward the end of 2020, hours worked have not fully recovered, and employment in several sectors including manufacturing remains lower than a year ago.

**Thailand's rapidly aging population will cause the supply of labor to decline, exacerbating labor market challenges over the longer-term.** Following a fast drop in fertility rates and improvement in life expectancy, population aging is occurring quickly in Thailand, and at a relatively low-income level compared to other aging countries. The number of years for the share of the 65-plus population to increase from 7 percent of the population to 14 percent, a measure often used to gauge the speed of population aging, was 115 years and 69 years in high-income France and the United States, respectively, but is only projected to take 20 years in Thailand. The working age share of the population is projected to decline from 71 percent of the population in 2020 to 66 percent in 2030 and 56 percent in 2060. Without changes in policy and behavior that improve the supply of labor and enhance productivity, this would imply a mechanical decrease in growth in income per capita, due to the smaller number of people working relative to the total population, and a decline in savings available for investment. Projections of the potential impact suggest that, absent any



adjustments, changes in demographics will decrease average annual growth in GDP per capita by 0.86 percent in the 2020s. Population aging will therefore exacerbate the negative effects of low labor productivity (as reflected in the prevalence of low-quality jobs) and declining labor force participation on national income.

**Productivity improvements and increases in the labor force participation of older people and women can counterbalance the negative growth effects of an aging population.** Advancements in automation, digitization and other technologies may create opportunities for fewer workers to produce more and for firms to participate in new global value chains while reviving capital investments needed to raise Thailand's long-term growth trajectory. Increasing health and education levels and changes to the nature of work mean that there is also scope for labor force participation to increase.

**Policy options are available to counter the effects of population aging, several of which would also help promote a sustainable recovery from COVID-19.** A resurgence of the COVID-19 outbreak in Thailand could require a renewed focus on employment retention policies like wage subsidies and job creation policies like public works that could help make up for reduced working hours. As Thailand recovers from the COVID-19 outbreak, upskilling and reskilling programs can be combined with financial support to help displaced workers get back to work. Training programs can target workers from sectors severely impacted by the outbreak (e.g. tourism) and provide training in strategic sectors likely to grow in the near and medium term (e.g. the care sector). Training can be provided in soft skills like teamwork and interpersonal communication, which are increasingly demanded by employers, and in entrepreneurship skills to help generate self-employment. Training can be linked to subsidies provided in the form of vouchers that finance training and act as a wage subsidy to promote demand or in the form of start-up support for self-employment. These programs should be followed by longer-term efforts to strengthen the workforce development system, including by developing an advanced labor market information system, to enhance linkages with the private sector and ensure that education and training matches the needs of employers. This will help ensure that workers acquire the sophisticated technical skills, the digital skills, and the soft (e.g. interpersonal, critical thinking) skills that will be increasingly demanded as Industry 4.0 takes hold in Thailand. Population aging also creates opportunities to increase employment in the care sector, particularly in the evolving market for aged care, which will require both lower skilled workers and highly trained specialists and highly trained specialists.

**Barriers to the increased participation of women and older people can also be addressed.** Female labor force participation can be increased by improving the accessibility and lowering the cost of childcare, making parental leave more generous, and bolstering old age social assistance programs. The working lives of older people can be extended by promoting flexible work arrangements and potentially increasing the retirement age, including through age or longevity indexing, that is, tying the retirement age to life expectancy at retirement age. These initiatives will need to be undertaken with the fiscal costs in mind. Some involve minimal government action, such as disseminating good practices on flexible working arrangements for older workers. Others, however, imply a more significant fiscal cost. In these cases, careful evaluation of the effectiveness of these programs is important, likely through pilots to help determine what works. The effectiveness of existing schemes, such as tax incentives to promote the hiring of older workers, should be evaluated to ensure they are achieving desired objectives. Where ineffective, savings from these programs can be redirected. While costly, action is necessary to ensure that Thailand is able to recover quickly from the COVID-19 outbreak and to counteract the long-term negative implications of population aging on growth.

## Recent Developments in Charts

Figure ES 1: The Thai economy contracted less in 2020 Q3 than Q2

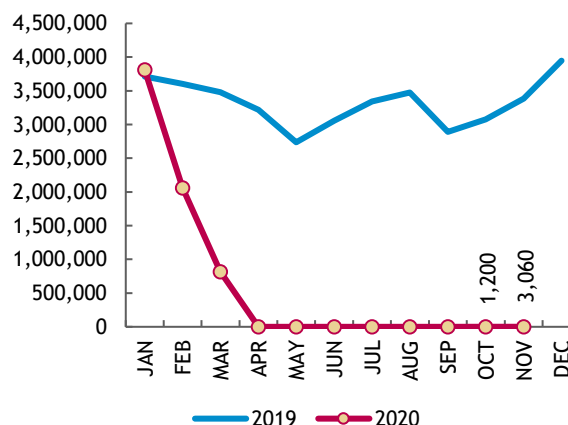
(% change, year-on-year)



Source: NESDC

Figure ES 2: ... while foreign tourism arrivals ceased since April 2020

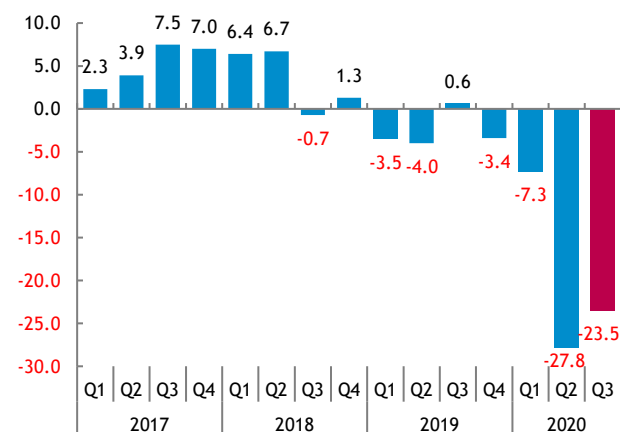
(People)



Source: Ministry of Tourism and Sports

Figure ES 3: Exports of goods and services are still massively contracting, with tourism hit hard by foreign travel restrictions

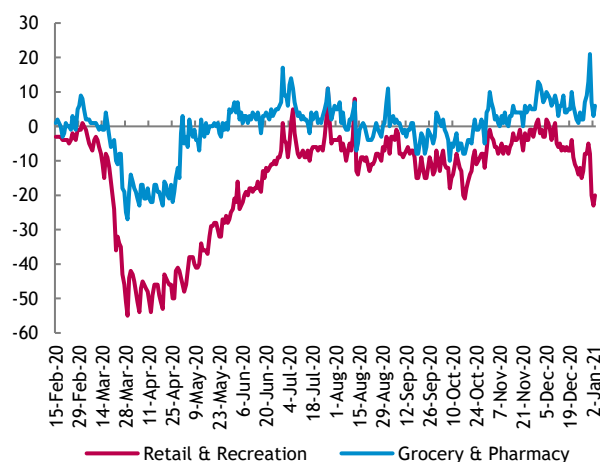
(% change, value, year-on-year)



Source: NESDC

Figure ES 4: Mobility improved after the easing of restrictions in mid-2020, as reflected by increased private consumption, but worsened again in response to the second wave

(Change in visits relative to baseline)



Source: Google Community Report

Note: Grocery & Pharmacy represents mobility trends for places like grocery markets, food warehouses, farmers markets, specialty food shops, drug stores, and pharmacies. Retail & Recreation represents mobility trends for places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters

Table ES 1: Macroeconomic indicators

|                                                             | 2018       | 2019       | 2020f       | 2021f      | 2022f      |
|-------------------------------------------------------------|------------|------------|-------------|------------|------------|
| <b>Real GDP Growth Rate<br/>(at constant market prices)</b> | <b>4.1</b> | <b>2.4</b> | <b>-6.5</b> | <b>4.0</b> | <b>4.7</b> |
| Private Consumption                                         | 4.6        | 4.5        | -1.3        | 3.6        | 4.2        |
| Government Consumption                                      | 1.8        | -1.7       | 2.3         | 2.3        | 2.0        |
| Gross Fixed Capital Investment                              | 5.4        | 3.3        | -4.4        | 1.5        | 2.1        |
| Exports of Goods and Services                               | 3.3        | -2.6       | -18.5       | 6.0        | 6.6        |
| Imports of Goods and Services                               | 8.3        | -4.4       | -15.3       | 4.5        | 4.7        |
| <b>Real GDP Growth Rate<br/>(at constant factor prices)</b> | <b>4.2</b> | <b>2.4</b> | <b>-6.4</b> | <b>4.1</b> | <b>4.7</b> |
| Agriculture                                                 | 5.0        | 2.0        | -3.9        | 2.2        | 2.2        |
| Industry                                                    | 2.7        | 2.6        | -6.9        | 4.0        | 4.5        |
| Services                                                    | 5.0        | 2.3        | -8.0        | 4.3        | 5.0        |
| Inflation (Consumer Price Index)                            | 1.1        | 1.1        | -0.9        | 1.0        | 1.3        |
| Current Account Balance (% of GDP)                          | 6.5        | 5.0        | 0.8         | 2.2        | 3.8        |
| Fiscal Balance (% of GDP)                                   | -2.0       | -2.3       | -5.9        | -6.5       | -3.1       |
| Debt (% of GDP)                                             | 42.0       | 41.1       | 49.4        | 54.4       | 55.4       |

Source: NESDC; World Bank staff calculations

## Part 1. Recent Economic Developments and Outlook: The Long Road to Recovery



### 1. Recent Economic Developments: Containing COVID-19

#### i. The pandemic has taken its toll on the world and Thailand...

**The impact of COVID-19 on the global economy is unprecedented.**

COVID-19 has caused a global recession surpassed only by the two World Wars and the Great Depression over the past century and a half. Although the global economy is growing again in 2020 Q3 after a sharp contraction in the previous quarter (Figure 1), the pandemic has caused a severe loss of life, is tipping millions into extreme poverty, and is expected to push activity and income well below their pre-pandemic trends for a prolonged period. Initial stringent lockdowns have been partly eased, supporting the recovery in economic activity. Nevertheless, COVID-19 has continued to spread around the world, with a sharp resurgence of infections in some areas, and daily new confirmed cases remain high. One bright spot in the East Asia region is the recovery of China (Figure 2), where infections have been kept at a low rate since early March 2020 (See Box 1: Regional perspectives).

**The COVID-19 pandemic hit a Thai economy that had**

The Thai economy already showed pre-existing vulnerabilities, with growth slowing from 4.2 percent in 2018 to 2.4 percent in 2019.<sup>1</sup> The key drivers of slowing growth were both external and internal: weaker demand for exports reflecting the

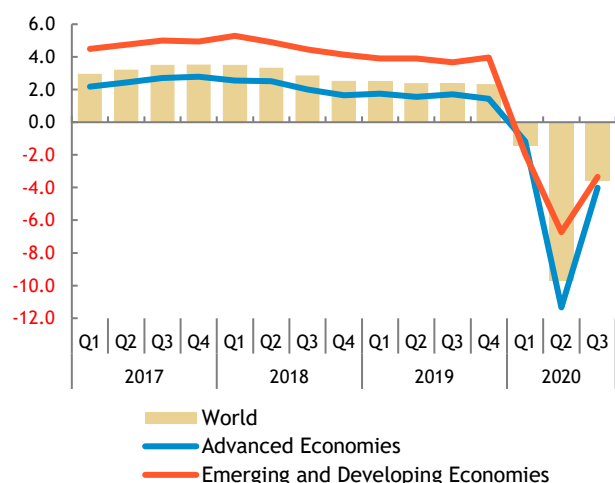
<sup>1</sup> Unless otherwise noted, all growth statistics are in year-on-year terms.

already entered a downturn.

impact of US-China trade tensions, slowing public investments driven by delays in the passage of the FY 2020 budget, political uncertainty due to the delayed formation of a new coalition government, and a severe drought impacting agricultural production. The economy was already contracting by the time the COVID-19 shock hit Thailand, with growth falling to -2.0 percent (yoy) in 2020 Q1.

**Figure 1: The global economies picked up sharply 2020 Q3 from the previous quarter**

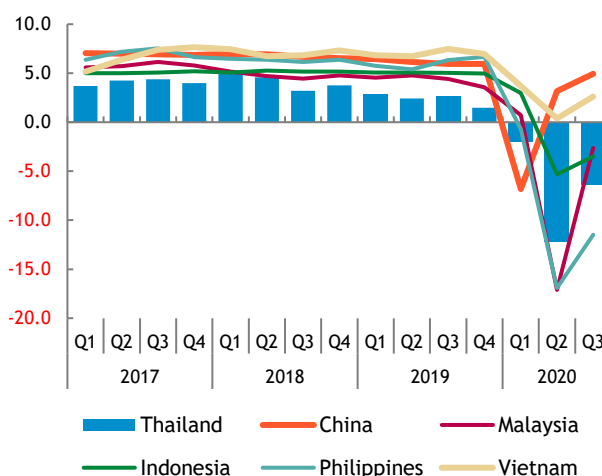
(GDP, % change, year-on-year)



Source: World Bank Global Economic Prospects January 2021

**Figure 2: In the EAP region, China and Vietnam have shown positive growth since 2020 Q2**

(GDP, % change, year-on-year)



Source: World Bank Global Economic Prospects January 2021

### Box 1: Regional perspectives<sup>2</sup>

The pandemic has exacted substantial costs on all Emerging Markets and Developing Economies (EMDE) regions. Although all regions are expected to grow in 2021, the pace of the recovery is likely to vary considerably and be weaker in countries which have larger outbreaks or are more reliant on tourism and industrial commodity exports. The East Asia and Pacific region is expected to benefit from a solid rebound in China, whereas activity is projected to be weakest in the Middle East and North Africa and Sub-Saharan Africa regions. Many countries are expected to lose a decade or more of per capita income gains.

Risks to the outlook are tilted to the downside. In addition to region-specific risks, all regions are vulnerable to renewed outbreaks and logistical impediments to the distribution of effective vaccines, financial stress amid elevated debt levels, and the possibility that the impact of the pandemic on growth and incomes may be worse than expected over the longer term. In a downside scenario of a more severe and prolonged pandemic, the lowest growth rates among the six EMDE regions would be in Latin America and the Caribbean, the Middle East and North Africa, and Sub-Saharan Africa, reflecting these regions' reliance on exports of oil and industrial commodities, the prices of which would be reduced by weak global demand.

**East Asia and Pacific.** Regional growth slowed to an estimated 0.9 percent last year—the lowest rate since 1967—and is projected to expand by 7.4 percent in 2021. Even by 2022, the level of output is still forecast to be more than 3 percent below pre-pandemic projections. Whereas China is expected to recover

<sup>2</sup> This box was prepared by Patrick Kirby with contributions from Franz Ulrich Ruch, Rudi Steinbach, Ekaterine Vashakmadze, Dana Vorisek, and Collette Wheeler. Research assistance was provided by Hazel Macadangdang.

**Box 1: Regional perspectives<sup>2</sup>**

strongly, output in the rest of the region is expected to remain around 7.5 percent below pre-pandemic projections in 2022, with significant cross-country differences. Key downside risks to the outlook include heightened financial stress amplified by elevated debt levels, and persistent policy uncertainty and subdued investment amid lingering trade tensions.

**Europe and Central Asia.** Activity in the region is estimated to have fallen by 2.9 percent in 2020. Due to a resurgence of COVID-19, the pace of recovery in 2021 is projected to be slower than originally anticipated, at 3.3 percent in 2021. Growth is projected to accelerate to 3.9 percent in 2022 as the effects of the pandemic gradually wane and the recovery in trade and investment gathers momentum. The pandemic is expected to erase at least five years of per capita income gains in about a fifth of the region's economies. Economies with strong trade or financial linkages to the euro area and those heavily dependent on services and tourism have been hardest hit. The outlook remains highly uncertain, however, and growth could be weaker than expected if external financing conditions tighten, or geopolitical tensions escalate further.

**Latin America and the Caribbean.** Pandemic-control measures, risk aversion by households and firms, and spillovers from a shrinking global economy resulted in the region's economy contracting by an estimated 6.9 percent in 2020, more than any of the other EMDE regions. The forecast for 2021 is for a modest recovery, reaching 3.7 percent growth as restrictions are relaxed, vaccines are rolled out, oil and metals prices rise, and external conditions improve. Six of the 10 EMDEs with the highest COVID-19 deaths per capita in the world are in LAC, including all the five of the region's six largest economies. Risks to the outlook remain tilted to the downside, and include external financing stress amid elevated debt, a resurgence of social unrest, and disruptions related to climate change and natural disasters.

**Middle East and North Africa.** Output in the region is estimated to have contracted 5 percent in 2020, as countries struggled with significant disruptions from COVID-19 and a sharp fall in oil demand. This contraction adds to already slowing growth in the region and compounds pre-pandemic per capita income losses. Growth is expected to improve to a modest 2.1 percent in 2021, as the pandemic is brought under control and lockdown restrictions are eased, global oil demand rises, and policy support continues. The pandemic is expected to leave lasting economic scars on the region, which will likely dampen potential growth going forward. Disruptions related to geopolitical tensions and political instability, renewed downward pressure on oil prices, and additional balance of payments stress are key downside risks to the outlook.

**South Asia.** Regional economic activity is estimated to have contracted by 6.7 percent in 2020, led by a deep recession in India, where the economy was already weakened before the pandemic by stress in non-bank financial corporations. The region is projected to grow by 3.3 percent in 2021 and 3.8 percent in 2022. By 2022, the level of activity is forecast to be about 16 percent below pre-pandemic projections, the largest gap of all EMDE regions. Risks remain tilted to the downside, and include financial distress related to an abrupt tightening of financing conditions or widespread corporate bankruptcies, extreme weather and climate change, weaker-than-expected recoveries in key partner economies, and a worsening of policy- and security-related uncertainty.

**Sub-Saharan Africa.** Activity in the region is estimated to have shrunk by 3.7 percent last year, setting living standards in many countries back by a decade. Growth is forecast to resume at a moderate pace of 2.9 percent in 2021—essentially zero in per capita terms and well below previous projections. COVID-19 is likely to weigh on growth in SSA for an extended period, as the rollout of vaccines in the region is expected to lag that of major economies and many other EMDEs. Millions of people in the region could be pushed into extreme poverty in 2020 and 2021. Risks to the regional outlook are tilted to the downside and include weaker-than-expected recoveries in key trading partners, logistical hurdles that further

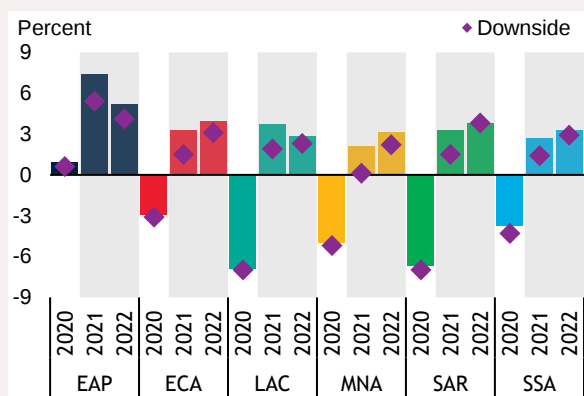
### Box 1: Regional perspectives<sup>2</sup>

impede vaccine distribution, and scarring to productivity that weakens potential growth and income over the longer term.

#### Figure B1.1: Regional growth

The pandemic has had a devastating impact on all emerging market and developing economy (EMDE) regions, which could worsen further if a downside scenario materializes. The downturn has been particularly severe in Latin America and South Asia, which have suffered from large outbreaks, and regions more vulnerable to global spillovers through, for example, tourism and industrial commodity exports. In about a quarter of EMDEs, COVID-19 has reversed a decade or more of per capita income gains. COVID-19 is expected to leave lasting economic scars that will likely keep the level of activity from returning to its pre-pandemic trend.

#### A. Regional growth

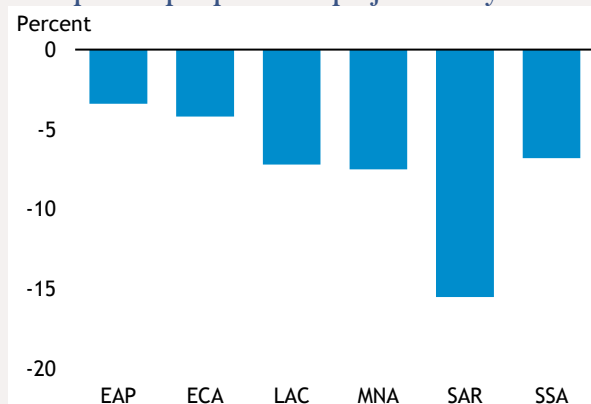


Source: World Bank

Note: EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and the Caribbean, SAR = South Asia, SSA = Sub-Saharan Africa.

A. Bars denote latest forecast; diamonds denote regional growth downside scenarios. Aggregate growth rates calculated using GDP weights at 2010 prices and market exchange rates. Since largest economies account for about 50 percent of GDP in some regions, weighted averages predominantly reflect the developments in the largest economies in each region.

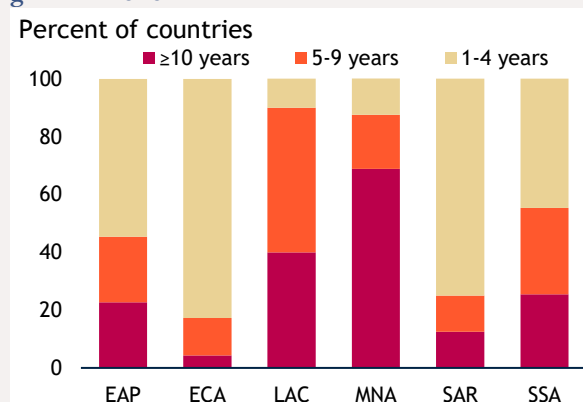
#### C. Gaps with pre-pandemic projections by 2022



Source: World Bank

C. Figure shows the gaps between the current projections and the forecasts in the January 2020 edition of the Global Economic Prospects report.

#### B. Number of years' worth of lost per capita income gains in 2020



Source: World Bank

B. Aggregates calculated using U.S. dollar GDP per capita at 2010 prices and market exchange rates. Figure shows the percentage of EMDEs by number of years of lost per capita income gains, measured as the difference between 2020 and the latest year of per capita income that is below 2020 value over the 2000-19 period.

**Thailand stood out as a public health success in containing the domestic outbreak ...**

As infections surged in March, the government acted decisively to prioritize public health by flattening the infection curve to more manageable levels. Authorities imposed a stringent lockdown policy and declared a state of emergency on March 26, 2020 which was extended to end-2020 (see Box 1 in TEM July 2020). Some key non-pharmaceutical interventions (NPIs) enacted included restrictions on movement across high-risk provinces (such as border and provinces frequented by tourists), a ban on inbound and outbound commercial flights, and a 14-day state quarantine for travelers entering Thailand from abroad. Shopping malls and entertainment facilities in Bangkok were closed. Curfew hours between 10 pm to 4 am were introduced on April 2 to reduce nonessential interactions between people from different households.

**...which allowed reopening of the domestic economy.**

As the rate of infections began to slow to single digits, authorities began to reopen the economy by lifting the curfew on June 15 and finally all business and activity lockdowns on July 1. However, restrictions on foreign travel were kept and social distancing and the wearing of masks were encouraged. A special tourist visa for long-stay tourists from low-risk countries willing to undergo testing and a 14-day quarantine was introduced in October 2020.

**After successful containment throughout most of 2020, COVID-19 cases surged in late December...**

Following the reopening of the domestic economy, new daily infections remained in the single digits until November 2020 (Figure 3). However, an uptick of 18 daily cases, on average, was observed during December 1-19, 2020 partly due to returning Thai workers and migrant workers entering from neighboring countries and circumventing the mandated quarantine. COVID-19 cases surged with daily new cases increasing to 259 cases on average over December 20, 2020 – January 10, 2021 as authorities actively tested migrant workers. Over the course of the subsequent three weeks, total confirmed cases of COVID-19 infection doubled to 10,298 as of 10 January 2021 (Figure 4).

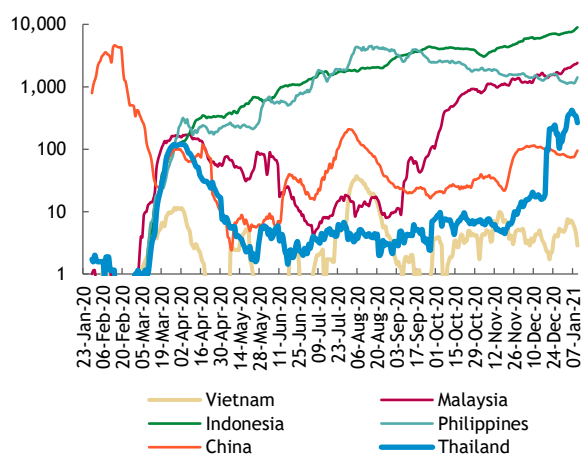
**...but the government avoided imposing a nationwide lockdown as in 2020 Q2.**

Thus far, 28 provinces (out of 77 provinces) have been deemed to be in the red zone due to local clusters of COVID-19 infections. These include Bangkok and its vicinities as well as other provinces in the central, western and eastern regions. The provinces in red zone have implemented mild lockdown measures such as the prohibition of mass gatherings and the temporarily closure of high-risk places such as schools, universities, bars, pubs, gyms and entertainment venues. Interprovincial travel has been discouraged. However, restaurant dining remains permitted until 9.00 p.m., and malls remain open unlike the stringent restrictions observed in 2020 Q2. In addition, a curfew for Bangkok has not been announced.

**Although it has had fewer cases of COVID-19 than other countries in the region, Thailand's economy has been severely impacted.**

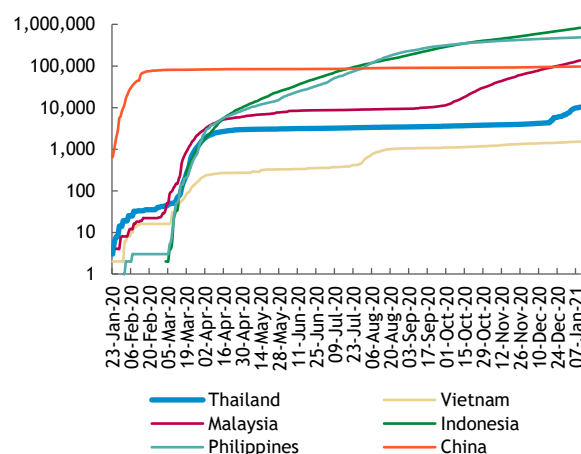
Thailand was particularly exposed due to the economy's openness to both trade in goods and services (tourism). Firstly, weaker global demand has led to a contraction in global trade, which, in turn, has hit Thailand's exports and disrupted global value chains, such as automobiles, in which Thailand is an active participant, particularly during 2020 Q2. Secondly, the tourism sector, which accounts for 12-16 percent of GDP, has been severely impacted with a near cessation of international tourist arrivals since March 2020. Finally, the mobility restrictions imposed in response to the outbreak, while critical to flattening the infection curve, temporarily dented private consumption, particularly for retail and recreational services.

**Figure 3: New COVID-19 cases**  
(Cases, 7 days moving average, Log scale)



Source: ourworldindata.org/coronavirus

**Figure 4: Total COVID-19 cases**  
(Cases, Log scale)



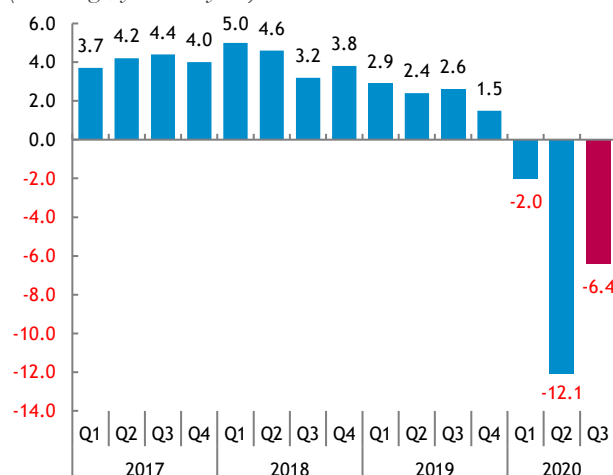
Source: ourworldindata.org/coronavirus

## ii. Thailand began to ease lockdown restrictions after successfully containing the COVID-19 pandemic...

**The economy showed signs of improvement after bottoming out in 2020 Q2 during the lockdown...**

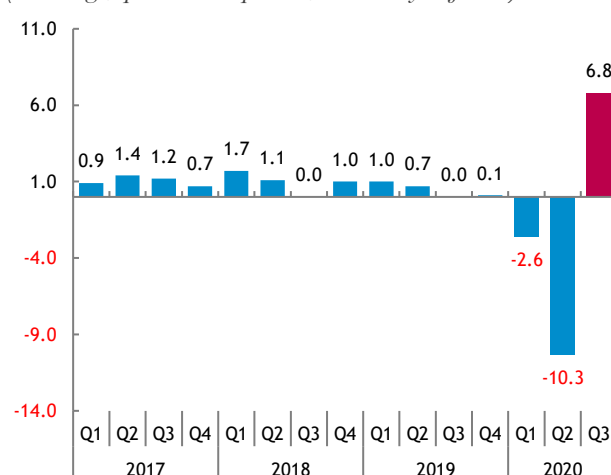
The sharp GDP contraction in 2020 Q2 marked the trough of the downturn, which came at the height of Thailand's mobility restrictions to contain COVID-19. The contraction of -12.1 percent was the biggest decline since the Asian Financial Crisis (-12.5 percent in 1998 Q2). As the authorities began to lift mobility restrictions in 2020 Q2, the economy showed some improvement in 2020 Q3, contracting by 6.4 percent, outperforming market expectations and registering positive quarterly growth for the first time since end-2019 due to the return of domestic demand.

**Figure 5: Thailand's GDP contracted but showed signs of improvement amid lifting of containment**  
(% change, year-on-year)



Source: NESDC

**Figure 6: ...with positive quarterly growth for the third quarter**  
(% change, quarter-on-quarter, seasonally adjusted)

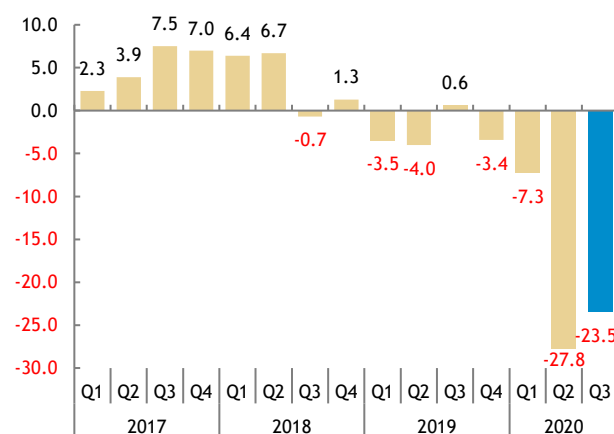


Source: NESDC

...primarily due to a revival in domestic demand amid reopening of the domestic economy.

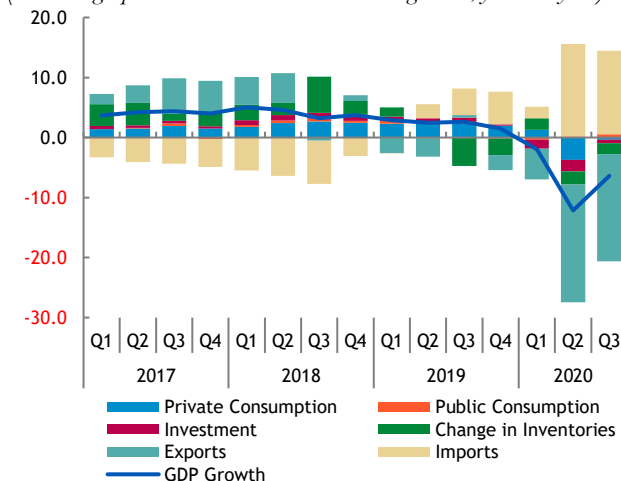
In terms of the contribution to growth, domestic demand, in particular private consumption, accounted for almost all of the improvement in 2020 Q3 compared to the previous quarter (Figure 8). Of the 5.7 percentage point improvement observed, private consumption accounted for 3.4 percentage points. Public and private investment accounted for 1.4 percentage points; and public consumption 0.4 percentage points. In year-on-year terms, government consumption expanded by 3.4 percent and government public investment by 18.5 percent in 2020Q3. This was due to the government's policies to contain the negative economic impacts of the pandemic, as well as a catching-up effect after public investment implementation delays in previous quarters amid the lengthy government formation process in 2019. Exports and imports of goods and services contracted by -23.3 percent and -20.3 percent, respectively, in 2020 Q3 compared with the contraction of exports by -27.8 percent and imports by -23.2 percent in 2020 Q2 (Figure 7).

**Figure 7: Exports of goods and services contracted sharply for the third consecutive quarter**  
(% change, year-on-year)



Source: NESDC

**Figure 8: Domestic demand supported growth in Q3/2020**  
(Percentage-point contribution to real GDP growth, year-on-year)



Source: NESDC; World Bank Staff calculations

**However, as a tourism-dependent economy, Thailand remains exposed to the pandemic shock.**

As a tourism hub, Thailand received close to 40 million foreign tourists in 2019. Receipts from foreign tourists totaled 1.9 trillion baht (11.3 percent of GDP). Income from domestic tourists totaled 1.1 trillion baht (6.4 percent of GDP). The three tourism-related sectors--hotels and restaurants, wholesale and retail trade, transportation and communication--together employ more than 10 million workers, comprising 26 percent of total employment in Thailand.<sup>3</sup>

**In the second and third quarters of 2020, foreign tourist arrivals fell to zero.**

In 2020 Q1, around 6.7 million foreign tourists visited Thailand. By the end of the first quarter, as the pandemic spread within the region and the country, authorities closed borders to foreign travel and restricted domestic inter-provincial travel. As a result, foreign tourist arrivals plummeted to zero in the second and third quarters of 2020 (Figure 9). As COVID-19 infection rates slowed across many countries in East Asia in 2020 Q3, Thai authorities explored ways to safely restart foreign travel and introduced the Special Tourist Visa program for long-stay tourists from low-

<sup>3</sup> Siam Commercial Bank Economic Intelligence Center, 2020.



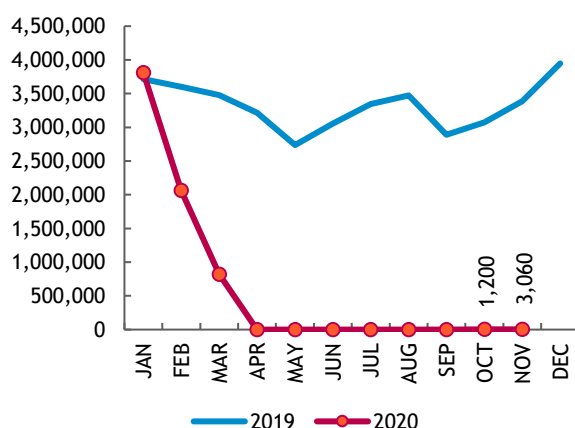
risk countries. October and November saw the arrival of more than 4,000 tourists, mainly from China and ASEAN countries, under the Special Tourist Visa program and marked Thailand's first step towards rebuilding foreign tourism. Given China's early success in containing COVID-19 and reopening of the economy, there is potential to further deepen tourism flows between Thailand and China.

### Domestic travel surged in the third quarter but remained below pre-COVID levels.

Domestic tourists have provided some support to overall tourism-related activity. The number of domestic travelers, which includes domestic tourists, picked up after the easing of mobility restrictions in May. Domestic tourism received a boost from the government's tourism stimulus campaign "We Travel Together" introduced end-July 2020 (see section viii for a discussion of the measure) but remained below the same period last year. In addition, travel destinations were clustered around Bangkok, as opposed to tourism-dependent provinces, such as Phuket and Chiang Mai, due to lingering over concerns over COVID-19 inflections from air travel. Domestic tourists spending only accounts for around one-third of total tourism income and therefore cannot fully cover the loss of receipts from foreign tourists.

**Figure 9: Thailand received no foreign tourists for six consecutive months since April 2020**

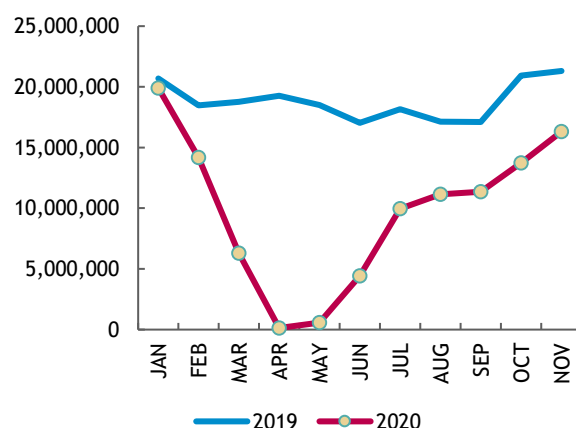
(People)



Source: Ministry of Tourism and Sports

**Figure 10: Domestic travel within the country has picked up but remained below pre-COVID-19 levels**

(People)



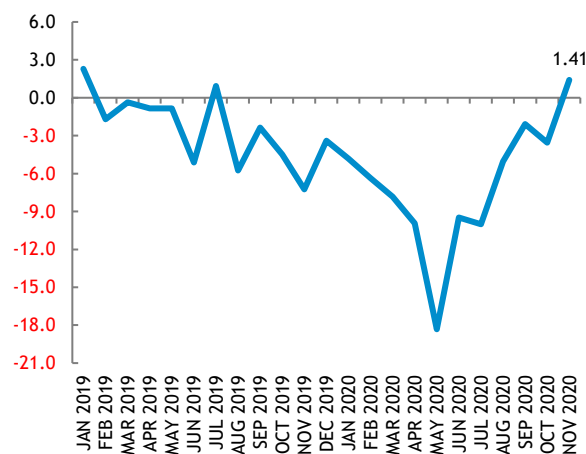
Source: Ministry of Tourism and Sports

### The private investment index showed early but subdued signs of recovery.

After easing of lock-down restrictions, the private investment index, a monthly measure of private investment expenditure compiled by the Bank of Thailand, and capacity utilization showed signs of recovery in Q3 2020 continuing into October and November (Figure 11 and Figure 12). This was driven by construction which was less subject to mobility restrictions and exhibited slightly positive growth (Table 1). The housing price index ticked in up in June and July 2020 in tandem with increased construction activity. Nevertheless, foreign travel restrictions will continue to weigh on foreign purchases of real estate. Purchase of commercial vehicles also saw improvement possibly due to increased demand for e-commerce and delivery services. Import of capital goods remained strongly negative reflecting uncertain export prospects as COVID-19 continues to spread in many trading partner countries.

**Figure 11: Private Investment Index picked up after the lifting of lock-down restrictions ...**

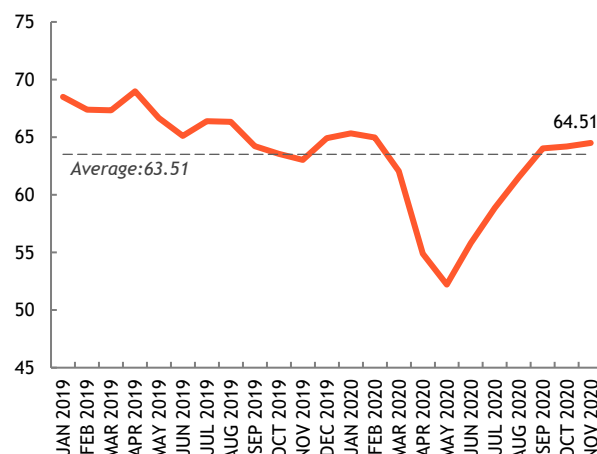
(% change, year-on-year)



Source: Bank of Thailand

**Figure 12: ... as well as capacity utilization rates**

(Base Year 2016 = 100, Seasonally Adjusted)



Source: Office of Industrial Economics, Ministry of Industry

**Table 1: Private investment index growth showed lighter negative changes across all sub-categories**

| %yoy                                                             | 2019 |      |      |      |      |       |      |      |      |      |       |       | 2020  |       |       |       |       |       |       |       |      |       |      |
|------------------------------------------------------------------|------|------|------|------|------|-------|------|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|-------|------|
|                                                                  | JAN  | FEB  | MAR  | APR  | MAY  | JUN   | JUL  | AUG  | SEP  | OCT  | NOV   | DEC   | JAN   | FEB   | MAR   | APR   | MAY   | JUN   | JUL   | AUG   | SEP  | OCT   | NOV  |
| Private Investment Index                                         | 2.3  | -1.7 | -0.4 | -0.9 | -0.9 | -5.1  | 0.9  | -5.8 | -2.4 | -4.5 | -7.3  | -3.4  | -4.8  | -6.4  | -7.8  | -9.9  | -18.3 | -9.5  | -10.0 | -5.0  | -2.1 | -3.6  | 1.4  |
| Construction Area Permitted                                      | 2.0  | 1.6  | -1.4 | -0.9 | -1.1 | -0.7  | -2.2 | -4.1 | -3.8 | -5.7 | -6.6  | -1.0  | -0.6  | -0.6  | -1.5  | -0.4  | -3.2  | -1.6  | -1.2  | -0.2  | -2.4 | -4.3  | -6.7 |
| Construction Material Sales Index                                | 4.2  | -0.5 | -1.9 | 2.4  | 2.2  | 2.7   | -1.1 | -7.2 | -1.5 | -3.9 | -3.3  | 1.8   | -3.1  | 3.2   | -1.1  | 16.4  | -2.5  | 8.1   | 1.5   | 1.0   | -0.5 | -2.9  | 1.5  |
| Import of Capital Goods                                          | 4.0  | -5.5 | 8.7  | 6.2  | 0.0  | -12.2 | 8.6  | -9.4 | -1.5 | -4.2 | -7.6  | 3.7   | -2.8  | -15.3 | -11.0 | -17.6 | -27.3 | -10.6 | -20.5 | -12.1 | -8.0 | -15.4 | -0.7 |
| Domestic Machinery Sales                                         | 0.1  | -2.2 | -4.1 | -7.0 | -2.3 | -6.3  | -4.5 | -7.3 | -4.9 | -7.8 | -11.3 | -6.9  | 0.8   | 3.2   | -1.6  | -15.4 | -28.2 | -19.2 | -12.7 | -5.0  | 1.0  | 4.8   | 5.9  |
| Number of Newly Registered Motor Vehicles for Investment Purpose | 21.6 | 2.7  | -3.8 | 4.2  | -2.0 | -6.8  | 5.2  | -8.2 | -3.8 | -6.0 | -15.5 | -26.4 | -17.6 | -8.4  | -8.0  | -25.4 | -34.7 | -12.6 | -16.7 | -8.9  | -1.6 | -5.0  | 1.8  |

Source: Bank of Thailand and World Bank staff calculations

Remarks: Green indicates positive growth. Darker green indicates very positive growth. Red indicates negative growth. Darker red indicates very negative growth.

Note:

- Construction material sales index includes sales of cement (portland, mixed, and various types), clinkers, ready-mixed concrete piles, concrete floor planks, bricks, cement pipes, sanitary fixtures, wall/floor tiles, asbestos cement roman roofing tile, and roofing tile.
- Total import of capital goods excludes rental and leasing transportation items and includes computer and information services (imports of services).
- Total number of newly registered motor vehicles excludes motorcycles and passenger cars (seven-or-less seaters)

**The private consumption index showed signs of recovery...**

The private consumption index, a measure of monthly consumption expenditure compiled by the Bank of Thailand, bottomed out in April 2020 due to the lockdown. It increased after the lifting of lockdown restrictions, before levelling off in the September quarter as many relief measures expired in July (particularly the 5,000-baht cash transfer to informal workers) (Figure 13). Mobility relating to consumption activities had recovered from the lockdown in July, but dipped again in December with the second wave, though the decline has so far been smaller than for the first wave (Figure 14). The University of the Thai Chamber of Commerce's Consumer Confidence Index improved marginally in 2020 Q3 due to the easing of containment restrictions and the government stimulus package but still remained at a low level due to uncertainty regarding the recovery.

**...as all its components trended**

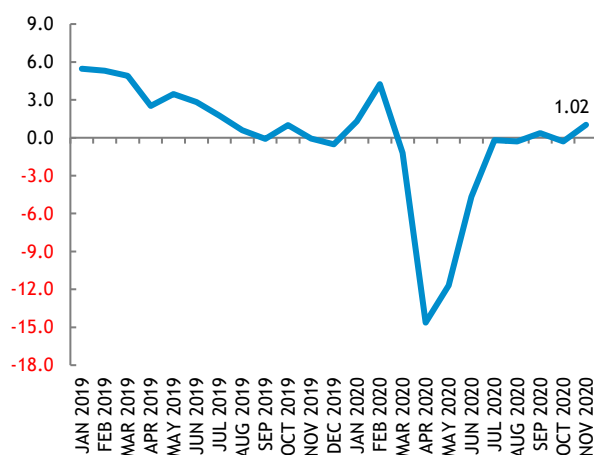
All components of the private consumption index trended up in 2020 Q3 as well as in October and November. The consumption of non-durables (e.g. consumer goods, electricity, alcohol) and durables (passenger cars and motorcycles) improved

up, albeit at varying paces.

gradually throughout 2020 Q3 after bottoming out in April 2020. Most notably, growth in the consumption of non-durables turned positive in September 2020 while durables turned positive in November 2020. The improvement in the consumption of durables may prove to be temporary if due to pent-up demand accumulated during the lockdown in the second quarter. The remaining two components - semi-durables (apparels) and services (hotels and restaurants) consumption - only improved marginally from the April trough and remained significantly below their levels a year earlier.

**Figure 13: The private consumption index fell in April 2020 due to the lockdown**

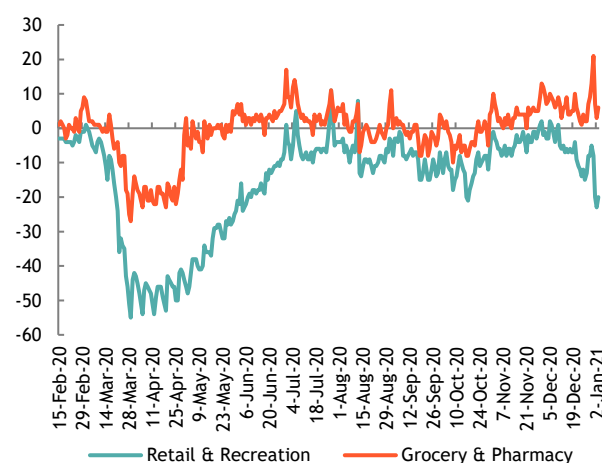
(% change, year-on-year)



Source: Bank of Thailand

**Figure 14: After recovering in Q3/2020, mobility has dipped again due to the second wave of COVID-19**

(Change in visits relative to yearly baseline)



Source: Google Community Report

Note: Grocery & Pharmacy represents mobility trends for places like grocery markets, food warehouses, farmers markets, specialty food shops, drug stores, and pharmacies. Retail & Recreation represents mobility trends for places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters

**Table 2: Private consumption recovery remained mixed**

| %yoy                            | 2019  |       |       |      |       |       |      |       |       |       |        |        | 2020  |        |        |        |        |        |        |        |        |        |        |
|---------------------------------|-------|-------|-------|------|-------|-------|------|-------|-------|-------|--------|--------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                                 | JAN   | FEB   | MAR   | APR  | MAY   | JUN   | JUL  | AUG   | SEP   | OCT   | NOV    | DEC    | JAN   | FEB    | MAR    | APR    | MAY    | JUN    | JUL    | AUG    | SEP    | OCT    | NOV    |
| Private Consumption Index       | 5.46  | 5.31  | 4.89  | 2.51 | 3.47  | 2.83  | 1.77 | 0.59  | -0.09 | 1.00  | -0.07  | -0.52  | 1.30  | 4.24   | -1.21  | -14.63 | -11.69 | -4.67  | -0.20  | -0.29  | 0.36   | -0.30  | 1.02   |
| Non-durables Index              | 3.50  | 3.07  | 1.77  | 2.94 | 4.76  | 2.83  | 2.57 | 1.66  | 0.50  | 3.43  | 1.52   | -1.44  | 0.86  | 1.33   | 1.30   | -11.23 | -5.99  | -3.03  | -0.35  | -1.32  | 2.27   | -3.62  | -2.35  |
| Semi-durables Index             | 2.19  | 0.45  | 1.59  | 2.07 | 0.99  | 0.23  | 2.27 | -0.70 | 0.54  | -1.32 | -1.39  | 0.81   | 0.63  | -2.83  | -2.74  | -5.53  | -7.74  | -4.07  | -5.61  | -4.24  | -2.87  | -3.66  | -2.49  |
| Durables Index                  | 6.20  | 5.19  | 4.84  | 4.68 | 0.05  | -3.69 | 0.47 | -4.03 | -2.11 | -6.33 | -10.78 | -12.01 | -3.05 | -8.70  | -22.01 | -37.50 | -31.96 | -18.86 | -15.68 | -9.64  | -4.83  | -4.46  | 0.23   |
| Services Index                  | 4.50  | 3.33  | 3.26  | 3.33 | 1.75  | 2.14  | 1.64 | 2.61  | 2.30  | 4.24  | 2.81   | 2.70   | 1.01  | -8.57  | -22.03 | -31.14 | -28.67 | -23.94 | -24.45 | -25.17 | -21.99 | -22.67 | -21.99 |
| Non-residents expenditure Index | -2.78 | -6.52 | -9.24 | 8.75 | -3.98 | -5.15 | 3.01 | 7.89  | 11.82 | 14.95 | 8.46   | 2.83   | -2.33 | -47.86 | -77.78 | -87.71 | -85.24 | -88.66 | -92.03 | -92.65 | -90.28 | -90.88 | -92.02 |

Source: Bank of Thailand and World Bank staff calculations

Notes:

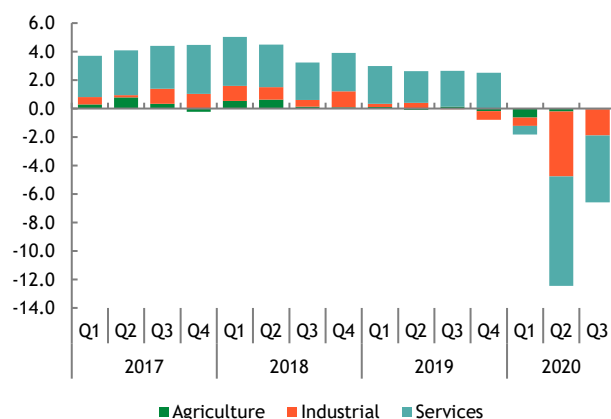
- Non-durables Index consists of Nielsen's fast-moving consumer goods index, Household electricity consumption, Sales of fuel consumption, and Sales of Alcohol and Tobacco.
- Semi-durables Index consists of Retail sales of textile and apparel at constant price, and Import of textile and clothing at constant price
- Durables Index consists of Sales of Passenger cars, Motorcycles and Commercial cars.
- Services Index consists of VAT of hotel and restaurant at constant price, Sales of passenger transportations at constant price.
- The actual net tourist expenditure for personal travel. This index is used to subtract total expenditure to obtain Thai private consumption

**The contraction of manufacturing and services sectors was less severe.**

A broad-based decline across all sectors, in particular services, was observed in Q2 2020 due to containment measures and drought. In Q3 2020, agricultural sector activity declined by -0.3 percent in Q3 2020 due to slow recovery from drought conditions compared with a contraction of -3.3 percent in Q2 2020. The contraction of manufacturing and services was also less severe, at -5.8 percent and -7.3 percent respectively in Q3 2020, improving from -14.2 percent and -12.2 percent in Q2 2020. Services remained the major drag on growth due to the cessation of foreign tourist arrivals. The contraction of tourism-related service subsectors in Q2 was partly offset by growth in other service subsectors such as countercyclical financial and insurance activities, and information and communication due to the increased use of digital services. The relatively faster recovery in manufacturing, alongside persistent weakness in services, reflects the unusual nature of the recession, which has shifted consumption patterns toward goods and away from services.

**Figure 15: The growth contraction lessened for services and manufacturing.**

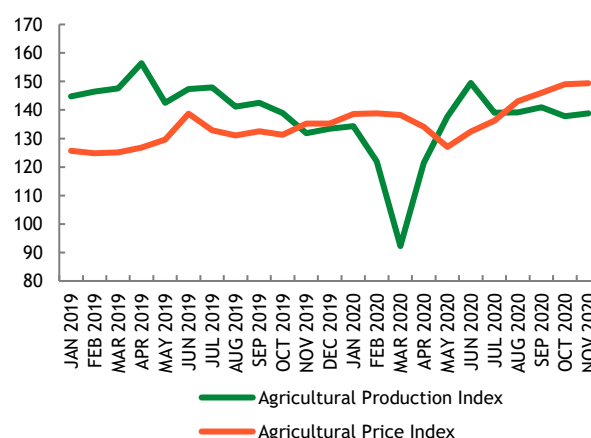
(Percentage-point contribution to real GDP growth, year-on-year)



Source: World Bank staff calculations

**Figure 16: Agricultural production began to pick up in mid Q2/2020 while price also improved.**

(Base Year 2005 = 100, Seasonally Adjusted, Major Crops)



Source: Office of Agricultural Economics, Ministry of Agriculture and Cooperatives

Note: Major crops include grains, perennials, fruits, vegetables, oilseeds and flowers

### iii. Inflation

**Persistently weak inflation has reflected a lack of domestic demand.**

Prior to the pandemic, inflation hovered close to the bottom end of the Bank of Thailand's inflation target range of 1-3 percent over 2017-2019 due to weak domestic demand and, concurrently, a large current account surplus (see TEM January 2020). This was reflected by a substantial output gap of 3.2 percent. Declining competitiveness and policy uncertainty have contributed to the slowing of private and public investment. High household debt weighed on consumer confidence.

**Headline inflation turned negative primarily due to the drop in global oil prices in 2020 Q2**

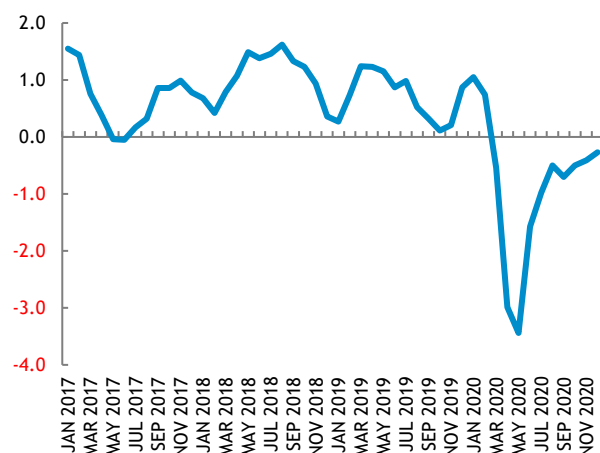
Dynamics in headline and core inflation rates reflected various transmission channels—such as global energy prices and domestic cost-of-living measures—of the pandemic shock. The fall in headline inflation was driven by a substantial negative output gap (-5.8 percent) and a sharp decline in global energy and fuel prices in 2020 Q2 as the global pandemic took hold. However, following the relaxation of containment measures in several countries in Q3 2020, global oil prices increased in

and a negative output gap.

tandem with global activity, resulting in an increase in domestic energy prices and less negative headline inflation. In addition, food prices increased due to supply-side factors such as heavy rainfall, flood in certain provinces, and the relaxation of containment measures. Although core inflation moved in tandem with headline inflation, its dynamics were driven by different products. Core inflation fell in 2020 Q2 due to the drop in housing and rental prices brought about by domestic containment measures including closure of schools and many businesses, but later increased in Q3 2020 due to the expiration of government measures to reduce utility expenses, the lifting of containment measures and increased domestic demand.

**Figure 17: Headline inflation fell sharply mainly driven by fall in energy prices...**

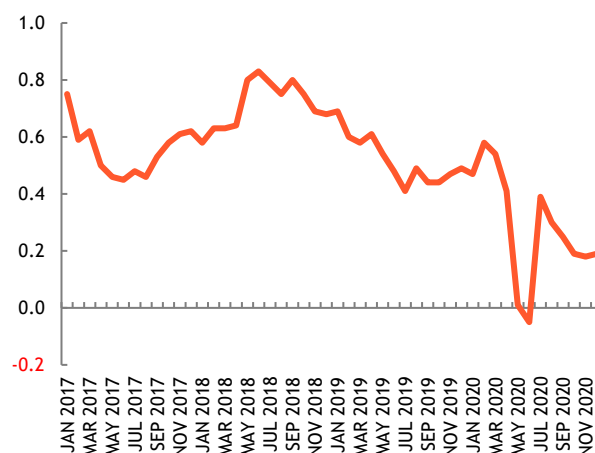
(Headline inflation, % change y-o-y)



Source: Ministry of Commerce

**Figure 18: ...with core inflation rate also declining in line with slowing domestic demand**

(Core inflation, % change, y-o-y)



Source: Ministry of Commerce

#### iv. The current account surplus narrowed sharply while the financial account recorded net inflows, but reserves remained adequate

**The current account surplus narrowed sharply in Q2 2020 due to the large contraction of tourism receipts, but subsequently rebounded.**

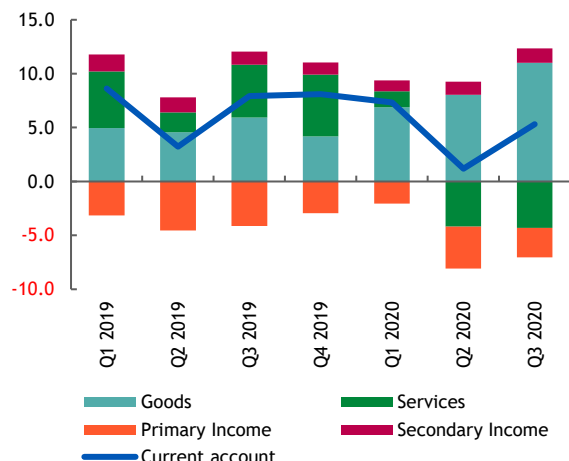
The current account surplus declined to 1.2 percent of GDP in 2020 Q2 from 7.3 percent in Q1 2020 (Figure 19). This was driven by the services trade balance moving from a surplus of 1.5 percent of GDP in Q1 2020 to a deficit of 4.2 percent of GDP in Q2 2020, reflecting the large contraction in tourism receipts. This was aggravated by a larger deficit in primary income (from -2.1 percent of GDP in Q1 2020 to -3.9 percent of GDP in Q2 2020) due to an increase in investment income payments. In Q3 2020, the current account surplus rebounded to 5.3 percent of GDP, driven by a sharp increase in the trade balance as goods exports recovered strongly while imports remained relatively low. Tourism receipts remained negligible due to continued travel restrictions.

**The financial account recorded net capital inflows in Q2 2020, driven by outward portfolio investment and deposits.**

Net capital inflows stood at 8.9 percent of GDP in Q2 2020 after consecutive quarters of net capital outflows (Figure 20). Inflows from outward portfolio investment stood at 2.5 percent of GDP in Q2 2020, driven by sell-offs of debt securities abroad. Other investment inflows, mainly deposits and trade credits, expanded sharply to 12.5 percent of GDP in Q2 2020 (1.3 percent of GDP in Q1 2020). The net inflows of deposits primarily stemmed from depository corporations, non-financial corporations, and households that withdrew deposits from abroad to meet liquidity needs at home. Net capital outflows resumed in Q3 2020 at 4.0 percent

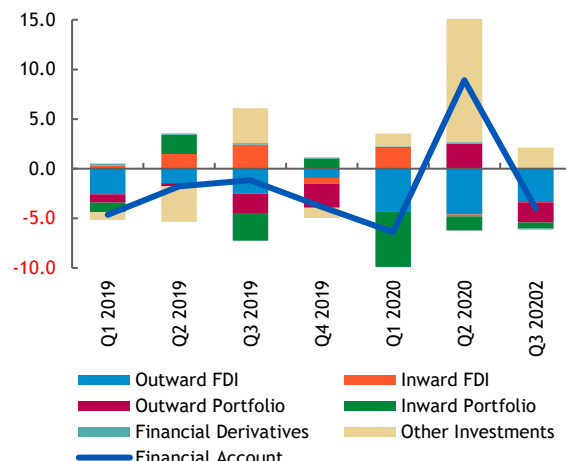
of GDP driven by renewed outward portfolio investment in equity securities abroad, and a reduction in other investment inflows.

**Figure 19: In Q2 2020, the current account surplus narrowed sharply due to a services deficit (% of GDP)**



Source: Bank of Thailand; World Bank staff calculations

**Figure 20: The financial account recorded net inflows driven by outward portfolio flows and deposits (% of GDP)**



Source: Bank of Thailand; World Bank staff calculations

### The current account surplus narrowed amid net capital inflows and the appreciation of the Thai baht during 2020 Q2.

After significant depreciation observed in the latter half of 2019 and continuing into Q1 2020 as the Thai economy entered a cyclical downturn, the baht hit bottom in April 2020 since end-2018. The baht began to appreciate again in May 2020, reflecting lower service receipts, increased net inflows and a diminished current account surplus. The growth of goods exports relative to imports, benefited from external demand from China and United States, and was primarily due to volume effects as opposed to terms of trade effects. In NEER and REER terms, Thai baht appreciated by 2.1 percent and 1.8 percent respectively, by the end of Q2 2020 from the previous quarter (Figure 21) in line with other currencies in the region such as the Malaysian ringgit, Philippine peso, and Indonesian rupiah (Figure 22).<sup>4</sup> Subsequently, the baht and the rupiah began to depreciate again since the beginning of Q3 2020 due to internal uncertainties—increased anti-government protests in Thailand and concerns over central bank independence in Indonesia. As a result, the baht and the rupiah diverged from the appreciation trend of the Malaysian ringgit and Philippine peso. However, in Q4 2020 the baht and the rupiah resumed appreciation due to the depreciation of the US dollar. As of end-December 2020, the exchange rate stood at 30.014 baht/US\$, appreciating by 5.2 percent appreciation since end-September 2020.

### Foreign exchange reserves remained adequate.

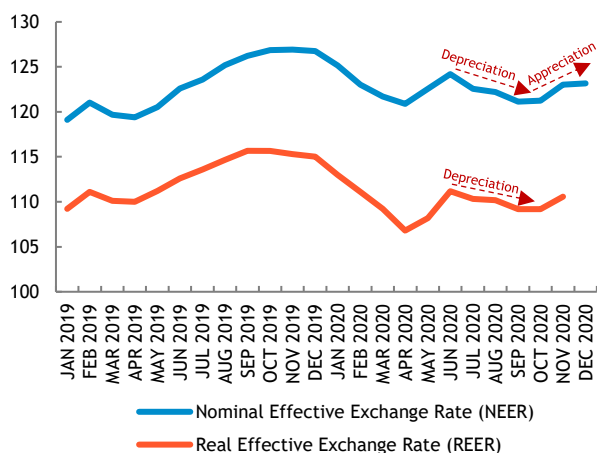
At US\$239.2 billion end-September 2020 (13.8 months of import value), Thailand's foreign exchange reserves remain adequate. As of end-2020 Q2, foreign reserves were equivalent to 3.9 times the country's short-term external debt and equivalent to 101 percent as a share of annual imports. The IMF Article IV (2019) assessed

<sup>4</sup> The Thailand Article IV Staff Report (2019) found that current account surplus was too large due to structural constraints (such as high relative labor costs, slowing productivity and incomes, and an aging population) compounded by prolonged political uncertainty which have constrained domestic demand. As a result, the 2018 REER was assessed as around 5 percent to 10 percent below the levels consistent with medium-term fundamentals and desirable policies. Over the medium term, as macro stimulus is deployed and structural rigidities are addressed, the REER gap should narrow with a growth driven appreciation.

that FX reserves remained well above reserve adequacy metrics and external debt sustainable with limited vulnerabilities.<sup>5</sup>

**Figure 21: The Thai baht began to depreciate again from end-June 2020 to end-September 2020**

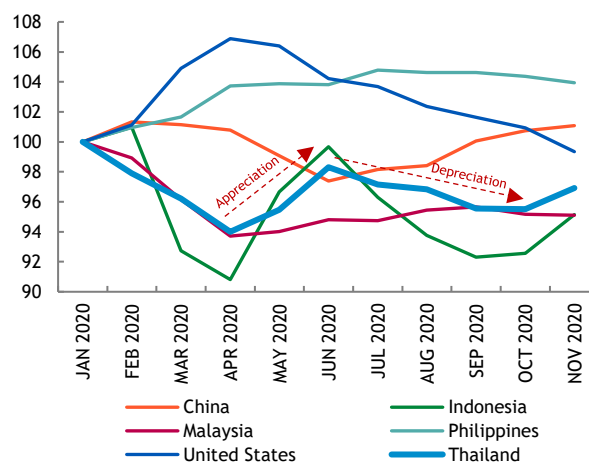
(Base year 2012 = 100)



Source: Bank of Thailand; World Bank staff calculations

**Figure 22: In REER terms, the Thai baht and Indonesia rupiah depreciated while Chinese yuan, Malaysian ringgit and Philippine peso appreciated**

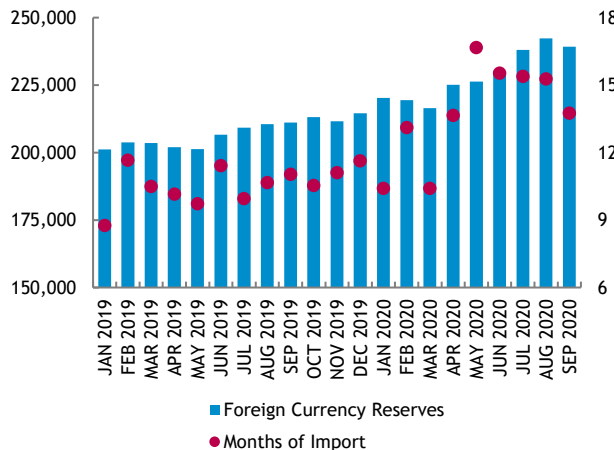
(January 2020 = 100)



Source: Bank for International Settlements (BIS)

**Figure 23: Foreign currency reserves remained ample, at over 13.8 months of import**

(LHS: Millions of US Dollars, RHS: Months of Import)



Source: Bank of Thailand; World Bank staff calculations

<sup>5</sup> Thailand Article IV Staff Report (2019). International Monetary Fund.

**Table 3: The current account, financial account, and foreign-exchange reserves**  
(Percent of GDP, unless otherwise indicated)

|                                                          | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 |
|----------------------------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| Current account                                          | 8.62    | 3.25    | 7.92    | 8.09    | 7.34    | 1.19    | 5.32    |
| Exports of goods                                         | 44.99   | 46.10   | 46.45   | 41.20   | 45.74   | 44.92   | 47.03   |
| Imports of goods                                         | 40.02   | 41.53   | 40.53   | 37.03   | 38.85   | 36.88   | 36.03   |
| Tourism receipts                                         | 11.95   | 9.10    | 11.11   | 11.74   | 7.78    | 1.26    | 0.90    |
| Financial account                                        | -4.64   | -1.79   | -1.16   | -3.83   | -6.39   | 8.92    | -3.99   |
| Outbound FDI                                             | -2.57   | -1.45   | -2.52   | -0.94   | -4.34   | -4.61   | -3.35   |
| Inbound FDI                                              | 0.32    | 1.49    | 2.41    | -0.59   | 2.13    | -0.20   | -0.04   |
| Outbound portfolio investment                            | -0.85   | -0.31   | -2.02   | -2.41   | 0.06    | 2.52    | -2.03   |
| Inbound portfolio investment                             | -0.96   | 1.93    | -2.71   | 1.02    | -5.57   | -1.40   | -0.60   |
| Reserves, excluding net forward position (US\$ billions) | 212.2   | 215.8   | 220.5   | 224.3   | 226.5   | 241.6   | 251.1   |
| Reserves relative to short-term external debt (times)    | 3.4     | 3.5     | 3.7     | 3.8     | 3.8     | 3.9     | 4.1     |
| Reserves relative to import values (percent)             | 82.0    | 83.2    | 85.0    | 86.5    | 91.6    | 97.5    | 101.2   |
| Reserves relative to import values (months)              | 10.5    | 11.4    | 11.0    | 11.6    | 10.4    | 15.5    | 13.75   |

Source: Bank of Thailand; World Bank staff calculations

#### v. The fiscal deficit is expanding as a result of the government's response to COVID-19 and declining revenue

##### **Revenue declined in FY2020 due to the impact of COVID-19 on trade and economic activity, and the government's policy response.**

Budgetary central government revenue fell by 8.2 percent in nominal terms in FY2020 but declined only slightly as a proportion of GDP. The fall was driven by a pronounced drop in tax revenue, which was partially offset by an increase in other revenue from fees and state-owned enterprise contributions (Figure 24). Tax revenue was 13.7 percent lower than the FY2020 budget target, in part because of weaker economic activity and the contraction in imports and consumption. Policy measures – including a temporary six-month reduction in the withholding tax rate from 3 percent to 1.5 percent, and a reduction in payroll taxes for SMEs – also contributed to the decline in tax revenues. Some corporate taxes were also deferred in an attempt to alleviate liquidity constraints, though these deferrals were revenue-neutral.

##### **Government spending increased, mainly due to the implementation of COVID-19 relief measures.**

Budgetary central government spending rose to 22.8 percent of GDP in FY2020, after being held below 20 percent of GDP in each of the previous three years. Current spending increased by 10.5 percent in nominal terms (3 percent of GDP), mainly due to the roll-out of COVID-19 relief measures in the June quarter (Figure 25 and see below). Although capital spending increased by around a quarter, it remained low in levels terms at 1.9 percent of GDP. When measured on a cash basis, the capital budget remains the major source of budget under-execution, with the capital budget disbursement rate continuing to lag at 66 percent (while the recurrent budget was almost fully executed).

##### **The fiscal deficit rose due to lower**

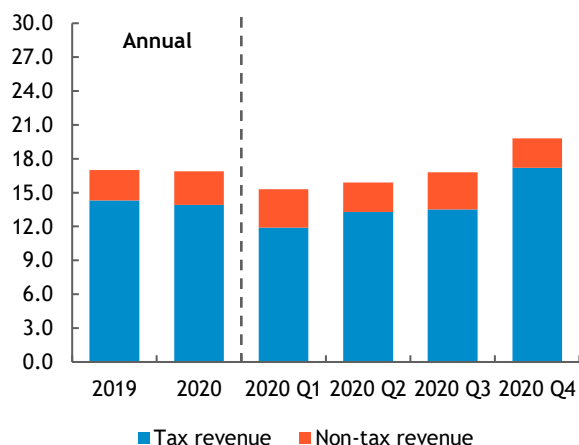
The budgetary central government deficit expanded to 5.9 percent of GDP in FY2020, from 2.3 percent of GDP in FY2019 (Figure 26). The FY2020 deficit was

revenues, higher expenditure, and the contraction in GDP.

substantially larger than deficits recorded in the previous five years, which have been at or below 2.5 percent of GDP. The deficit – together with refinancing and rollover needs associated with the existing debt stock – was financed entirely by domestic borrowing.

Figure 24: Revenue declined as GDP contracted ...

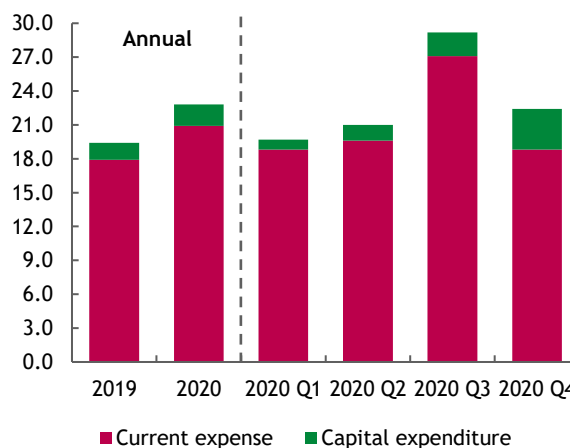
(Percent of fiscal year GDP)



Source: Fiscal Policy Office, Ministry of Finance

Figure 25: ...while public spending was particularly high in the third quarter due to COVID-19 responses

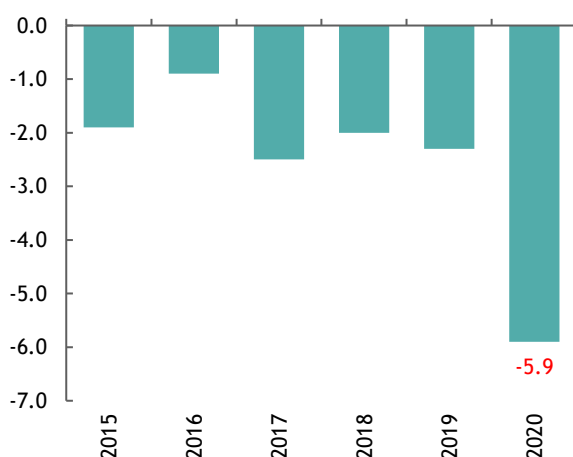
(Percent of fiscal year GDP)



Source: Fiscal Policy Office, Ministry of Finance

Figure 26: The fiscal deficit widened in 2020 compared to each of the previous 5 years...

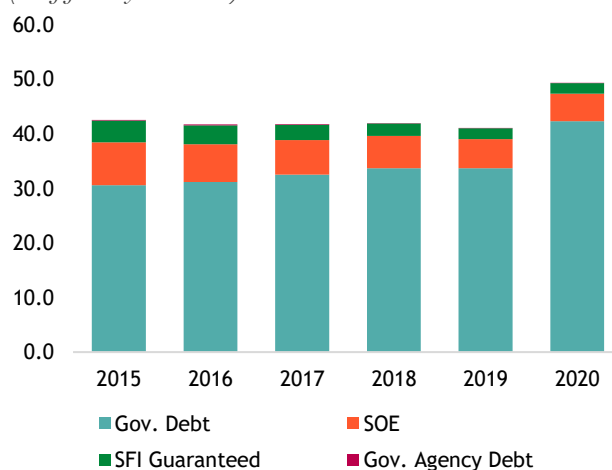
(% of fiscal year GDP)



Source: Fiscal Policy Office, Ministry of Finance

Figure 27: ...and public debt increased, though it remains below the prudential limit of 60 percent of GDP

(% of fiscal year GDP)



Source: Fiscal Policy Office, Ministry of Finance

As a result, public debt rose sharply in FY2020, to reach its highest level since the early 2000s, but

Public debt rose to 49.4 percent of GDP as at September 2020, up from 41.1 percent of GDP a year earlier (Figure 27). Almost all (98 percent) of this debt is denominated in local currency, and around 14 percent of the total debt is carried by state owned enterprises (some of which is explicitly guaranteed by government). Classified by remaining maturity, short term debt outstanding is about 14 percent of total public debt, or just over 1 trillion baht, a 70 percent increase in nominal terms from a year

remains within fiscal limits.

earlier. In the near term, this will be reflected in elevated refinancing needs, adding to those financing needs associated with the budget deficit and the COVID-19 response (see below). Nevertheless, debt and debt service ratios remain compliant with the numerical limits set in the Fiscal Responsibility Act enacted in 2018. In particular, public debt to GDP currently remains well below the 60 percent statutory ceiling, although the 35 percent cap on debt service to revenue may constrain the government's ability to issue additional debt in the near term (see Box 2 on The Fiscal Responsibility Act, TEM July 2019, for a discussion of Thailand's fiscal framework).

**Table 4: Fiscal operations**  
(Percent of fiscal year GDP) (a)

| Budgetary Central Government        | 2017        | 2018        | 2019        | 2020        |
|-------------------------------------|-------------|-------------|-------------|-------------|
| <b>Revenue</b>                      | <b>17.3</b> | <b>17.5</b> | <b>17.1</b> | <b>16.9</b> |
| Taxes                               | 14.7        | 14.8        | 14.3        | 13.9        |
| Social contributions                | 0.0         | 0.0         | 0.0         | 0.0         |
| Grants                              | 0.1         | 0.0         | 0.0         | 0.0         |
| Other revenue                       | 2.5         | 2.7         | 2.7         | 3.0         |
| <b>Total Expenditure</b>            | <b>19.7</b> | <b>19.5</b> | <b>19.4</b> | <b>22.8</b> |
| <b>Current Expense</b>              | <b>18.3</b> | <b>17.9</b> | <b>17.9</b> | <b>20.9</b> |
| Compensation of employees           | 5.2         | 4.9         | 4.8         | 5.0         |
| Use of goods and services           | 3.4         | 3.6         | 3.6         | 3.3         |
| Consumption of fixed capital        | 1.2         | 1.0         | 1.0         | 1.1         |
| Interest                            | 0.9         | 1.0         | 1.0         | 1.0         |
| Subsidies                           | 0.7         | 0.6         | 0.7         | 1.0         |
| Grants                              | 4.2         | 4.2         | 4.4         | 4.5         |
| Social benefits                     | 2.0         | 2.0         | 2.1         | 2.3         |
| Other expense                       | 0.7         | 0.5         | 0.4         | 2.6         |
| <b>Capital Expenditure</b>          | <b>1.5</b>  | <b>1.5</b>  | <b>1.5</b>  | <b>1.9</b>  |
| <b>Primary Balance</b>              | <b>-1.5</b> | <b>-1.0</b> | <b>-1.3</b> | <b>-5.0</b> |
| <b>Fiscal Balance</b>               | <b>-2.5</b> | <b>-2.0</b> | <b>-2.3</b> | <b>-5.9</b> |
| Net acquisition of financial assets | 0.7         | 0.9         | -0.1        | 0.4         |
| Net incurrence of liabilities       | 2.6         | 2.8         | 1.0         | 6.4         |
| Domestic creditors                  | 1.9         | 2.2         | 0.8         | 6.7         |
| External creditors                  | 0.7         | 0.5         | 0.2         | -0.3        |
| <b>Memo: General government</b>     |             |             |             |             |
| Revenue                             | 21.1        | 21.4        | 21.0        |             |
| Total expenditure                   | 21.5        | 21.4        | 21.8        |             |
| Fiscal balance                      | -0.4        | 0.1         | -0.8        |             |
| Government debt                     | 32.5        | 33.9        | 34.0        |             |
| Public sector debt                  | 41.1        | 41.8        | 41.2        |             |

Source: Fiscal Policy Office, Public Debt Management Office, Ministry of Finance; World Bank staff calculations

Notes:

- These are fiscal numbers (October to September) divided by fiscal-year GDP. These numbers are marginally different from Ministry of Finance data on public debt divided by interpolated GDP for the fiscal year
- All the numbers were constructed from monthly fiscal data from the Fiscal Policy Office
- The fiscal balance and net financing due not add up to zero due to a statistical discrepancy, reported by Ministry of Finance



(d) General government includes central government, local government and social security fund

**The COVID-19 relief and recovery package approved in April 2020 was substantial.**

In March and April, the cabinet approved three phases of a COVID-19 relief and recovery package, which together amounted to 2.2 trillion baht, or 12.9 percent of GDP (see also Part 2 of the July 2020 TEM). The fiscal response centered on a Parliament-approved emergency decree – in force until the end of FY2021 – to borrow up to 1 trillion baht (about 6 percent of GDP) off-budget to fund cash transfers, the medical response, and economic and social rehabilitation in the aftermath of COVID-19. Much of the remainder of the package consisted of measures implemented by the Bank of Thailand and Specialized Financial Institutions to reduce liquidity constraints affecting households and businesses and preserve jobs (Table 5 in section vii. Policy responses).

**Implementation of this package has already had a significant effect on fiscal outcomes.**

Of the 555 billion baht authorized to be spent on cash transfers and relief measures for households, farmers, and entrepreneurs, around 365 billion baht has been programmed, of which 300 billion baht (1.8 percent of GDP) had already been disbursed as of December 2020 (see section vii). This was reflected in a large increase in recurrent spending in the June quarter 2020, and a commensurately large pick-up in domestic borrowing (Figure 25).

**Further disbursements of this package are expected in FY2021.**

It is expected that a further 520 billion baht (3.1 percent of GDP) will be disbursed on relief, recovery and rehabilitation, and health measures in FY2021, implying substantial additional borrowing as authorized by the COVID-19 decree. Almost 50 billion-baht worth of new measures – a new co-payment program, and a top-up for state welfare card holders (see section vii. Policy responses) – are already being implemented in the December quarter 2020. Together, these measures are expected to boost consumption and increase growth by around a quarter of a percentage point.

**The FY2021 budget was passed by Parliament in September, with both revenues and spending projected to increase.**

The budget is prepared on a cash basis and is therefore not strictly comparable with the GFS estimates presented in Table 4. Spending was budgeted to increase to 3,300 billion baht (including debt amortization of 99 billion baht), up 12 percent from FY2020, while revenues were projected to rise to 2,677 billion baht, also up 12 percent in nominal terms. By functional classification of spending, housing and community amenities, health, and social protection saw the biggest gains in budget allocations relative to FY2020. The government also budgeted additional spending of 40 billion baht for alleviating the impact of COVID-19 in FY2021 (see Table 5), in addition to the ongoing implementation of the 1 trillion-baht package authorized last year.

### **vi. Despite elevated uncertainty and volatility, Thailand's financial system remains stable and with adequate buffers**

**Global and domestic uncertainty have contributed to volatility in financial markets in 2020 Q1.**

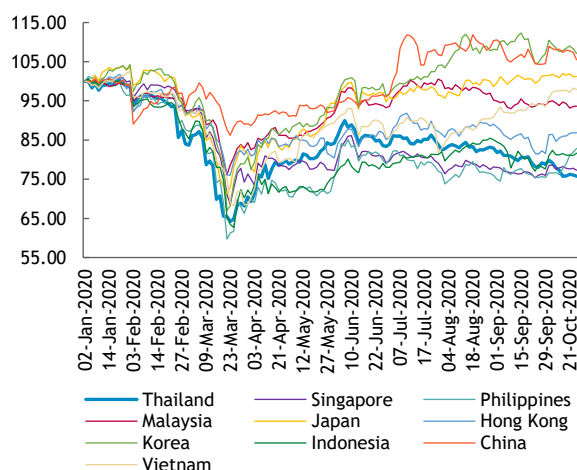
Volatility in financial markets rose markedly amid rising global and domestic uncertainty regarding the global pandemic, protracted economic recovery and rising political tensions. In February 2020, the Thai bond-market yield curve showed flattening as investors sought the safety of longer maturity bonds as a hedge against rising uncertainty. By mid-March 2020, the CBOE VIX Volatility index, a measure of uncertainty, surged above levels last seen during the global financial crisis of 2008. The Stock Exchange of Thailand Index (SET) plunged by approximately 35 percent between early January and mid-March 2020 amid a global flight to safety as the pandemic took hold globally. Thailand experienced outflows

of US\$ -1,620 billion in debt and US\$ -9,337 billion in equity flows between January and October 2020, driven largely by the negative market sentiment caused by the COVID-19 pandemic and compounded by domestic uncertainty (Figure 29).

**While uncertainty subsequently lessened in 2020 Q3, it remained elevated...**

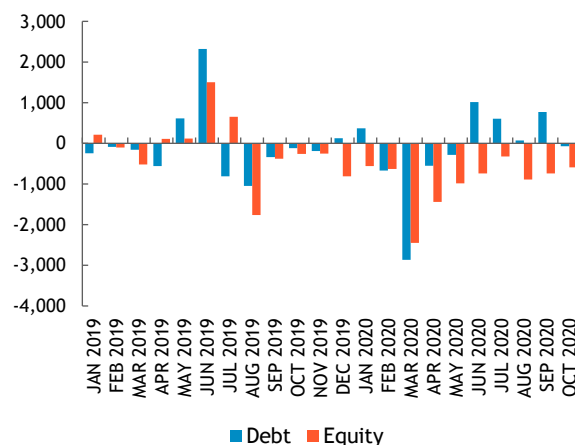
While foreign equity outflows continued at slower pace in 2020 Q2 (Figure 29) as the CBOE VIX volatility fell close to its pre-COVID-19 level, the SET index recovered about 15 percent by end-May as domestic retail and institutional investors became net buyers following signs of the successful containment of COVID-19 within Thailand. However, from end-May to end-October, the SET index declined continuously by 11 percent amid rising political tensions, such as delays in the appointment of the new economic team to key cabinet posts and sustained anti-government street protests, and concerns over a protracted recovery (Figure 28). The government bond yield curve showed signs of steepening in the beginning of 2020 Q3 as sentiment regarding the recovery improved. Nevertheless, the bond market continued to show volatility as uncertainty over both the reopening of the border to foreign travel and duration of the economic recovery persisted.

**Figure 28: Evolution of main EAP stock indices**



Source: Haver Analytic; World Bank staff calculations

**Figure 29: Thailand capital flows - Net non-resident purchases of EM Stocks and Bonds**  
(US\$ Million)



Source: IIF Capital Flows Tracker, Haver Analytic

**...and highlighted pockets of vulnerability, particularly household indebtedness and SME weakness.**

The COVID-19 crisis and the protracted recovery will likely exacerbate two key sources of vulnerability in the banking system: household indebtedness and weaknesses in corporates and in small and medium enterprises (SMEs). Lockdown measures and slowdown in economic activity have resulted in firms in certain business sectors and households facing immediate liquidity shortages, impairing their ability to service debt. Household debt in Thailand is the second highest in East Asia (at 80.2 percent of GDP in March 2020). Credit to households saw a rapid expansion over the last decade, reaching over 80 percent of GDP by 2019 from 59.3 percent in 2010, largely driven by auto loans and housing loans (Figure 31). While corporate debt appears to have been relatively stable at 70.5 percent of GDP in 2017<sup>6</sup>, there are some concerns about the debt-at-risk and rollover risk. Gross non-performing loan (NPL or stage 3) outstanding edged up to 3.14 percent of total loan in 2020 Q3, from 3.09 percent in the previous quarter. SMEs have been experiencing

<sup>6</sup> Same level as in 2009.



an increase in non-performing loans (NPLs) and special mention loans (SPLs) in recent years. NPLs of SMEs in the manufacturing, construction, trade and real estate sectors appear to be relatively high, ranging from 4 to 7 percent, thus raising concerns about the severity and length of the current crisis as it could significantly impact the asset quality of the banking system.<sup>7</sup>

**Despite these vulnerabilities, the Thai financial system remains stable and able to weather liquidity and solvency shocks.**

Significant liquidity and capital buffers as well as high level of compliance with international standards have contributed to a stable and deep financial sector (see Financial Sector Assessment Program (FSAP) in 2019). Capital adequacy ratio (BIS ratio) of the Thai banking system remained high at 19.8 percent. Loan loss provision remained high at 782.5 billion baht with NPL coverage ratio of 149.7 percent. Liquidity coverage ratio (LCR) registered at 184.9 percent. The 2019 FSAP has revealed the improved strength of Thailand's financial system, with the main financial sector vulnerabilities being largely contained. According to the stress tests performed by the IMF, the Thai banking system has exhibited considerable resilience to severe shocks, with the solvency stress tests indicating the largest banks could withstand a shock roughly as severe as the Asian Financial Crisis<sup>8</sup>.

**Commercial banks tightened loan conditions, particularly for large corporates and SMEs, as economic uncertainty remained high in 2020 Q3.**

In 2020 Q3, banks' overall loan growth slowed to 4.6 percent year-on-year, (5.0 percent in 2020 Q2, Figure 31). Corporate loans expanded at 4.5 percent year-on-year, but contracted quarter-on-quarter as some large corporates switched their funding source to bond and equity issuance. Standards for corporate loans in 2020 Q3 were slightly tightened due to highly uncertain economic recovery particularly for tourism-related sectors despite credit measures designed to help SME access finance.<sup>9</sup> Consumer loans grew by 4.8 percent year-on-year, and increased quarter-on-quarter following the lifting of domestic movement restrictions and social distancing. In particular, housing lending expanded, consistent with an increase in demand for low-rise residential properties from last quarter. Credit standards for consumer loans in Q3 2020 remained largely unchanged from the previous quarter. Financial institutions deemed it difficult to assess incomes and creditworthiness of borrowers due to the uncertain economic conditions.

**With low inflation and a slowing economy, the Bank of Thailand maintained the policy rate at 0.5 percent to support economic recovery.**

Over July-December 2020, the Monetary Policy Committee (MPC) held the policy rate at 0.5 percent to support economic recovery in the context of a slightly improved economic outlook following successful containment of the domestic outbreak and better-than-expected 2020 Q3 numbers. Previously, the MPC cut the policy rate from 1.25 to 0.5 percent during February-May 2020 as the COVID-19 outbreak took hold globally and authorities imposed movement restrictions to contain the domestic outbreak in the first two quarters of 2020, continuing the monetary easing cycle that began in August 2019 (Figure 30).<sup>10</sup> Despite growing pockets of risks in the financial sector, such as elevated household debt, the MPC deemed it necessary to lower the policy rate as the economic outlook deteriorated considerably.

<sup>7</sup> IMF, pp. 10.

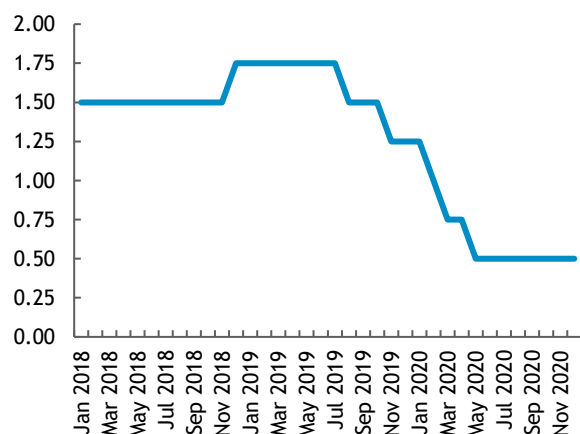
<sup>8</sup> IMF, pp. 7-8.

<sup>9</sup> Senior Loan Officer Survey (2020 Q3). Bank of Thailand.

<sup>10</sup> Monetary Policy Decision: <https://www.bot.or.th/English/PressandSpeeches/Press/2019/Pages/n4362.aspx>

**Figure 30: The Bank of Thailand continued monetary easing in 2020 and cut the policy rate to 0.5 percent**

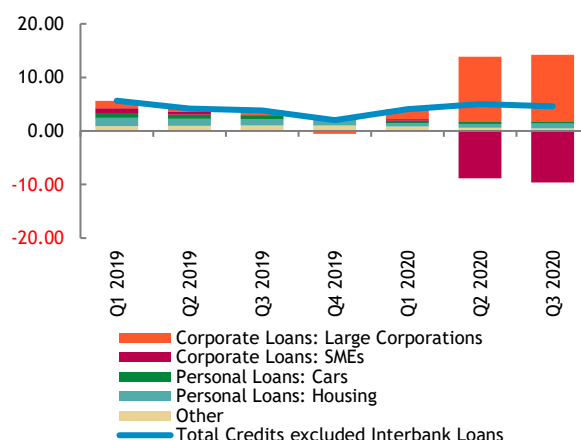
(% per annum)



Source: Bank of Thailand

**Figure 31: Commercial bank lending accelerated in Q3 2020 due to large corporates but loans to households and SMEs decelerated**

(Percentage point contribution to year-on-year growth)



Source: Bank of Thailand; World Bank staff calculations

## vii. The economic shock associated with COVID-19 severely affected employment and incomes, though some of these impacts had moderated by the third quarter

### COVID-19 caused a flight to safety in agricultural employment...

The official unemployment rate doubled from 1.0 percent in the first quarter of 2020 to 2.0 percent in the second quarter, the highest level since 2009 with a particularly large increase for young people (see Part 2 – Thailand's Labor Market: Challenges and Policy Responses to Drive a Jobs Recovery from COVID-19). By the second quarter of 2020 there were 700,000 fewer jobs than a year earlier, and 340,000 fewer than the previous quarter). Employment losses were widespread across sectors between the first and second quarters of 2020, including nearly 240,000 jobs lost in manufacturing and more than 150,000 in wholesale and retail. The data indicates that a large proportion of workers who lost their jobs moved into the low-productivity agricultural sector, which gained more than 700,000 jobs between the first and second quarter, an atypically large gain even for a sector that generally grows at that time of year. Agriculture appears to have acted as a safety net, especially for informal workers (accounting for more than half of the labor force) who lack access to unemployment insurance and other social protection schemes. Nevertheless, the hit to incomes for workers forced to move into the agriculture sector is likely to have been severe in most cases.

### ... and a sharp decline in hours worked

Hours worked fell by 5.7 percent for men and 7.2 percent for women between the first and second quarters of 2020, reflecting a spike in zero-hour workers and an increase in workers working fewer than 40 hours a week. The reduction in hours worked and other labor market adjustments resulted in a decline of private sector average monthly wages of 5.4 percent in the agriculture sector and 1.9 percent outside of it.

### Some of these impacts moderated toward the end of 2020...

By the third quarter and in the initial part of the fourth quarter, some of these impacts had moderated, and there was an increase in the labor force participation rate and job growth. However, the unemployment rate has remained elevated, hours worked have not fully recovered, and several sectors including manufacturing remain smaller than a year ago.

... but the impact of the pandemic on the most vulnerable is likely to have been severe.

Although poverty declined in 2019, in large part due to government transfers, COVID-19 is expected to have had significant impacts on the most vulnerable. Based on the projected contraction in GDP, and simulations of the impact on household incomes and consumption, the poverty rate is projected to have increased by 2.6 percentage points to 8.8 percent in 2020 (see Box 2). Employment impacts have been particularly severe for those workers working in lower-skilled jobs.

Population aging will add to Thailand's existing labor market challenges, but the negative impacts of aging are not inevitable.

Thailand's population is aging at a relatively low-income level compared with other countries. In the absence of government interventions, the resulting decline in the working age population will mechanically reduce labor supply and economic output over the coming decades. But policy measures are available to offset these effects by boosting labor productivity and increasing the availability of labor. Some of these policy measures – discussed in Part 2 of this report – can also be deployed to help deal with the short to medium term impacts of the pandemic.

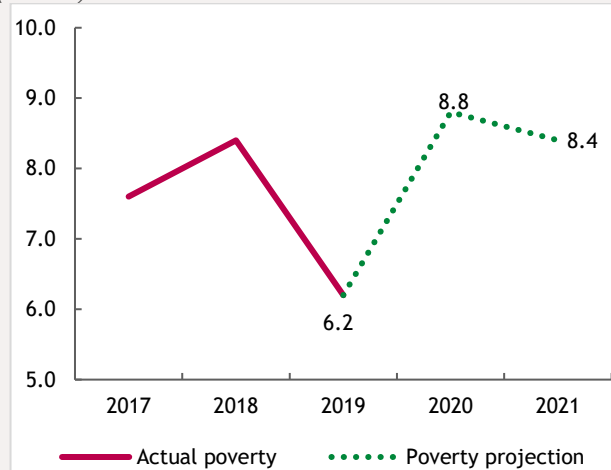
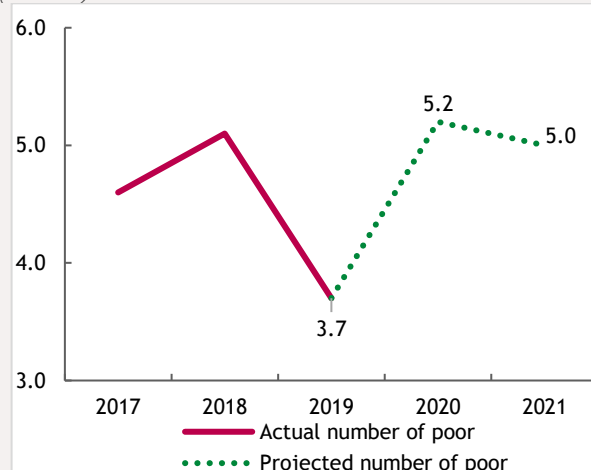
### Box 2: COVID-19 impacts on poverty and inequality<sup>11</sup>

**The impact of COVID-19 on the most vulnerable is likely to have been severe.** Around 1.5 million more people are projected to be in poverty in 2020 compared to 2019, with the total number in poverty increasing to over 5 million. Based on the upper middle-income class (UMIC) poverty line of US\$5.50/day/person (2011 PPP), the poverty rate is expected to increase from 6.2 percent in 2019 to 8.8 percent in 2020, before easing slightly to 8.4 percent in 2021. These projections are based on the aggregate GDP growth forecasts in this Economic Monitor (-6.5 percent in 2020, 4.0 percent in 2021), using simulation methods to estimate the distributional impacts on household consumption (as described in Lakner et al 2014). They also assume that the pre-pandemic decline in inequality observed between 2018 and 2019 is reversed in 2020 and 2021. COVID-19 is expected to worsen inequality given that vulnerable population groups have more limited coping mechanisms, and tend to be more reliant on (often informal) employment in tourism and services sectors, which have been particularly hard hit in 2020.

**While poverty had declined prior to the COVID-19 pandemic, this was driven mainly by redistribution rather than growth.** Thailand's poverty rate fell by more than 2 percentage points in 2019, with poverty declining in both urban and rural areas. Public assistance was the major contributor to the increases in consumption and income at the bottom of the distribution, with increases in wages, salaries, non-farm business income, in-kind receipts, and remittances each having a smaller impact. At the national level, the percentage of households receiving public assistance income increased from 53 percent in 2017 to 65 percent in 2019. As an example, the Government welfare card program benefited just over a third of households in 2019, covering 73 percent of the poor (but also 33 percent of the non-poor).

**Given that the pre-COVID decline in poverty was primarily due to increased government support, further sustained improvements are unlikely in the absence of more structural changes, particularly given the severe impact of COVID-19.** The decline in poverty in 2019 reflected positive changes in the reach of social assistance schemes in Thailand. Continued efforts to strengthen the efficiency and effectiveness of social protection schemes are important, to mitigate the impacts of COVID-19 on the poorest and most vulnerable while maintaining overall fiscal sustainability. But improvements in labor incomes, employment and productivity at the lower end of the income distribution will be necessary to ensure sustained gains in shared prosperity over the longer term.

<sup>11</sup> This box was prepared by Nadia Belhaj Hassine Belghith and Judy Yang.

**Box 2: COVID-19 impacts on poverty and inequality<sup>11</sup>****Figure B2.1: Poverty rate projection**  
(Percent)**Figure B2.2: Number of poor projection**  
(Million)

Source: Projections based on SES 2019

Note: Based on the upper middle-class poverty line of US\$5.50 per day per person (2011 PPP)

Reference: Lakner, C., M. Negre, and E. B. Prydz (2014), "Twinning the Goals: How Can Promoting Shared Prosperity Help to Reduce Global Poverty?," Policy Research Working Paper Series 7106, World Bank.

**viii. The government has deployed a large-scale package of fiscal and financial measures to mitigate the impacts of the pandemic**

**Thailand has announced substantial COVID-19 response measures.**

Measures totaling 2.2 trillion baht, or 13.1 percent of GDP have been announced since March 2020 (not including the benefits of tax relief, lower utility bills, and benefits to formal workers). The approved package was larger than that in other East Asian countries (Box 3). A response of this magnitude remains necessary given that the pandemic has had relatively severe economic effects on Thailand – resulting from its dependence on merchandise trade and tourism – despite its success in containing the direct health impacts.

**Table 5: Overview of Thailand's Planned COVID-19 Relief Measures**

|                                                                                                | Planned Amount<br>(Bln baht) | % GDP <sup>12</sup> | Discretionary fiscal | Loan guarantees/<br>other credit measures | Off-budget measures | Budget FY2020 | Budget FY2021 |
|------------------------------------------------------------------------------------------------|------------------------------|---------------------|----------------------|-------------------------------------------|---------------------|---------------|---------------|
| <b>Relief measures in Phase 1</b><br>(Announced on 10 March 2020)                              |                              |                     |                      |                                           |                     |               |               |
| Soft loans to financial institutions by Government Savings Bank<br>(Announced on 7 April 2020) | 150                          | 0.89                |                      |                                           | x                   |               |               |
| Allow GSB to allocate soft loans to non-bank financial institutions                            | 80                           |                     |                      |                                           | x                   |               |               |
| Soft loans to promote employment by Social Security Office                                     | 30                           | 0.18                |                      |                                           | x                   |               |               |
| Measures to assist people affected by the COVID-19 from central fund                           | 20                           | 0.12                |                      |                                           |                     | x             |               |

<sup>12</sup> % of GDP is based on the nominal GDP of 2019 (16,875.89 billion Baht)

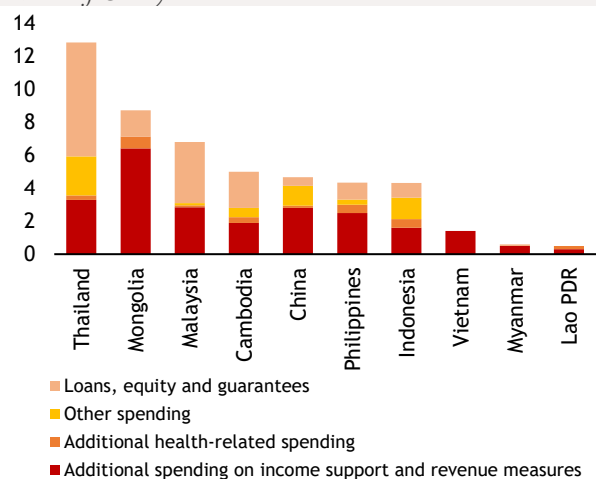
|                                                                                                                                                                                         | Planned Amount<br>(Bln baht) | % GDP <sup>12</sup> | Discretionary<br>fiscal | Loan<br>guarantees/<br>other credit<br>measures | Off-budget<br>measures | Budget<br>FY2020 | Budget<br>FY2021 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|---------------------|-------------------------|-------------------------------------------------|------------------------|------------------|------------------|
| Measures to postpone principal payments, reduce interest and extend repayment period for debtors affected by COVID-19                                                                   |                              |                     |                         | x                                               |                        |                  |                  |
| <b>Relief measures in Phase 2</b><br>(Announced on 24 March 2020)                                                                                                                       |                              |                     |                         |                                                 |                        |                  |                  |
| Emergency loans for self-employed without collateral by GSB and BAAC                                                                                                                    | 40                           | 0.24                |                         |                                                 | x                      |                  |                  |
| Special credit facilities for employees with collateral by GSB                                                                                                                          | 20                           | 0.12                |                         |                                                 | x                      |                  |                  |
| Soft loans for low-income group to the Office of the Government Pawnshop by GSB                                                                                                         | 2                            | 0.01                |                         |                                                 | x                      |                  |                  |
| Soft loans to support SMEs in tourism-related businesses by Small and Medium Enterprise Development Bank                                                                                | 10                           | 0.06                |                         |                                                 | x                      |                  |                  |
| <b>Relief measures in Phase 3</b><br>(Announced on 7 April 2020)                                                                                                                        |                              |                     |                         |                                                 |                        |                  |                  |
| Ministry of Finance Decree to borrow to fund the government's relief cash transfers, medical response and economic and social rehabilitation in the aftermath of the COVID-19 pandemic. | 1,000                        | 5.93                | x                       |                                                 |                        |                  |                  |
| Bank of Thailand Decree to provide soft loans to SMEs via commercial banks and Specialized Financial Institutions (SFIs).                                                               | 500                          | 2.96                |                         | x                                               |                        |                  |                  |
| Bank of Thailand Decree to stabilize the financial market by setting up Corporate Bond Liquidity Stabilization Fund (BSF)                                                               | 400                          | 2.37                |                         | x                                               |                        |                  |                  |
| <b>Budget of Fiscal Year 2021</b>                                                                                                                                                       |                              |                     |                         |                                                 |                        |                  |                  |
| Expenditures for alleviating and rectifying impact of COVID-19                                                                                                                          | 40.3256                      | 0.24                |                         |                                                 |                        |                  | x                |
| <b>Total relief measures and expenditures</b>                                                                                                                                           | <b>2,212</b>                 | <b>13.11%</b>       | <b>5.93</b>             | <b>5.33</b>                                     | <b>1.50</b>            | <b>0.12</b>      | <b>0.24</b>      |

Source: Office of the National Economic and Social Development Council, Budget Bureau, Fiscal Policy Office, Bank of Thailand

### Box 3: A comparative perspective on Thailand's economic response to COVID-19

At around 13 percent of GDP, the announced policy measures to respond to the pandemic in Thailand have been larger than those deployed in other East Asian countries. The average size of measures announced to date across developing EAP is estimated at around 5 percent of GDP, with considerable variation in size and breadth across countries. Across the region, nearly two-thirds of these measures were directed towards cushioning the fall in household incomes. These measures included social insurance to protect formal sector workers, labor market interventions such as wage subsidies, and social transfers to support the poor and vulnerable.

Like other countries in the region, Thailand has allocated significant resources to income support measures, including cash transfers to informal workers and farmers (see below). A relatively large proportion of the total package was also allocated to SMEs, to be provided via soft loans from state-owned banks. This reflects the importance of SMEs as a driver of incomes and employment in the Thai economy, and their need to maintain access to credit to deal with the cash flow impacts of COVID-19.

**Box 3: A comparative perspective on Thailand's economic response to COVID-19****Figure B3.1: Fiscal and non-fiscal support***(Percent of GDP)*

Source: World Bank East Asia and Pacific Economic Update, October 2020

*Fiscal measures*

**Good progress has been made in implementing measures to support some of the most vulnerable.**

Thailand has leveraged existing social assistance mechanisms and quickly set up new large-scale cash transfer programs to cover vulnerable individuals that were not previously registered in any social protection database (Table 6). This allowed coverage of informal workers, who represent more than half of the employed in Thailand. Overall, assistance has been provided in a timely manner and there have been noticeable effects on consumption spending. There have been three main categories of beneficiaries:

- *Informal off-farm workers* received 5,000 baht per month for 3 months (April to June) under the 'No-One Left Behind' scheme. At about 37 percent of monthly GDP per capita, this amount is close to the median monthly income for informal workers in most sectors and is higher than the global average of cash transfers provided in response to COVID-19. To date, over 15 million recipients have received this assistance (almost all those eligible), at a total cost of 230 billion baht (about 1.4 percent of GDP). The program was not extended beyond June.
- *Farmers* also benefited from a similar cash transfer of 5,000 baht per month for 3 months (May to July). As of November 2020, around 7.6 million farmers had received this assistance (around three quarters of those eligible), at a total cost of 114 billion baht (about 0.7 percent of GDP).
- *Social assistance beneficiaries* received top-ups to their regular programs to help them cope with the economic impact of COVID-19. A cash transfer of 1,000 baht per month was paid for 3 months (May to July) for young people up to age 6, older people, and people with disabilities. In the December quarter, state welfare card holders are receiving increased payments totaling 500 Baht/person/month; the existing cash transfer is 200-300 baht/person/month.

Nevertheless, there were some teething issues in implementation, and the expiration of benefits is likely to have had adverse welfare effects.

Implementation of these programs has faced some challenges, particularly in determining eligibility. While many of the most vulnerable in Thailand have now benefitted from government support, some vulnerable groups are likely to have missed out, including informal migrant workers. Moreover, several of the measures expired in June and July, at a time when the economic impacts of COVID-19 were particularly acute. Informal workers and farmers may have saved a portion of the transfers received over the three-month period in order to smooth their consumption in subsequent months. Nevertheless, the expiration of these benefits is already likely to have had significant impacts on the incomes and welfare of these groups, and these impacts may persist in the absence of further targeted support.

**Table 6: Implementation of Key Fiscal Measures under the 1-Trillion-Baht Emergency Decree**

|                                                                                                    | Planned amount<br>(Bln baht) | % GDP       | Approved amount <sup>13</sup><br>(Bln baht) | Disbursed amount <sup>14</sup><br>(Bln baht) | Target recipients<br>(Mln) | Total recipients<br>(Mln) | Timeframe           |
|----------------------------------------------------------------------------------------------------|------------------------------|-------------|---------------------------------------------|----------------------------------------------|----------------------------|---------------------------|---------------------|
| <b>1) Healthcare measures</b>                                                                      | <b>45.0</b>                  | <b>0.27</b> | <b>2.56</b>                                 | <b>0.52</b>                                  |                            |                           |                     |
| <b>2) Relief measures for households, farmers, entrepreneurs</b>                                   | <b>555.0</b>                 | <b>3.29</b> | <b>365.66</b>                               | <b>310.59</b>                                |                            |                           |                     |
| 5,000 Baht cash transfer to the informal workers for 3 months - "No-One Left Behind" <sup>15</sup> | 170.0                        | 1.01        | 170.0                                       | n/a                                          | 16.00                      | 15.30                     | Apr - Jun 2020      |
| Farmer assistance of 5,000 Baht for 3 months                                                       | 150.0                        | 0.89        | 150.0                                       | 114.31                                       | 10.00                      | 7.59                      | May - Jul 2020      |
| 1,000 Baht cash transfer to the state welfare card holders for 3 months                            | 3.49                         | 0.02        | 3.49                                        | 3.49                                         | 1.16                       | 1.16                      | May - Jul 2020      |
| 1,000 Baht cash transfer to the vulnerable groups for 3 months                                     | 20.35                        | 0.12        | 20.35                                       | 20.35                                        | 6.78                       | 6.78                      | Jun - Oct 2020      |
| Top-up of the state welfare card holders of 500 Baht for 3 months                                  | 20.92                        | 0.12        | 20.92                                       | n/a                                          | 13.95                      | n/a                       | Oct - Dec 2020      |
| 15,000 Baht cash transfer to the formal workers by Social Security Office                          | 0.89                         | 0.01        | 0.89                                        | 0.89                                         | 0.059                      | 0.059                     | Aug - Oct 2020      |
| Available for additional (as yet unannounced) measures                                             | 189.34                       | 1.13        |                                             |                                              |                            |                           |                     |
| <b>3) Recovery and rehabilitation measures</b>                                                     | <b>400.0</b>                 | <b>2.37</b> | <b>120.07</b>                               | <b>9.73</b>                                  |                            |                           |                     |
| "We Travel Together" Program                                                                       | 20.0                         | 0.12        | 20.0                                        | n/a                                          |                            |                           | Jul 2020 - Jan 2021 |
| Uplifting large agricultural plots with new technology and market integration                      | 13.9                         | 0.08        | 13.9                                        | n/a                                          | 0.26                       |                           | Aug 2020 - Sep 2021 |
| Co-payment program of not more than 3,000 Baht/person                                              | 30.0                         | 0.18        | 30.0                                        | 9.22                                         | 10.0                       | 8.77                      | Oct - Dec 2020      |
| Promotion of employment on new graduates in public and private sectors                             | 19.46                        | 0.12        | 19.46                                       | n/a                                          | 0.26                       |                           | Oct 2020 - Oct 2021 |
| Other approved measures                                                                            | 36.69                        | 0.21        | 36.71                                       | n/a                                          |                            |                           | FY2021 onward       |
| Available for additional (as yet unannounced) measures                                             | 279.93                       | 1.66        |                                             |                                              |                            |                           |                     |

Source: <http://thaime.nesdc.go.th/>, Fiscal Policy Office

<sup>13</sup> As of 3 November 2020

<sup>14</sup> As of 11 November 2020

<sup>15</sup> This measure also had the approved amount of 70 billion Baht from the budget FY2020.

**Only a small proportion of authorized spending to create jobs, build local infrastructure, and strengthen communities has been disbursed, but spending in these areas is expected to ramp up in 2021.**

Of the 1 trillion-baht package, 400 billion baht is to be spent on recovery and rehabilitation measures – focused on promoting domestic tourism and private consumption – and 45 billion baht on health care measures. Little of this spending disbursed in FY2020. But two recovery programs - worth a total of 50 billion baht - are expected to have made a significant contribution to GDP growth in the first quarter of FY2021 (around a quarter of a percentage point):

- The “We Travel Together” program, which has recently been extended to January 2021. This program provides copayments to domestic tourists for accommodation, food, and flight fare charges. The planned cost is 20 billion baht.
- A program to incentivize consumption through a co-payment of up to 3,000 baht/person. Recipients are required to put money in an assigned e-Wallet and spend at registered merchants. The recipient pays half of the purchase cost, and the government pays the remainder directly to the merchant. As of November, the government has disbursed around 7 billion baht through this program, or 23 percent of the planned 30-billion-baht amount.

Overall, of the authorized 1 trillion-baht package, it is expected that a further 520 billion baht will be disbursed in FY2021, with a significant proportion of this spending to be focused on recovery and rehabilitation measures. A further 100 billion baht is expected to be disbursed in FY2022.

#### **Box 4: Social protection responses to the COVID-19 pandemic in East Asia and the Pacific<sup>16</sup>**

**Among the 15 countries in East Asia and the Pacific, 13 countries have implemented expansions of their social assistance programs.** In March 2020, China implemented a social assistance program including one-off payments and price subsidies to people affected by the lockdowns. During the second half of March, Indonesia, Malaysia, Mongolia, the Philippines, Thailand announced social assistance expansions, followed by Vietnam in early April. Cambodia, Myanmar and Timor-Leste announced in May and June. Fiji, Samoa and Tonga followed with payments in August and September.

**The social assistance expansion included in-kind assistance, subsidies and cash transfers, both conditional and unconditional.** Cash transfers were expanded in many ways. Some countries increased the amounts paid to existing beneficiaries through the same pre-COVID programs. Others temporarily added new beneficiaries to the existing program. Others created completely new programs specifically meant for the COVID-19 relief. In some cases, these new programs paid benefits only to those not already receiving other social assistance benefits. In other cases, the new benefits were paid to households that already were receiving other social assistance benefits of some kind. Some countries paid only once as in Samoa and Timor-Leste, while other countries involved multiple payments as in Cambodia and Thailand.

**Table B4.1 shows the spending figures associated with the different types of expansion.** The weighted average of social assistance spending excluding China shows an increase from 0.5 to 1.3 percent of GDP. This hides a large variation across the region with Mongolia and Thailand increasing spending by about 2.0 percent of GDP and Philippines and Malaysia following with 1.0 and 0.8 percent of GDP, respectively. The relatively low spending figure in Indonesia is somewhat misleading given the significance of in-kind food aid in the social assistance package. The increase in spending in Vietnam is notably modest reflecting the failure to meet the original target for payments to informal sector workers; the original planned spending would have been double the ultimate amount.

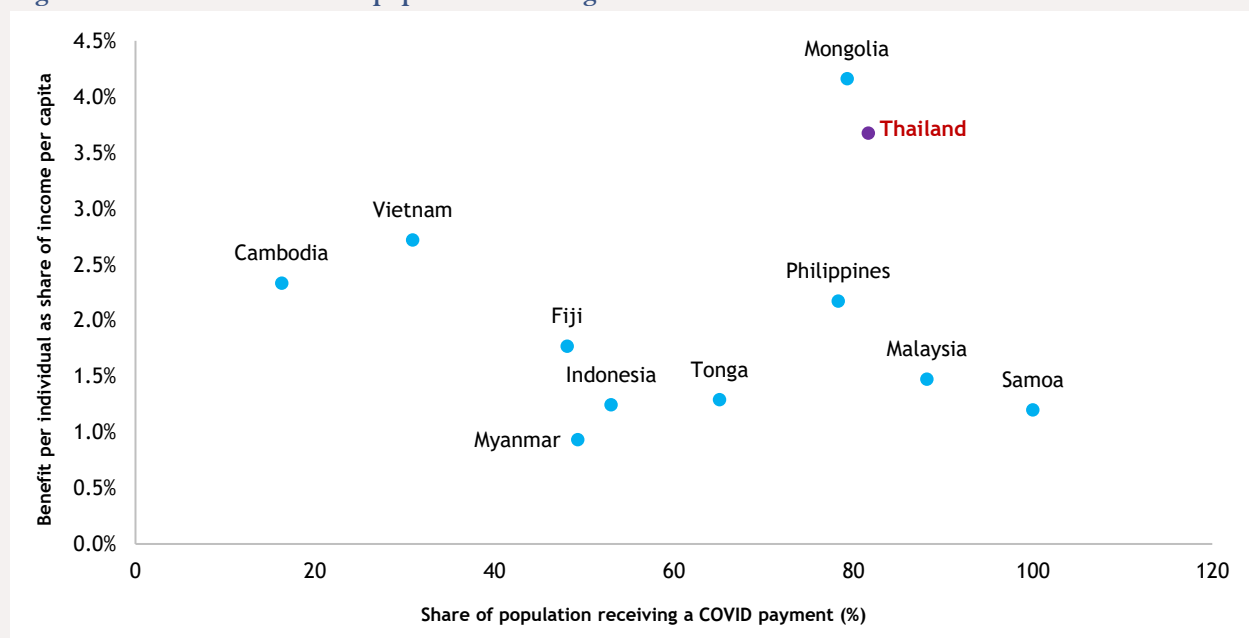
<sup>16</sup> This box was prepared by Francesca Lamanna and Robert Palacios.

**Box 4: Social protection responses to the COVID-19 pandemic in East Asia and the Pacific<sup>16</sup>****Table B4.1: Spending on social assistance before and during the COVID-19 pandemic***Share of GDP (%)*

| Country          | Pre-COVID spending | Pre-COVID including top up spending | Pre-COVID beneficiaries new program spending | New beneficiaries spending | Total new spending | Total spending |
|------------------|--------------------|-------------------------------------|----------------------------------------------|----------------------------|--------------------|----------------|
| China            | n/a                | n/a                                 | n/a                                          | n/a                        | 0.16               | n/a            |
| Cambodia         | 0.08               | 0.08                                | -                                            | 0.30                       | 0.30               | 0.38           |
| Fiji             | 0.59               | 0.78                                | -                                            | 0.07                       | 0.26               | 0.85           |
| Indonesia        | 0.28               | 0.35                                | -                                            | 0.31                       | 0.38               | 0.66           |
| Lao              | 0.04               | -                                   | -                                            | -                          | -                  | 0.04           |
| Malaysia         | 0.53               | n/a                                 | n/a                                          | 0.74                       | 0.77               | 1.30           |
| Mongolia         | 1.40               | 3.30                                | -                                            | -                          | 1.90               | 3.30           |
| Myanmar          | 0.08               | 0.10                                | -                                            | 0.36                       | 0.38               | 0.46           |
| Philippines      | 0.74               | 0.91                                | -                                            | 0.80                       | 0.98               | 1.70           |
| Papua New Guinea | 0.01               | -                                   | -                                            | -                          | -                  | 0.01           |
| Samoa            | 0.73               | 0.86                                | -                                            | 0.33                       | 0.47               | 1.20           |
| Thailand         | 0.77               | 0.92                                | 1.70                                         | 0.40                       | 2.20               | 3.00           |
| Timor-Leste      | 8.70               | 8.70                                | 2.50                                         | 1.00                       | 3.50               | 12.20          |
| Tonga            | 0.49               | 0.57                                | -                                            | 0.27                       | 0.35               | 0.84           |
| Vietnam          | 0.66               | 0.14                                | -                                            | 0.12                       | 0.25               | 0.91           |

*Source: Authorities; World Bank staff calculations**Notes: Spending through September 30, 2020 as a share of 2019 GDP. China reflects only central government subsidy increase.*

**Figure B4.1 compares benefit levels with the share of the population receiving a transfer.** Mongolia and Thailand have relatively generous COVID benefits and very high population coverage while the benefit levels are much lower in Indonesia and Myanmar as well as in the Pacific islands. Finally, it is worth noting that several countries including Fiji, Malaysia and the Philippines are already planning to extend the COVID response social assistance payments in 2021.

**Figure B4.1: Benefit levels and population coverage***Source: Authorities; World Bank staff calculations*



### *Private Sector Measures*

**Thailand's firm support measures focused on easing access to finance through soft loans and restructuring as well as tax relief.**

Of the real sector support measures included in the three policy packages enacted since early March, around 25 percent have focused on easing access to finance for firms, predominantly through soft loans and deferral or restructuring of debt obligations.

- Soft loans include 150 billion baht in low-interest loans from the Government Savings Bank (GSB), 30 billion baht from the Social Security Office (SSO), and 500 billion baht from BOT for on-lending via a dedicated SME lending program among commercial banks (the government covers the first 6 months of interest and guarantees up to 60-70 percent of these loans).
- The BOT announced a loan payment holiday of 6 months for SMEs that expired on October 22, suspension of principal and reduction of interest on the debts to SFIs. Following the expiration of the payment holiday, the BOT has extended the timeframe for commercial banks on updating their asset classifications and provisioning to the end-2020 to give additional time for any necessary debt restructuring with SME clients.

**SMEs, an important segment of the Thai economy, face credit constraints.**

In 2018, SMEs contributed to 42.4 percent of Thailand's GDP, with small enterprises accounting for 30 percent of GDP and medium enterprises for 12.4 percent of GDP (SMEs White Paper 2018), and accounted for 80.44 percent of all private sector employment in Thailand.<sup>17</sup> Although SMEs are an important source of employment and contribution to Thailand's GDP, they lag behind larger enterprises in terms of access to finance. This has been exacerbated by the COVID-19 crisis. A survey by the Asia Foundation found that 70 percent of the national workforce has seen their monthly income fall by an average of 47 percent, and 11 percent of small businesses are at risk of closing permanently.<sup>18</sup>

**After the lifting of domestic restrictions, authorities improved SME soft loan programs within the existing response package.**

Overall implementation of soft loans programs for SMEs have fallen below expectations. For instance, the implementation of the Bank of Thailand soft loan program has proven challenging with disbursement at 24 percent (or 120.6 billion Baht), possibly due to risk aversion on the part of commercial banks. Disbursement of soft loans to SMEs by specialized financial institutions also proved challenging: GSB attained 6 percent while the SME bank attained 4 percent. As a result, authorities moved to addressing bottlenecks in existing soft loan programs by expanding coverage, addressing credit risk and extending the time frame.

- In August 2020, the Thai Credit Guarantee Corporation (TCG), a government-owned agency, announced credit guarantees for qualified SMEs that have yet to access to soft loan program. This credit guarantee facility would commence from the third year onward and run for a maximum period of eight years.
- The cabinet also approved the reallocation of remaining credit amount of the previously announced credit measures in March and April 2020 to extend the list of SMEs and individuals eligible for soft loans offered by the GSB and the SME Bank. This allowed GSB to extend new loans to tourism-related SMEs directly and through financial institutions in total of 15 billion Baht, including retail SMEs and individuals whose jobs are affected from the COVID-19 in total of 10 billion Baht. The revision also allowed SME

<sup>17</sup> [www.oecd-ilibrary.org/industry-and-services/financing-smes-and-entrepreneurs-2018\\_fin\\_sme\\_ent-2018-en](http://www.oecd-ilibrary.org/industry-and-services/financing-smes-and-entrepreneurs-2018_fin_sme_ent-2018-en)

<sup>18</sup> *Enduring the Pandemic: Surveys of the Impact of Covid-19 on Thai Small Businesses* Asia Foundation (2020).

Bank to extend new loans to SMEs directly or indirectly impacted from COVID-19 not limited to only tourism sector as previously announced (see Table 7).

- In October 2020, the Bank of Thailand extended the window for soft loan applications from the financial institutions by six months, which was previously set to expire in October 2020. The Bank of Thailand also allowed companies listed in the Market for Alternative Investment (MAI) stock exchange to apply for soft loans.

### The BOT implemented measures to support financial stability.

Measures to support stability in the financial sector include:

- Corporate Bond Stabilization Fund (BSF) established by the BOT to provide bridge financing of up to 400 billion baht by December 31, 2020 to high-quality firms with bonds maturing during 2020, at higher-than-market 'penalty' rates, in case typical market-based solutions, e.g. refinancing of maturing bonds through bank loans or new bond issuance, are insufficient.
- BOT purchase of government bonds in the secondary market to ensure the normal functioning of the government bond market (100 billion baht in March 2020).
- Special facility to provide liquidity for mutual funds through banks.
- In June 2020, the BOT imposed restrictions on dividends payouts by financial institutions, which were lifted in November 2020. However, the distribution of dividends should not exceed the last years payout ratio and half of this year's net profit.

Table 7: Revision of the Previously Announced Credit Measures

|                                                                                                                 | Amount<br>(Bln baht) | Detail                                                                                                                                                                                        | Timeframe      |
|-----------------------------------------------------------------------------------------------------------------|----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| <b>Relief measures in Phase 2</b><br>(Announced on 24 March 2020)                                               |                      |                                                                                                                                                                                               |                |
| <b>Special credit facilities for employees with collateral by GSB</b>                                           | 20                   | The eligible entity was limited to individuals with regular incomes affected by the COVID-19                                                                                                  | Mar - Dec 2020 |
| Amount of the approved loan                                                                                     | 1.012                | Data as of 10 Aug, 2020                                                                                                                                                                       |                |
| Remaining amount                                                                                                | 18.988               |                                                                                                                                                                                               |                |
| <u>Revision announced on 18 August 2020</u>                                                                     |                      |                                                                                                                                                                                               |                |
| - Grass-root empowering loan                                                                                    | 10                   | Allocate the remaining amount totaled 10 billion Baht to allow the GSB to extend new loans to SMEs, freelancers, individuals with regular incomes, and individuals affected from the COVID-19 | Until Dec 2020 |
| - Loan scheme to support the recovery of tourism industry                                                       | 5                    | Allocate the remaining amount totaled 5 billion Baht to allow the GSB to extend new loans to SMEs in tourism-related businesses                                                               | Until Dec 2020 |
| <b>Soft loans to support SMEs in tourism-related businesses by Small and Medium Enterprise Development Bank</b> | 10                   |                                                                                                                                                                                               | Mar - Dec 2020 |
| Amount of the approved loan                                                                                     | 0.417                | Data as of 10 Aug, 2020                                                                                                                                                                       |                |
| Remaining amount                                                                                                | 9.583                |                                                                                                                                                                                               |                |
| <u>Revision announced on 18 August 2020</u>                                                                     |                      |                                                                                                                                                                                               |                |
| - Expand list of eligible SMEs, not limited to only tourism related businesses                                  |                      | Allow SME Bank to extend new loans to SMEs affected by the COVID-19 (both individuals and juristic persons) from the remaining amount.                                                        | Until Dec 2020 |

|                                                                                                                                  | Amount<br>(Bln baht) | Detail                                                                                                                                                                                                                         | Timeframe           |
|----------------------------------------------------------------------------------------------------------------------------------|----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| <b>Relief measures in Phase 3</b><br>(Announced on 7 April 2020)                                                                 |                      |                                                                                                                                                                                                                                |                     |
| <b>Soft loans to non-bank financial institutions by Government Savings Bank</b>                                                  | <b>80</b>            | Allow the GSB to allocate the amount of 80 billion Baht from 150 billion Baht soft loan to financial institutions and extend new loans to non-bank financial institutions.                                                     | Apr - Dec 2020      |
| <u>Revision announced on 26 May 2020</u>                                                                                         |                      |                                                                                                                                                                                                                                |                     |
| - Soft loan to general SMEs by GSB directly or through financial institutions                                                    | 10                   | Allocate 10 billion Baht from the planned amount of soft loans to non-bank financial institutions to extend new loans to general SMEs                                                                                          | Until Dec 2020      |
| <b>Remaining planned amount of soft loans to non-bank after the revision</b>                                                     | <b>70</b>            |                                                                                                                                                                                                                                |                     |
| Amount of the approved loan                                                                                                      | 59.857               | Data as of 10 Aug, 2020                                                                                                                                                                                                        |                     |
| Remaining amount                                                                                                                 | 10.143               |                                                                                                                                                                                                                                |                     |
| <u>Revision announced on 18 August 2020</u>                                                                                      |                      |                                                                                                                                                                                                                                |                     |
| - Soft loan to tourism-related SMEs by the GSB through financial institutions                                                    | 10                   | Allocate the remaining amount totaled 10 billion Baht to allow the GSB to extend new loans through financial institutions to SMEs in tourism-related businesses                                                                | Until Dec 2020      |
| <b>Bank of Thailand Decree to provide soft loans to SMEs via commercial banks and Specialized Financial Institutions (SFIs).</b> | <b>500</b>           |                                                                                                                                                                                                                                | Apr - Oct 2020      |
| Amount of the approved loan                                                                                                      | 120.572              | Percent of approved loan by size of SMEs received the loan:<br>0 - 20 Mln Baht: 25.9%<br>20 - 100 Mln Baht: 35.7%<br>100 - 500 Mln Baht: 38.3%<br>(Data as of 9 Nov 2020)                                                      |                     |
| <u>Revision announced on 16 October 2020</u>                                                                                     |                      |                                                                                                                                                                                                                                |                     |
| - Extend the soft loans application by six months                                                                                |                      |                                                                                                                                                                                                                                | Oct 2020 - Apr 2021 |
| - Allow companies listed on the Market for Alternative Investment to apply for the loans                                         |                      | The rules did allow small and medium-sized enterprises (SMEs) that are performing loan customers of financial institutions with credit lines of no more than 500 million baht as of Dec 31, 2019, to apply for the loan scheme |                     |

Source: Bank of Thailand, Cabinet Resolutions

## 2. Outlook: An Uncertain and Protracted Recovery



### i. Thailand's economic recovery is projected to be gradual with high elements of uncertainty

**The Thai economy is projected to contract sharply in 2020.**

Economic growth is projected at -6.5 percent in 2020, revised up by 1.8 percentage points from the October 2020 East Asia and Pacific Economic Update.<sup>19</sup> This reflects the stronger-than-expected performance of the economy in the third quarter, due to the partial turnaround in domestic demand following successful containment of COVID-19. Private consumption is expected to have contracted by 1.3 percent due to mobility restrictions, job losses and income reductions, despite partial cushioning through social assistance from the government.<sup>20</sup> Investment is projected to have declined by 4.4 percent due to high uncertainty related to the pandemic, hurting business sentiment. Political tensions were also elevated, with continued anti-government protests since July 2020, causing further uncertainty and loss of confidence. Meanwhile, the external sector was depressed. Services exports have suffered a severe contraction as international border restrictions remain in place and appetite to travel is low. Goods exports have been hit by deteriorating external goods demand.

<sup>19</sup> [www.worldbank.org/en/region/eap/publication/east-asia-pacific-economic-update](http://www.worldbank.org/en/region/eap/publication/east-asia-pacific-economic-update)

<sup>20</sup> See detailed analysis in part 2



**The forecast considers substantial uncertainty surrounding the pandemic and its associated impacts.**

The outlook in this report is predicated on several key assumptions associated with the crisis. But the dynamics of the pandemic and hence the impact on economic growth remain highly uncertain. The forecast is based on the following considerations:

- a. The recent COVID-19 outbreak will be relatively well-contained, and there will be no re-imposition of stringent domestic mobility restrictions. Mobility will return to pre-COVID levels and remain steady over the medium term.
- b. Slow reopening of international borders. Owing to the resurgence of new cases regionally and globally, the reopening of the country to foreign tourists is likely to be slow and gradual until the second half of 2021.<sup>21</sup> By then, the government would have only granted special tourist visas to a limited number of tourists.
- c. Gradual expansion of vaccine coverage. Following the recent global progress in the development and rollout of vaccines, Thailand has also joined the same path, with the government securing a total of 63 million doses of vaccine to vaccinate almost half of the population. It is expected that vaccine rollout will be implemented throughout H2 2021. The availability of a vaccine is expected to bolster growth in the service sector, especially tourism.
- d. Persistently subdued global economic recovery. Following an estimated contraction of 4.4 percent in 2020, global growth is projected at 4.0 percent in 2021, with heightened downside risks.<sup>22</sup> Global trade is expected to recover gradually, partly reflecting muted global investment and business confidence. Recovery in regional trading partners will benefit Thailand's export prospects. China, Japan and ASEAN account for almost 50 percent Thailand's exports.
- e. Stabilizing commodity prices. With the exception of the oil price, most commodity prices have rebounded since the second half of 2020. Commodity prices are projected to stabilize in the medium term.
- f. Scarring effect of the shock to potential GDP. The deep downturn this year is projected to damage potential output through lower productivity, investment and human capital. High uncertainty and firm closures will harm investment, while job loss and school closures will lead to weak labor supply and lower human capital.

**The economy is expected to recover partially in 2021 before accelerating in 2022...**

Growth in 2021 is projected to rebound to 4.0 percent in 2021<sup>23</sup> before picking up to 4.7 percent in 2022, with GDP returning to its pre-COVID level in that year (Figure 32). However, even in 2022, economic activity is projected to be 6.7 percent below the pre-pandemic projection, a larger shortfall than that of the overall EAP region (around 3 percent). This is due Thailand's relatively high dependence on the external sector, the recovery of which is projected to be gradual, in line with the weak outlook for tourism and expectations of a slow recovery in key trading partners. Growth in 2021 will be supported by stronger domestic demand, as mobility is expected to resume to the pre-pandemic level in the first half of 2021. Private consumption will recover as consumer confidence improves and the shock to household incomes is partly cushioned by social assistance. Growth in 2022 will pick up as confidence continues to improve and uncertainty dissipates, driving a

<sup>21</sup> Bank of Thailand Analyst Meeting No.3/2020, October 2020

<sup>22</sup> Global Economic Prospect, January 2020, World Bank.

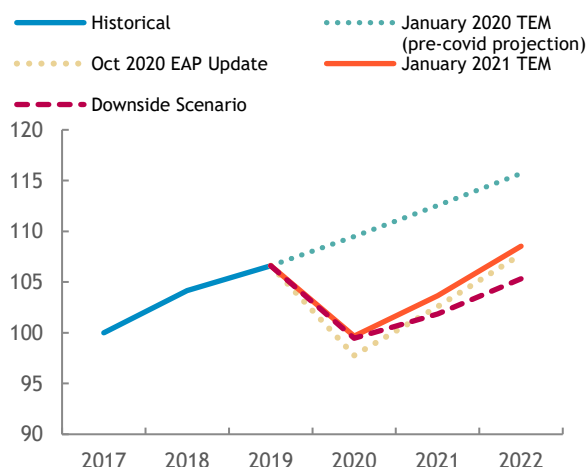
more robust recovery in consumption and investment. In particular, recovery from the pandemic and a reduction in economic and political uncertainty would help revive private investment in the Eastern Economic Corridor, which was developing quickly prior to COVID-19 but where progress has since slowed (Box 5).

**... but this partial rebound masks a loss in supply potential, which if sustained would constrain long-term growth.**

Compared with pre-pandemic projections, the level of potential GDP is expected to be substantially lower over the 2020 to 2022 period. In 2022, potential growth is estimated to be 1.4 ppts lower compared to the pre-pandemic rate (Figure 33). The rapidly declining share of the working-age population, slow factor reallocation and the large drop in the GDP due to the pandemic have all contributed to relatively large potential output losses in Thailand. If unaddressed, lower potential growth is likely to constrain actual growth. Studies suggest that major epidemics have an adverse effect on labor productivity, which is estimated to be 6 percent lower, on average, in affected countries after five years. COVID-19 is therefore likely to exacerbate the trend decline in productivity in Thailand observed since the Asian Financial Crisis. However, these impacts can be mitigated through structural reforms, particularly in the manufacturing and services sectors.<sup>24</sup>

**Figure 32: Output will only return to pre-pandemic level in 2022**

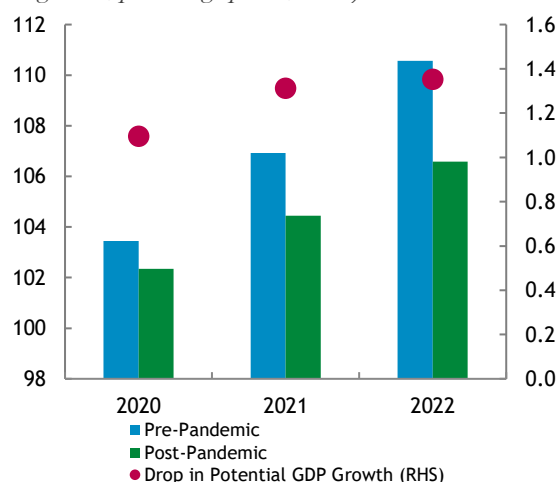
(Index, 2017 GDP = 100)



Source: NESDC; World Bank staff calculation

**Figure 33: The pandemic has damaged potential GDP**

(Potential output, index, 2019 = 100, LHS; loss in Potential GDP growth, percentage points, RHS)



Source: World Bank staff calculation

Note: All figures are forecast values, projected before the pandemic (2019) and after the pandemic (Q3 2020)

**Weak exports of goods and services are expected to substantially narrow the current account surplus**

The current account surplus is forecast to narrow to 0.8 percent of GDP in 2020. Tourism-related service exports, a major contributor to the Thai economy, are expected to have remained low due to ongoing border closures. Exports of goods are also projected to have declined substantially before recovering moderately in 2021. This is due to continued weak global demand and partial recovery in Thailand's major trading partners (such as the United States), that are still reeling from the COVID-19 shock.

<sup>24</sup> Thailand Manufacturing Firm Productivity Report, June 2020.

**The fiscal deficit will remain relatively high in FY2021, before narrowing in FY2022.**

As implementation of the debt-financed 1 trillion-baht pandemic relief package continues, Thailand's fiscal deficit is projected to widen from 5.9 percent of GDP in FY2020 to 6.5 percent of GDP in FY2021. The deficit is expected to narrow to 3.1 percent of GDP in FY2022 as these temporary relief measures expire and revenues and spending return closer to pre-COVID levels. As a result of the fiscal expansion, public debt is expected to increase to above 55 percent of GDP in 2022 (Table ES1), edging closer to the statutory debt limit of 60 percent of GDP. But debt will peak below this limit assuming consolidation in spending from FY2022 onwards and a continued recovery in economic activity. Over the longer term, measures to expand the tax base will likely be required to ensure sufficient fiscal space for increased social protection and aging-related spending needs.

**Monetary policy is projected to remain accommodative to support the recovery.**

Monetary policy faces the zero lower bound constraint with the policy rate at 0.5 percent, leaving little room for further cuts. In addition, the required reserve ratio stands at 1 percent (of previous period's average levels of deposits), leaving little room for decreasing it to induce liquidity into the financial system. Other available monetary policy tools such as targeted quantitative easing measures will likely put pressure on the Bank of Thailand's liquidity reserves. Inflation is projected to remain near the lower end of the inflation target.

**Box 5: Recent progress on the Eastern Economic Corridor (EEC)**

**Established in 2018, the EEC is a special economic zone (SEZ) including parts of Chachoengsao, Chonburi, and Rayong provinces, situated to the east of Bangkok.** The EEC is at the center of the government's Thailand 4.0 strategy to revitalize the country's economy, building on the Eastern Seaboard project which was launched in the 1980s and benefitted from significant investments from Japanese manufacturers of automobiles and electronics. The EEC aims to transform these provinces into a hub for high-tech industries and logistics, as well as a regional gateway for trade and investment.<sup>1</sup>

**The EEC is targeting twelve industries in the areas of health, digital, and logistics.** The targeted industries include healthcare, medical tourism, advanced agriculture and biotechnology, next generation automotive, intelligent electronics, automation and robotics; aviation, defense, and education and human resource development. Several of these industries may be well-placed to respond to the longer-term impacts of COVID-19 as people and businesses prioritize their health, shift towards remote and more digital ways of working, and as demand for e-commerce services increases.

**Significant tax and non-tax incentives are available for EEC investments.** Dedicated regulatory bodies expedite the review and approval process for EEC projects. Tax holidays and reductions in corporate income tax rates are available to businesses and foreign workers operating in the EEC, and foreign investors can hold a majority stake in aviation and related businesses. The EEC Office is also empowered to negotiate with individual companies on a case-by-case basis on the conditions and terms of investments.

**To improve the attractiveness of the EEC as an investment destination, connective infrastructure is being developed through public-private partnerships (PPPs).** The use of private financing has meant that the impact of the EEC on government spending has to date been limited – only 22.7 billion baht (0.1 percent of GDP) was allocated to development of the EEC in the FY21 budget. The centerpiece EEC projects include:

- i) a high-speed rail link between the Suvarnabhumi, Don Muang, and U-Tapao airports (total investment 224 billion baht), connecting Bangkok to the EEC area within 60 minutes;

**Box 5: Recent progress on the Eastern Economic Corridor (EEC)**

- ii) the U-Tapao Airport and Eastern Airport city (290 billion baht), providing a third Bangkok airport and a global gateway to the EEC;
- iii) upgrades to the Map Ta Phut (55 billion baht) and Laem Chabang (114 billion baht) seaports to boost capacity.

Contracts for each of these projects were signed in 2019, with the exception of the Laem Chabang project which is still being negotiated. The first phase of the U-Tapao Airport and rail link is due to open in 2024, while the new seaports are expected to be operational in 2026.

**While approved investments grew strongly in the pre-COVID period, 2020 has seen a substantial fall in EEC investment applications, in large part due to the COVID-19 shock and the domestic political uncertainty.** According to the Board of Investment (BOI), foreign investment applications in the EEC totaled 63.9 billion baht during January – September 2020, down by 52 percent from the same period of previous year. Total investment applications totaled 109.4 billion baht, down by 15 percent from the previous year, with domestic investors filling some of the shortfall in FDI. But a reduction in uncertainty – including via a resolution of political unrest and/or signs of a robust recovery from the economic impacts of the pandemic – would likely result in a renewal of foreign interest.

**Over the longer term, the EEC Office has identified a shortage of skilled labor as a major challenge.** A survey by the EEC Office found that demand for labor will exceed 475,000 workers in the next five years. There is an identified need for highly skilled specialists in automation and robotics, medical research, and digitization. The EEC Office has joined with the Ministry of Education; Ministry of Higher Education, Science, Research and Innovation; Ministry of Labor and others to support human resource development in the EEC. In 2021, EEC plans to train 20,000–30,000 people through a combination of privately-funded and publicly-funded courses. The EEC Office is also working with educational institutions to establish five excellence centers: the Chachoengsao Technical College, Phanom Sarakham Technical College (digital and robot center), Chonburi Technical College (rail and logistic systems), Sattahip Technical College (aviation and tourism), and Rayong Technical College (automation and robotic).

<sup>1</sup> See “[Thailand’s Eastern Economic Corridor: A Bold Strategic Move](#)”, ISEAS Yusok Ishak Institute, Issue 2020 No. 12)

## ii. Risks are severely tilted to the downside and fundamental uncertainty persists

### **Pandemic-related uncertainty remains a major risk to growth.**

Many countries have experienced a resurgence of new cases in recent months, including Thailand. The future path of the disease remains difficult to predict. If the new wave of infection in Thailand is not well contained, or if global cases continue to rise and progress on distributing a vaccine is slower than anticipated, economic activity could continue to be disrupted by social distancing measures and lockdowns. This would dampen Thailand’s outlook. Upside risks include more effective management of the pandemic as well rapid deployment of highly effective vaccines globally and domestically. This would trigger a faster easing of social distancing and a stronger recovery in activity, particularly in tourism.

### **This could hinder the recovery trajectory and bring growth down further.**

In such a scenario where downside risks materialize, growth could drop further to 2.4 percent in 2021 and 3.4 percent in 2022. If the government cannot contain the recent second wave of infection, where cases have reached record highs after several months, this could trigger another round of stringent mobility restrictions and delay the reopening of borders. Private consumption in the H1 2021 could drop to levels similar to H1 2020, followed by weak growth in H2 2021, supported by vaccine



rollout. Tourism sector recovery could be even more protracted as border closures remain in place through the end of 2021.

**Fiscal pressures are likely to rise due to the pandemic response, but premature withdrawal of fiscal relief would stall the recovery.**

The ongoing roll-out of the COVID-19 response package will see further relief, recovery and rehabilitation spending in 2021. While this will cause Thailand's public debt to rise sharply, the debt trajectory remains sustainable. Moreover, fiscal risks are mitigated by the composition of the debt stock (largely in local currency) and the availability of sufficient domestic liquidity to absorb the government's refinancing needs. At this point, the greater risk is that of weak execution, poor targeting, or an earlier-than-anticipated removal of fiscal support, which would result in a slower economic recovery. Effective implementation of the fiscal stimulus and relief measures approved to date is therefore a priority. A sound economic rationale is particularly important for the 400-billion-baht worth of 'recovery and rehabilitation' measures envisaged under the package, only a small proportion of which have yet been announced or disbursed. At the same time, fiscal consolidation will be needed over the medium-term, once the economic recovery takes hold, to rebuild fiscal buffers and ensure sufficient fiscal space to fund critical spending needs.

**Improper targeting of financial support could take away resources for productive firms, and premature withdrawal of this support would risk the sustainable recovery.**

In addition to the household relief measures, the government's pandemic response also includes soft loans and financial support to firms. These measures account for around a quarter of the overall response package announced since March, but implementation has been weaker than expected. There are at least two associated risks. First, if not properly targeted at illiquid but productive firms, support may be provided to zombie and unproductive firms, which is inefficient and may expose financial sector vulnerabilities to the extent that beneficiary firms are unable to make repayments.<sup>25</sup> Second, continued weakness in disbursements of financial support or an overly hasty or poorly communicated withdrawal - before the economic recovery has fully taken hold - would adversely affect even productive firms and may lead to unnecessary business closures and loss of jobs, putting at risk the sustainable recovery of the private sector. To avoid assistance being prolonged unduly, authorities can commit to phasing it out by linking it to observable macroeconomic indicators of recovery.

**Prolonged political unrest could bring long-term consequences**

Large anti-government protests have been staged since June, and there remains significant uncertainty as to how they will be resolved. Key demands include resignation of Prayuth and his government; constitutional reforms in consultation with extra-parliamentary parties; and reform of the monarchy. Review on the economic impact of political unrest suggests that the short-term macroeconomic impacts can dissipate quickly<sup>26</sup>. However, there might be longer term consequences. Consumer and business confidence have already been undermined and private consumption and investment could be weakened further if these protests escalate. In recent months, the attention of policy makers has been drawn away from the longer-term reforms that are necessary to boost Thailand's potential output and there is a risk that this may continue.<sup>27</sup>

<sup>25</sup> East Asia Pacific Economic Update October 2020: From Containment to Recovery

<sup>26</sup> See [Thailand Economic Monitor February 2014](#), Box 2.

<sup>27</sup> Ibid

**The resumption of US-China trade tensions will weigh on Thailand's external sector recovery**

If the US-China trade tensions intensify in the aftermath of the pandemic, uncertainty over the resolution of the trade dispute will affect regional product networks. Should the tensions continue, Thailand's exports may be adversely affected due to negative effects on external demand and disruption in supply chains. This will stall the recovery of the external sector. On the other hand, gains from the recently signed Regional Comprehensive Economic Partnership and/or other trade agreements such as the Thai-EU FTA could provide some upside and enhance Thailand's participation in Global Value Chains (Box 6).

**Finally, lasting scars from the crisis could slow the restoration of potential output to pre-pandemic levels**

The COVID-19 crisis is likely to have lowered potential GDP, and further damage is possible if the pandemic continues for longer than anticipated. Rising debt acquired during the pandemic along with worsening bank balance sheets and prolonged uncertainty could pose further risks to the outlook for investment.<sup>28</sup> Job losses and school closures may have longer term impacts on skills and human capital accumulation.

**Policies to boost labor productivity and participation can help promote recovery, while addressing challenges associated with an aging population.**

Policy reforms that focus on increasing Thailand's potential output are needed to mitigate the effects of the pandemic and promote a sustainable recovery. COVID-19 struck an economy already suffering from several structural weaknesses, including a prevalence of low-quality jobs and informal employment, declining labor force participation, and a rapidly aging population. The second part of this report provides an analysis of these labor market challenges. Several policy options are outlined to help promote a sustainable recovery, by ensuring that workers have the ability and skills necessary to move into higher-productivity activities, and addressing the barriers to labor market participation faced by women and older people.

**Box 6: The Regional Comprehensive Economic Partnership<sup>1</sup>**

**On 15 November 2020, fifteen countries in East Asia and the Pacific signed the Regional Comprehensive Economic Partnership (RCEP) Agreement, creating the world's largest trading bloc.** RCEP negotiations started in 2012 with 16 countries including the 10 ASEAN countries, China, Japan, India, South Korea, Australia and New Zealand. Despite India's withdrawal in 2019, the agreement is the world's largest, encompassing 30 percent of global GDP, 27 percent of global merchandise trade, and 18 percent of global services trade.

**RCEP deepens trade and investment relations between member countries mainly through reductions in non-tariff barriers (NTBs) on goods and services trade.** The agreement focuses on NTBs as import tariffs were already relatively low among RCEP members, among which there is already a web of existing trade agreements. It harmonizes the provisions imposed by member countries on trade in goods, providing more certainty for traders and investors. In particular, the agreement aligns rules of origin for member countries, allowing them to integrate into the same production chain. This may help RCEP attract a larger share of global value chains and each member country to deepen specialization. RCEP contains relatively strong provisions to protect intellectual property (IP) which may help allay international investor concerns, in particular in South East Asian countries. RCEP also covers relevant provisions in services, including commitments by each member not to discriminate vis-à-vis other members' investors

<sup>28</sup> East Asia Pacific Economic Update October 2020: From Containment to Recovery

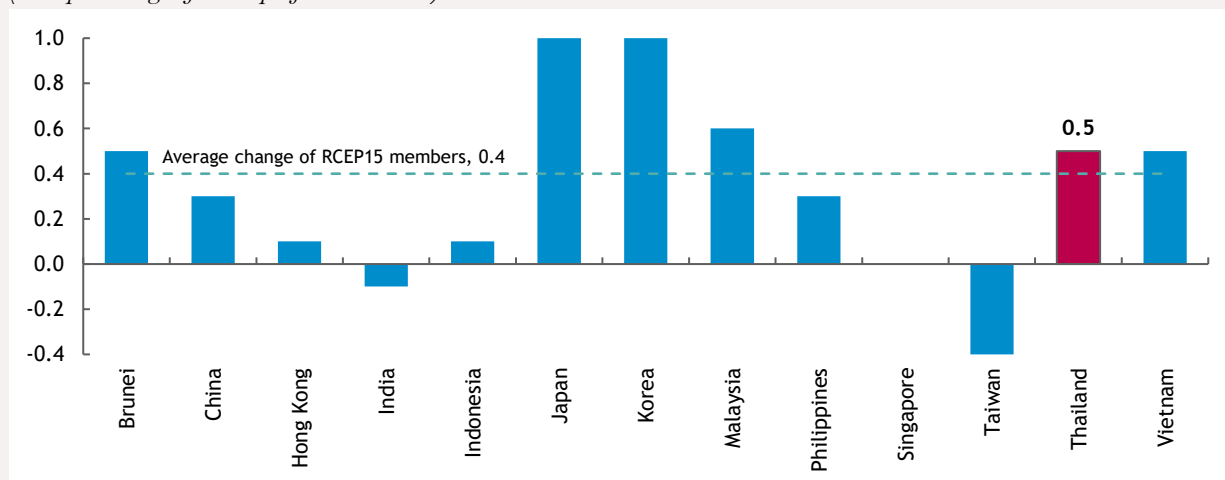
**Box 6: The Regional Comprehensive Economic Partnership<sup>1</sup>**

in several service sectors. Finally, it facilitates the temporary movement of persons for investment and trade activities.

**RCEP is expected to benefit its members, particularly at a time of global value chains (GVCs) reconfiguration, while the gains for the rest of the world would be limited.** The reduction in trade and investment barriers would increase economic integration among RCEP member countries allowing for significant gains from trade. This may be particularly important at a time when the reconfiguration of GVCs in and out of China has been accelerated by the US-China trade dispute. Recent modelling work suggests that by 2030 the agreement would increase the GDP of the trading bloc by 0.4 percent (equivalent to US\$ 170 bn), while countries outside the trading bloc would see minimal overall gains. Thailand's income could be 0.5 percent higher in 2030 as a result of its participation in RCEP.

**Figure B6.1: Real income effects of RCEP participation**

*(As a percentage of 2030 projected incomes)*



Source: Petri, P. A., & Plummer, M. G. (2020). East Asia Decouples from the United States: Trade War, COVID-19, and East Asia's New Trade Blocs, Peterson Institute

**However, Thailand and other ASEAN countries may benefit less from RCEP than from other (deeper) trade agreements.** Among RCEP signatories, ASEAN countries are likely to see more modest gains, as the existing web of trade agreements means they have less scope to reduce trade barriers with other members. Economies like Vietnam and Malaysia are expected to gain more from the recently signed Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) than from the RCEP (Petri and Plummer, 2020). Second-generation trade agreements, such as the CPTPP and Thai-EU FTA go beyond trade in goods to cover a wider range of issues such as investment, capital movement, state procurement, e-commerce, intellectual property, competition policy, labor and environment that are important for raising competitiveness. While Thailand is not a participant in the CPTPP, the planned Thai-EU Free Trade Agreement could also potentially stimulate exports and investment by a greater amount than the RCEP.

<sup>1</sup> This box is based on Cali, M., *The Significance of the Regional Economic Partnership Agreement*, Brookings Future Development Blog, November 20, 2020.

## Part 2. Thailand's Labor Market: Challenges and Policy Responses to Drive a Jobs Recovery from COVID-19



### 1. Introduction

**Thailand's labor market faced several challenges prior to the COVID-19 outbreak.**

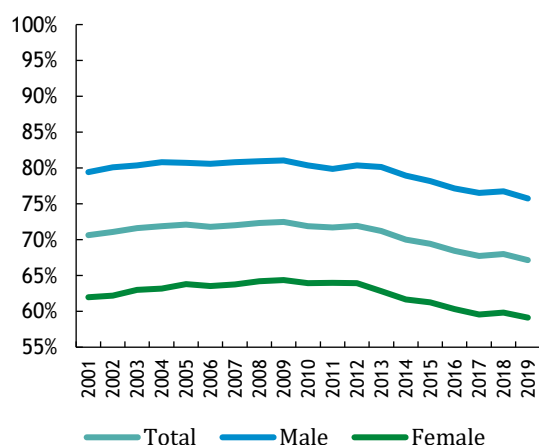
Despite low unemployment, several weaknesses are apparent in Thailand's labor market. These include declining labor force participation and large gaps between male and female labor force participation, weak job growth particularly of wage jobs, and the prevalence of low-quality, informal jobs. Wage growth has also been weak.

**Labor force participation rates have trended down in recent years.**

Labor force participation was fairly steady in the 2000s and early 2010s at just above 70 percent (Figure 34). However, people began dropping out of the labor market after 2013: between 2012 and 2019, the size of the labor force shrank by more than 1.2 million people and the labor force participation rate declined nearly 5 percentage points. Demographics have played an important role in this shift. Decomposing changes in labor force participation rates into behavioral and demographic components shows that demographic changes – that is, changes in population share in a given age group with a given labor force participation rate – have explained about half of the decline in total labor force participation since 2010 when Thailand's working age population began to shrink. Despite this decline, the current labor force participation rate is comparable to other middle- and upper-income countries in the East Asia and Pacific region such as Indonesia and China (Figure 35). Female labor

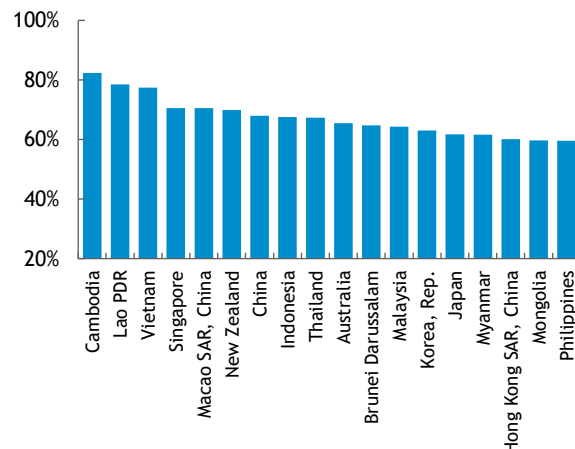
## Part 2. Thailand's Labor Market: Challenges and Policy Responses to Drive a Jobs Recovery from COVID-19

**Figure 34: Labor force participation rate in Thailand, 2001–2019**  
(Percent)



Source: Thailand Labor Force Survey 2001–2019

**Figure 35: Labor force participation rate in the East Asia and Pacific region, 2019**  
(Percent)

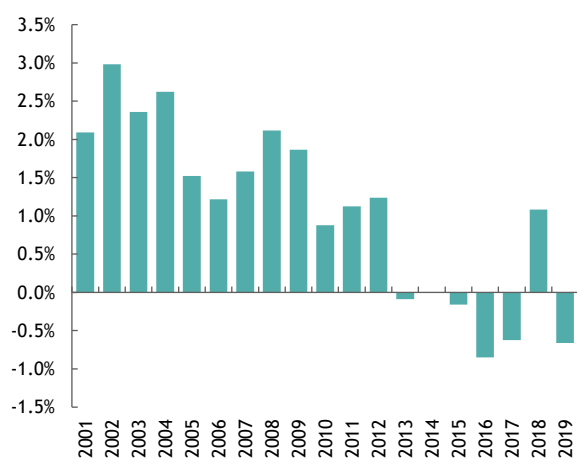


Source: ILOSTAT database.

**Job growth has been weak in Thailand in the last several years.**

Annual employment growth averaged 2 percent between 2000 and the early 2010s (Figure 36). However, job growth weakened in the middle 2010s with a brief recovery in 2018 before another fall in 2019. This occurred as economic growth stalled due to political uncertainty. Job growth in private wage employment has been stagnant for the last two decades: private wage employment made up 35 percent of all employment in 2001 versus 38 percent in 2019.

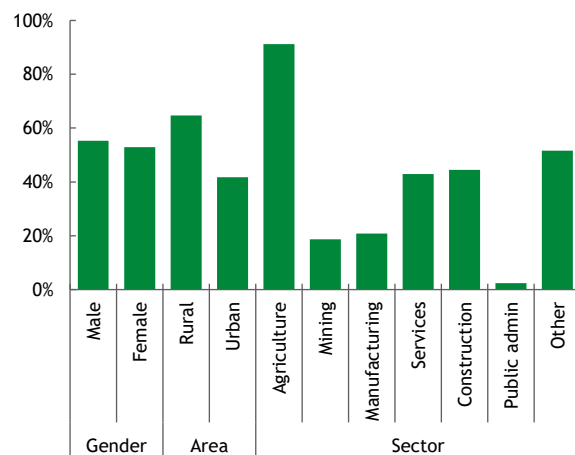
**Figure 36: Annual employment growth in Thailand, 2001–2019**  
(Percent)



Source: Thailand Labor Force Survey 2001–2019.

Note: Data are not shown for 2014 because of a change in sampling in the Labor Force Survey in 2014.

**Figure 37: Informality rate in Thailand, by gender, urban and rural areas, and sector, 2019**  
(Percent)



Source: Thailand Informal Employment Survey 2019

**Informal employment is prevalent.**

The Informal Employment Survey conducted by the National Statistics Office defines informality as employed people who are not protected by and eligible for social security (Buddhari and Rugpentum 2019). According to the survey, 54 percent of employment was informal in 2019 similar to the percentage in 2016, 2017,

and 2018. Informal employment is much more common in rural than urban areas: in 2019 two-thirds of employment was informal in rural areas versus around 40 percent in urban areas. Nearly all employment (91 percent) in the agriculture sector is informal (Figure 37). Many people work in precarious employment. About a third of employment is self-employment, a share that has not changed since 2014. While an important source of income, self-employment lacks the stability and job-linked benefits of wage employment.

**Wage growth has been limited.**

Private non-agricultural real wage growth averaged 1.0 percent between 2017 and 2019 compared to 3.9 percent in the previous 3-year period. Declines in labor market income, particularly farm and business income, between 2015 and 2017 resulted in the increase in poverty and inequality observed during that period (Yang 2020). Wage income did not have a significant impact on poverty reduction despite generally being one of the primary channels of poverty reduction globally. Wage growth has, however, been fairly broad-based across income groups.

**The COVID-19 outbreak has created several additional challenges in the labor market.**

The COVID-19 outbreak has had significant labor market impacts throughout East Asia. Malaysia saw an increase in unemployment and in the number of people outside of the labor force, Korea has seen a significant increase in labor underutilization, and several countries including Malaysia, Korea, and Vietnam have seen youth unemployment increase (ILO 2020; ILO 2020b; Rahman, Jasmin, and Schmillen 2020). The outbreak and the ensuing transmission control measures began in earnest in Thailand in March 2020 at the end of the first quarter and were in full swing by the second quarter, the most recent period for which the Labor Force Survey is available (Box 7. Labor Market Data During the COVID-19 Outbreak). Thus far, the primary impact of the outbreak has been a spike in unemployment, with a large increase among young people, and a widespread reduction in hours worked.

**Box 7: Labor market data during the COVID-19 outbreak<sup>29</sup>**

**The COVID-19 outbreak has affected the collection and analysis of labor market statistics.** Transmission control measures have made data collection difficult (ILO 2020). Data analysis has become more complicated as transmission control measures and government employment retention policies have created temporary absences from work that labor force surveys are not designed to capture. As a result, typical measures of labor market health like the unemployment rate may not tell the full labor market story.

**The collection of Thailand's labor force survey was disrupted by the COVID-19 outbreak.** Data collection, typically undertaken on a monthly basis, was suspended for the second quarter of 2020. The National Statistical Office was, however, able to complete the full quarterly sample between April and June 2020 with a response rate comparable to that of the first and third quarters. Still, the suspension of monthly data collection may have affected survey results, including potentially hiding some labor market impacts like job loss or reduced hours worked if these took place temporarily during the second quarter.

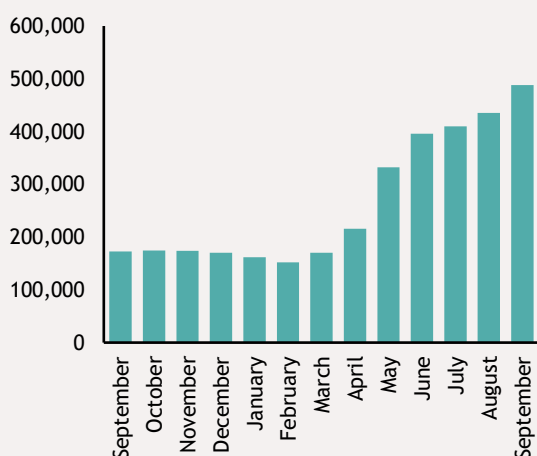
**Two alternative sources of information about Thailand's labor market confirm the impacts of the COVID-19 outbreak in early 2020.** The number of unemployment insurance beneficiaries increased substantially in March and April of 2020 before a dramatic spike in May. This confirms evidence from the Labor Force Survey that the second quarter saw some of the most dramatic employment effects from the

<sup>29</sup> This box was prepared by Harry Moroz.

**Box 7: Labor market data during the COVID-19 outbreak<sup>29</sup>**

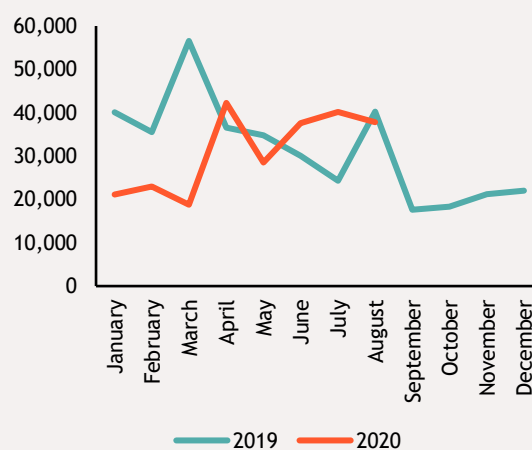
outbreak. The drawback of this data, however, is that only formal jobs are covered by the unemployment insurance system. Job vacancies are another alternative source of information about labor market health, providing a proxy indicator for labor market demand. Data collected by the Department of Employment show that vacancy postings were significantly below their 2019 levels during the first three months of 2020. Such postings are likely a leading indicator of labor market health since positions take some time to fill. After the first quarter of 2020, vacancies stabilized at slightly above their 2019 levels, consistent with the slower growth in unemployment insurance beneficiaries during these months, and suggestive that the labor market might have bottomed out in the second quarter.

**Figure B7.1: Number of unemployment insurance beneficiaries, September 2019 to September 2020**



Source: Social Security Office.

**Figure B7.2: Number of vacancies in 2019 and 2020**



Source: Department of Employment.

**The impact of the COVID-19 outbreak on labor force participation has been limited thus far though the longer-term decline of the labor force participation rate reversed in the third quarter of 2020.**

Changes in the labor force participation rate through the second quarter of 2020 were consistent with its long-term decline with only a small drop (0.2 percentage point from 66.8 percent to 66.6 percent) between the fourth quarter of 2019 and the second quarter of 2020 (Figure 38). Changes by gender were small but opposite: the female labor force participation rate dropped between the first and second quarters, perhaps related to school closures, while the male rate increased. However, labor force participation recovered fairly strongly in the third quarter, increasing 1.4 percentage points from the second quarter and 1.1 percentage points on a year-over-year basis. The reversal was stronger for women, perhaps reflecting school reopenings. Quarterly changes should be interpreted with some caution, as historically labor force participation has been depressed in the first quarter and higher in the third quarter, though the seasonality of labor force participation has moderated over time. Data from the first two months of the fourth quarter indicate that this recovery in labor force participation continued for both women and men. The result is that the labor force participation rate of 68.7 percent in November 2020 is more than a percentage point higher than a year ago.

**The unemployment rate spiked in the first half of 2020 and remained**

The unemployment rate doubled in Thailand between the first and second quarters of 2020 to 2.0 percent before dropping slightly in the third quarter to 1.9 percent. Increases were similar for women and men. While the overall rate of 1.9 percent is small, this is the highest the unemployment rate has been since the first quarter of

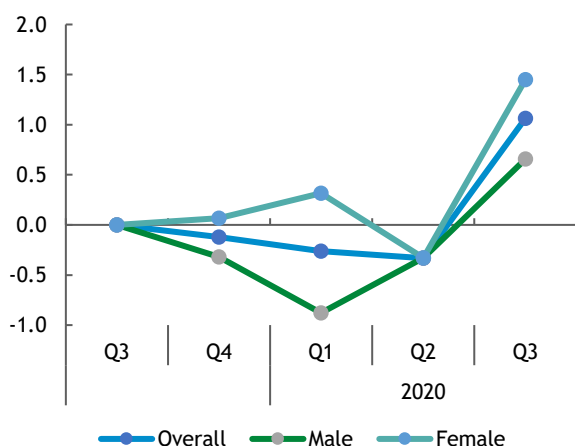
elevated at the end of the year

2009 during the global financial crisis and translates into nearly 740,000 unemployed people with an increase of more than 350,000 people between the first and second quarters alone. The unemployment rate remained elevated in the first two months of the fourth quarter at 2.0 percent in November 2020 with more than 780,000 people unemployed.

Young people have experienced a significant spike in unemployment as a result of the COVID-19 outbreak.

The increase in unemployment was particularly severe for young people, who already have higher unemployment rates, and particularly for the youngest workers (Figure 39). The unemployment rate of people between the ages of 15 and 19 increased 3.3 percentage points between the final quarter of 2019 and the second quarter of 2020 while that of people between 20 and 24 increased 2.6 percentage points. The increase occurred between the first and second quarters. The unemployment rate of young people declined slightly in the third quarter, but still remained 3.1 percentage points above levels a year earlier for the group ages 15 to 19 and 2.2 percentage points higher for the group ages 20 to 24. The employment of young people is often affected more during recessions than that of other age groups because reduced demand ceases hiring of school leavers and because younger people are less costly to terminate due to their shorter tenure and lower firm-specific knowledge (ILO 2020). The larger impact of the COVID-19 outbreak on young people has been noted in many countries in East Asia including Malaysia, Vietnam, and Korea. Depressed economic conditions for young people can have long-term consequences, including earnings declines and increased unemployment that last into their early careers (Oreopoulos, von Wachter, and Heisx 2012; Schmillen and Umkehrer 2017).

Figure 38: Change in labor force participation rate overall and by gender since Q3 2019  
(Percentage point)

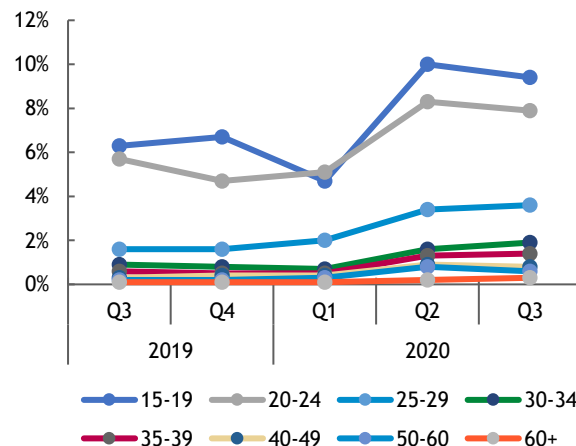


Source: Thailand Labor Force Survey 2019–20  
Note: Q32 of 2019 is used as the base year

The COVID-19 outbreak resulted in a jobs contraction in the first half of 2020, but these jobs have returned.

The total number of jobs shrank by around 340,000 between the first and second quarters of 2020 and by around 700,000 on a year-over-year basis. However, strong job growth returned in the third quarter with employers adding nearly 850,000 jobs. This represents a year-on-year increase of slightly more than 1 percent. Employers also added jobs in the first two months of the fourth quarter, particularly in November which experienced job growth of 1.5 percent since November 2019.

Figure 39: Unemployment rate by age groups, Q3 2019–Q3 2020  
(Percent)



Source: Thailand Labor Force Survey 2019–2020

**The COVID-19 outbreak resulted in a significant reduction in hours worked with a larger reduction for women than for men.**

People who kept their jobs worked many fewer hours as a result of the COVID-19 outbreak. The average number of hours worked per week dropped significantly by the second quarter of 2020. Hours worked are generally lower in Thailand in the first quarter of the year and recover in the second quarter. However, in 2020 average hours worked continued to drop through the second quarter (Figure 40). Between the first and second quarter, instead of recovering male workers lost 5.7 percent of their hours while female workers lost 7.2 percent. Some of this reduction was due to a large spike in workers working zero hours in the second quarter (likely furloughed workers). The proportion of zero-hour workers increased from zero in the third quarter of 2019 to 7 percent in the second quarter before falling back to 1 percent in the third quarter of 2020. There was also an increase in the proportion of people working at least one hour but fewer than 40 hours (Figure 41). While hours worked did increase in the third quarter, they remained 4 percent lower than a year earlier for both men and women. Improvement continued in the first two months of the fourth quarter, but in November hours worked still remained below their level a year earlier. The loss of hours is reflected in an increase in underemployment (those working less than 35 hours a week but wishing to work more) from 0.4 percent in the third quarter of 2019 to 1.7 percent in the second quarter of 2020, moderating to 1.0 percent in the third quarter.

**The reduction in hours worked is reflected in a reduction in take-home pay, which likely increased economic hardship for many households.**

Total private sector average monthly wages declined 1.6 percent between the first and second quarters of 2020. The decline in the Agriculture sector was larger at 5.4 percent, perhaps reflecting the large influx of workers into the sector. Outside of Agriculture, wages declined by 1.9 percent. This income loss likely created economic hardship for many households. Indeed, June's *Thailand Economic Monitor* projected that declines in labor income would significantly increase the number of economically insecure living below \$5.50 PPP per day. Wage growth returned in the third quarter, though the catch-up growth was insufficient to return agricultural wages to their level a year earlier. On a nominal basis, agricultural wages were 3 percent lower in the third quarter of 2020 than a year earlier while non-agricultural wages were 2 percent higher.

**Employment losses were widespread across sectors with more significant losses in terms of numbers of jobs lost in Manufacturing and Wholesale and Retail while the agricultural sector acted as a safety net.**

Between the first and second quarter of 2020, every sector experienced job loss except for Agriculture and Public Administration (Figure 42). While agricultural employment tends to rise in the second quarter of the year, the 7 percent expansion was significantly larger than the 3 percent increase between the first and second quarters of 2019. This implies that workers may have sought out agricultural jobs as they lost employment in other sectors. The number of jobs lost was largest in Manufacturing at nearly 240,000 followed by Wholesale and Retail at more than 150,000 and Accommodation and Food Services at nearly 125,000. Agriculture absorbed more than 700,000 workers.

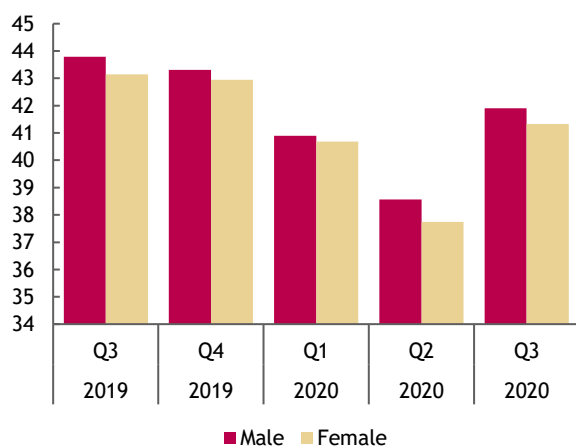
**The manufacturing sector continued to shed jobs in the third quarter while**

Several sectors expanded in the third quarter of 2020, including Agriculture (which typically expands in the third quarter), Transportation and Storage, and Financial and Insurance Services (Figure 43). Contraction continued in Professional, Scientific, and Technical Services, Other Services, and Manufacturing (which typically declines in the third quarter). By the end of the third quarter only three sectors were substantially smaller than they were a year before: Administrative and

## Part 2. Thailand's Labor Market: Challenges and Policy Responses to Drive a Jobs Recovery from COVID-19

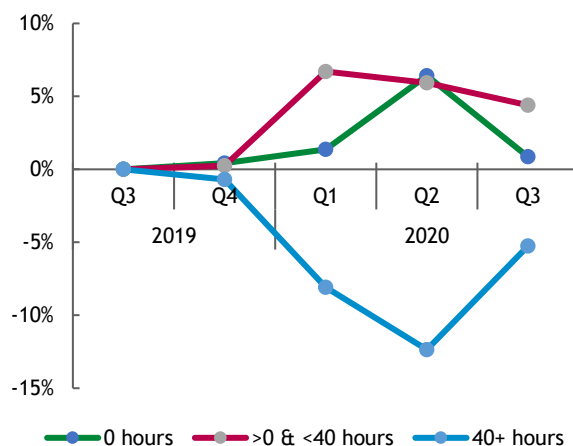
**many other sectors returned to growth.** Support Services, which includes travel agencies and tour operators; Manufacturing; and Professional, Scientific, and Technical Services.

**Figure 40: Average hours worked per worker per week, Q3 2019–Q3 2020**  
(Hours per week)



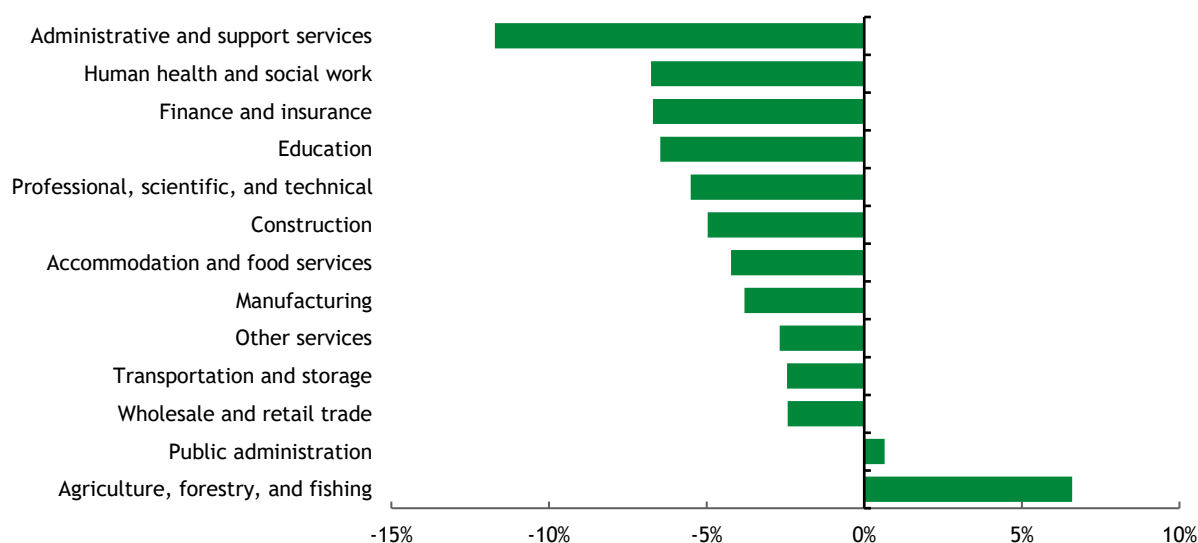
Source: Thailand Labor Force Survey 2019–2020

**Figure 41: Change in share of workers by hours worked, Q3 2019–Q3 2020**  
(Percent)



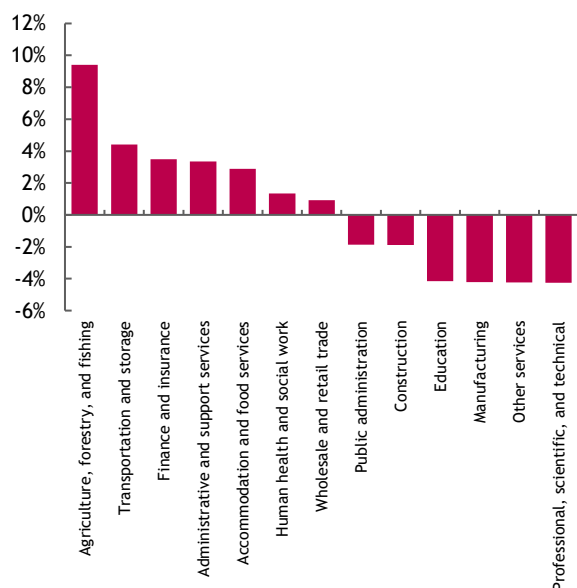
Source: Thailand Labor Force Survey 2019–2020

**Figure 42: Percent change in employment by sector, Q1 2020–Q2 2020**  
(Percentage change)



Source: Thailand Labor Force Survey 2019–2020

**Figure 43: Percent change in employment by sector, Q2 2020-Q3 2020**  
(Percentage change)



Source: Thailand Labor Force Survey 2019–2020

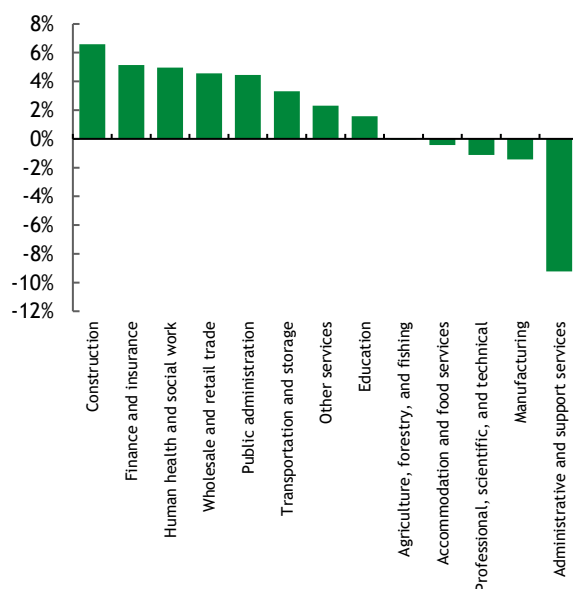
**Hours worked remain depressed across sectors, particularly in Administrative and Support Services and Manufacturing.**

**The employment impacts of the COVID-19 outbreak were widespread across different types of workers but less-skilled workers and workers unable to work from home seem to have experienced more severe effects.**

Reductions in hours worked occurred across nearly all sectors between the first and second quarters of 2020 with the most significant reductions in Education, Other Services, and Accommodation and Food Services. All sectors experienced increases in average hours worked in the third quarter, but these were not sufficient to make up for the initial declines: hours worked in all sectors remained lower in the third quarter than their level a year earlier. The largest year-on-year declines were in Administrative and Support Services (8 percent), Manufacturing (6 percent), and Professional, Scientific, and Technical Activities (6 percent).

Reductions in average hours worked between the third quarter of 2019 and the third quarter of 2020 were worse for less-skilled workers (Figure 45). Workers without education experienced the smallest decline in hours worked, but also worked the fewest hours to begin with. Workers who work in jobs that are most easily done from home experienced a smaller reduction in working hours than workers with jobs less easily done from home.

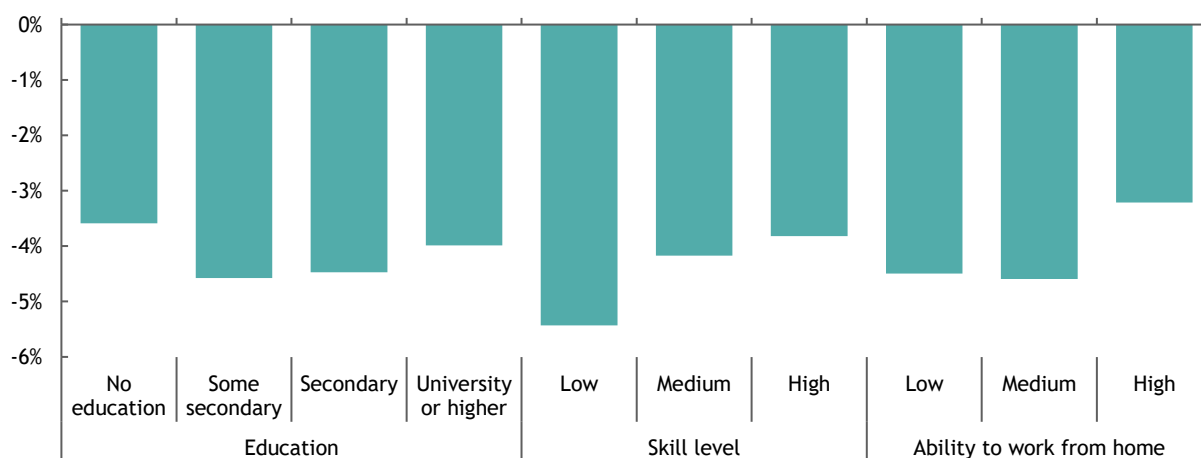
**Figure 44: Percent change in employment by sector, Q3 2019-Q3 2020**  
(Percentage change)



Source: Thailand Labor Force Survey 2019–2020

Figure 45: Percent change in average hours worked per week by education, skill level, and ability to work from home, Q3 2019–Q3 2020

(Hours per week)



Source: Thailand Labor Force Survey 2019–2020

**Policies adopted by the government likely influenced how the COVID-19 outbreak impacted employment.**

The government introduced several measures that may have impacted employment directly: employees furloughed because of the COVID-19 outbreak were eligible to receive 62 percent of their daily wages up to 15,000 baht from the Social Security Fund for up to 90 days. This may explain some of the sharp increase in unemployment benefit beneficiaries shown in Box 7. Additionally, employers' social security contributions were reduced and payroll tax deductions for SMEs meeting certain eligibility criteria were expanded. The exact impact of these measures is not yet certain. The dominant impact of the COVID-19 outbreak being on the intensive margin (hours worked) rather than the extensive margin (jobs) suggests that employment retention policies may have played a role in preserving employment. However, several other factors may have limited the effect of government policy. Given the large size of the informal labor market in Thailand, only about half of workers were eligible for assistance under these measures. Additionally, without a safety net to fall back on, the other half of workers would have needed to find new jobs, perhaps in the agricultural sector where employment expanded significantly or perhaps jobs that offered less than full employment. Understanding the effect of government policy in preserving jobs will be important for future responses to economic downturns.

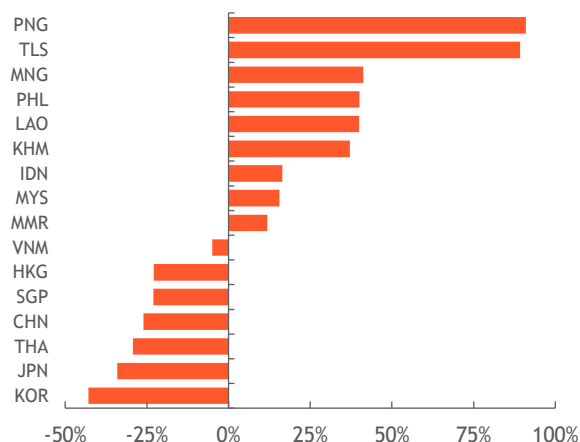
**Thailand's existing labor market challenges and the new ones created by the COVID-19 outbreak are complicated by a rapidly aging population.**

Thailand's working age population is projected to continue shrinking while the population of older people is projected to continue growing. The working age share of the population is projected to decline from 71 percent of the population in 2020 to 66 percent in 2030. By 2060, this percentage will be only 56 percent. This is equivalent to a decline in the working age population of nearly 30 percent, the third largest decline in the East Asia and Pacific region after Korea (43 percent) and Japan (34 percent) (Figure 46). Meanwhile, the share of the population 65 or older is projected to rise from 13 percent to 31 percent of the population. This is the 22nd largest share globally. These trends will ultimately lead to a decline of Thailand's population beginning in 2029.

**Thailand is aging quickly and at a relatively low income level relative to other countries.**

Population aging is occurring quickly in Thailand. The number of years for the share of the 65-plus population to increase from 7 percent of the population to 14 percent is often used to gauge the speed of population. This transition took 115 years in France and 69 years in the United States, but is only projected to take 20 years in Thailand, the fourth-fastest rate in the region behind Singapore (17 years) and Korea and Vietnam (18 years). Thailand is also aging at a relatively low income level. Figure 47 plots the old age dependency ratio of all countries between 1980 and 2018 against GDP per capita (PPP at constant 2011 international dollars) with a best fit line representing the average GDP per capita of a country at a specific old age dependency ratio. As can be seen in this figure, Thailand has aged without ever crossing this line implying that at every stage of aging Thailand has had GDP per capita that is lower than average. In sum, Thailand is less wealthy than other countries were at similar stages of population aging.

**Figure 46: Percentage change of working age population, 2020–2060**



Source: UN (2019)

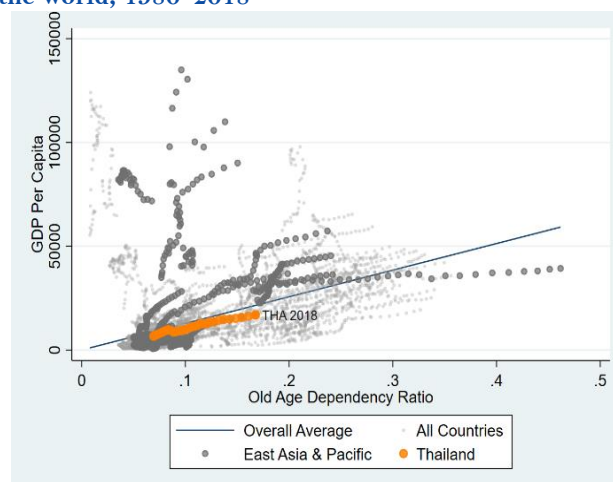
**The increasing share of older people in Thailand could have a negative impact on economic growth and result in occupational and skills shortages.**

Thailand's working age population is projected to decline while the share of older people in the population increases. All else equal, this implies a mechanical decrease in growth in income per capita due to the smaller number of people working relative to the total population and due to the decline in savings available for investment because of older people's low savings rates (Bloom, Canning, and Fink 2010). Projections of the impact of future demographic changes suggest that, absent any adjustments, changes in demographics will decrease annual growth in GDP per capita by 0.86 percent in the 2020s (Park and Shin 2011). Thailand's changing demographics may even create the risk for a middle-income trap (Ha and Lee 2018). The decline in the working age population also implies that shortages may arise as the number of potential workers shrinks. These shortages may be exacerbated by ongoing developments related to automation, digitization, and other trends associated with Industry 4.0 that are changing the nature of demand for skills.

**The negative consequences of population aging are not inevitable.**

Behavioral responses to population aging can counteract the negative impacts. These behavioral responses include ones that impact the number of people working: population aging can incentivize increases in the number of working years as life expectancy increases (Bloom et al. 2007) and expansions in (female) labor force

**Figure 47: Income and old age dependency around the world, 1980–2018**



Source: World Development Indicators and UN (2019)

Note: GDP per capita is PPP (constant 2011 international \$)

participation as fertility declines (Bloom et al. 2009). They also include responses that increase the productivity of the workforce: population aging can result in increases in per child investments in human capital as fertility rates decline (Bloom, Canning, and Fink 2010). Finally, population aging can even lead to higher savings rates and capital deepening and adoption of labor-saving technologies that offset labor scarcity (Mason and Kinugasa 2008; Acemoglu and Restrepo 2017).

Two channels are important to consider in evaluating how population aging may impact the labor market in Thailand in the context of the COVID-19 outbreak. First, how will labor productivity change as Thailand ages? Second, how will the supply of labor evolve as Thailand ages?

## 2. Increasing Labor Productivity

**The movement of workers into higher-productivity jobs could help to counter the negative impacts of a shrinking working-age population.**

Increases in productivity can counterbalance the negative growth implied by a shrinking workforce. Advancements in automation and digitization and other technologies associated with Industry 4.0 may indeed create opportunities for fewer workers to produce as much as or more than is produced by the current stock of workers.

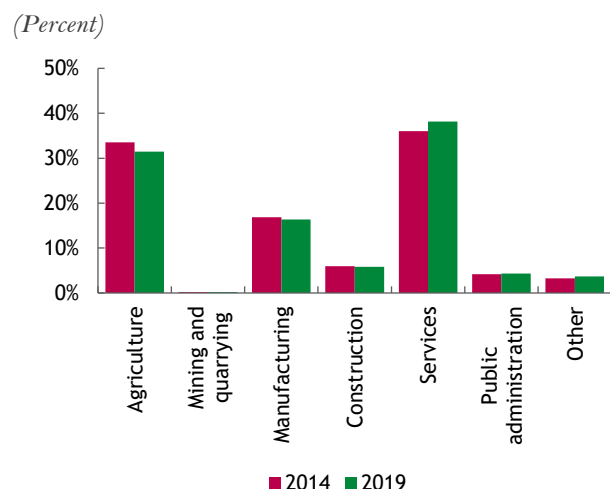
**However, the process of structural change has stalled in Thailand as shifts from lower productivity sectors to higher productivity ones have stopped.**

Structural transformation of people moving from the lower-productivity agriculture sector to the higher-productivity manufacturing and services sectors stalled in Thailand in the 2000s and early 2010s (World Bank 2016). Higher real wages in the agricultural sector and weak job growth in other sectors drew people to on-farm jobs. Agricultural employment still makes up about a third of all workers, which sets Thailand apart from its peers (Figure 48). Agriculture accounts for just 23 percent of employment in the Philippines, 10 percent in Malaysia, and 5 percent in Korea (Figure 49). Labor productivity is particularly low in agriculture both relative to manufacturing and services and relative to comparator countries (Bank of Thailand and World Bank 2020).

**Stalled structural change is also observable in a shift in the source of poverty reduction.**

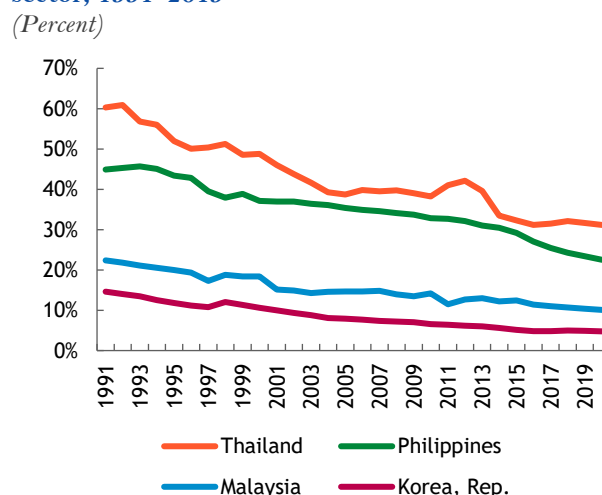
Prior to 2000, off-farm job creation in Thailand increased labor income, which in turn reduced poverty (Yang 2020). This shifted after 2000. Between 2000 and 2013, farm incomes became the primary driver of poverty reduction.

Figure 48: Employment by sector in 2014 and 2019



Source: Thailand Labor Force Survey

Figure 49: Share of employment in the agricultural sector, 1991–2019



Source: ILOSTAT database

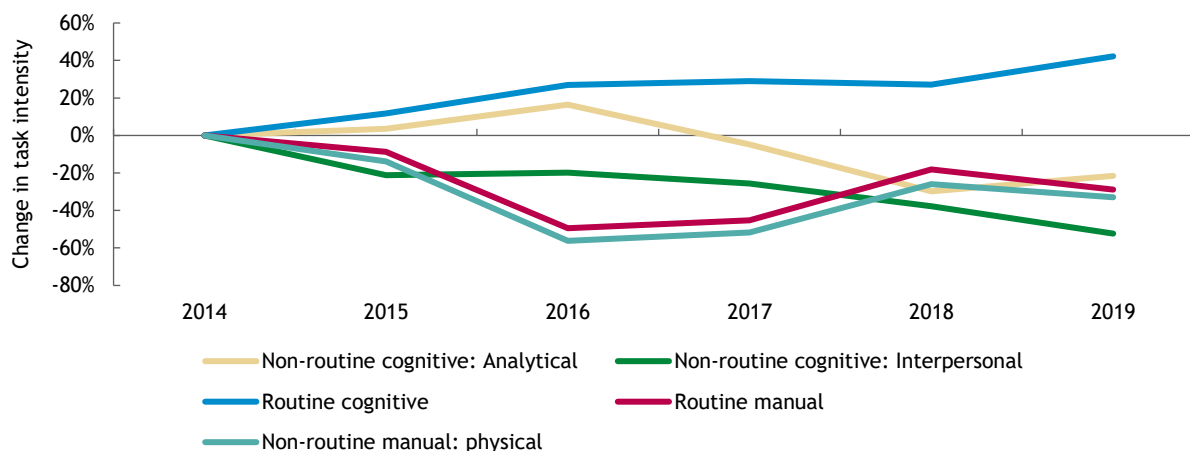
**Jobs in Thailand are not evolving towards the more sophisticated roles associated with a globally integrated knowledge-driven economy.**

In much of the East Asia and Pacific region demand is shifting from basic skills in literacy and numeracy to socioemotional skills like teamwork and communication and higher-level cognitive and technical skills (Mason and Shetty 2019). This is consistent with the maturation of automation technologies associated with Industry 4.0. However, Figure 50 shows that jobs in Thailand are not moving toward the types of nonroutine cognitive and interpersonal skills that are associated with the new technologies that can drive productivity improvements in knowledge-driven economies. In Thailand, jobs decreasingly require manual skills and increasingly require (routine) cognitive ones. While the movement away from manual skills is notable, these tasks tend to be fairly easily automated by computers, a trend that is being reinforced by artificial intelligence and machine learning. At the same time, jobs in Thailand decreasingly require the types of non-routine analytical and interpersonal skills that can complement automation technologies.

**The COVID-19 outbreak likely reinforced some of the trends inhibiting the movement of workers into higher productivity jobs.**

Rural areas have served as safety nets during Thailand's previous economic downturns with migrants returning to agricultural areas during the 1997/1998 Asian financial crisis and during the 2008/2009 global financial crisis (Pholphirul 2012). This phenomenon appears to be occurring again. As described above, the agricultural sector, already facing challenges increasing productivity, saw a larger-than-normal increase in employment in the second quarter of 2020. Additionally, evidence from past major epidemics suggest that there will be a large negative impact on productivity due to erosion in capital deepening (Bank of Thailand and World Bank 2020).

Figure 50: The task intensity of employment in Thailand, 2014–2019  
(Percent)



Source: Thailand Labor Force Survey based on Acemoglu and Autor (2011)

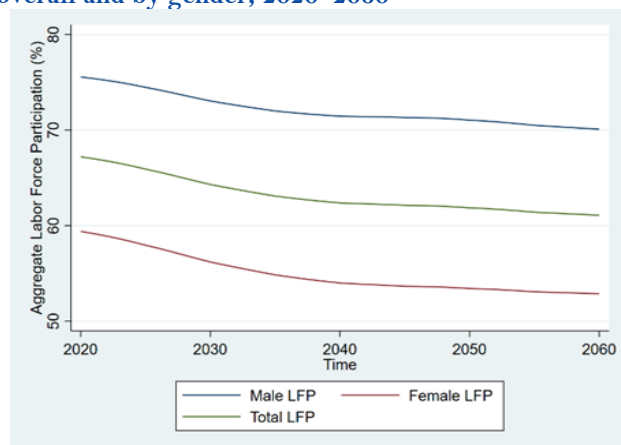
Note: Changes in the Labor Force Survey in 2011 and 2013 mean that a longer time period cannot be analyzed. However, the decline in manual skills is also apparent between 2001 and 2010

### 3. Increasing Labor Supply

**Thailand's demographics imply a decline in labor force participation rates and the labor force in the coming years, but changes in participation rates could change this.**

Assuming constant labor force participation rates by age and gender, Thailand's projected demographic changes would lead to a reduction in the overall labor force participation rate of about 5 percentage points between 2020 and 2060 and a reduction in the overall size of the labor force of 14.4 million people. (Figure 51 and Figure 52). However, the assumption of fixed labor force participation rates is a strong one. Changes in the labor force participation rates of older people and women could help offset the projected decline.

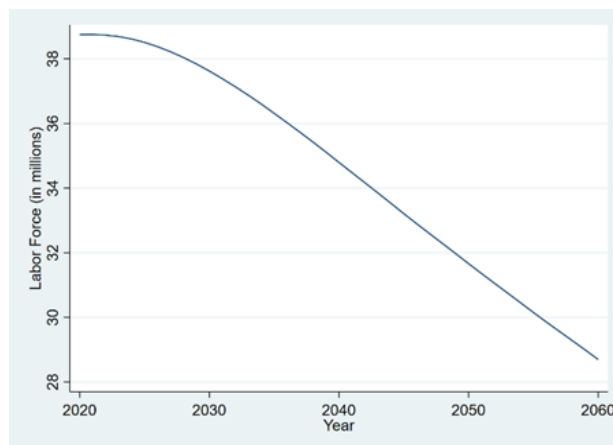
Figure 51: Projected labor force participation rates overall and by gender, 2020–2060



Source: Moroz and Naddeo (2021)

Note: Assumes constant age-specific labor force participation rates.

Figure 52: Projected labor force, 2020–2060



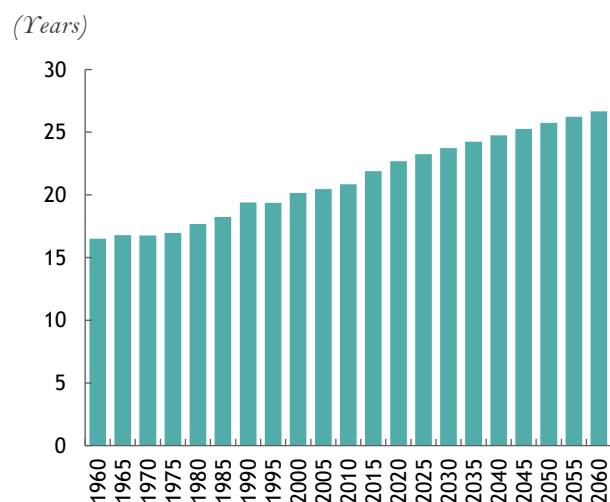
Source: Moroz and Naddeo (2021)

Note: Assumes constant age-specific labor force participation rates.

**There are several reasons to believe that there is scope for the labor force participation of older people to increase.**

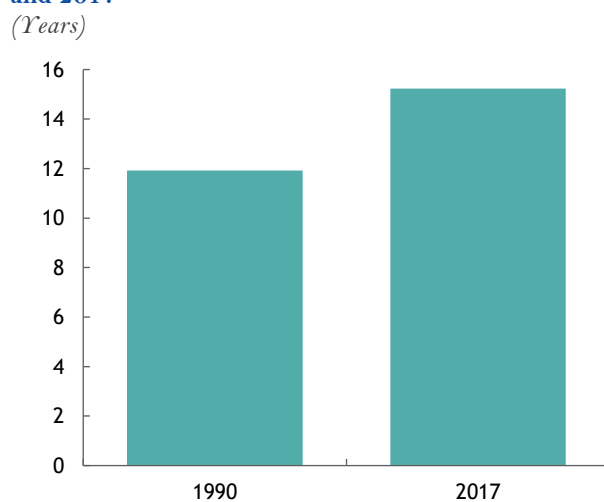
Thais are living longer, healthier lives. Life expectancy at age 60 increased from 17 years in 1960 to 22 years in 2015, and is projected to increase to 27 years by 2060 (Figure 53). The number of healthy years of life expectancy at older ages increased from 12 years in 1990 to 15 years in 2017 (Figure 54). As elsewhere, healthy older people in Thailand are more likely to participate in the labor market (Adhikari, Soonthornthada, and Haseen 2011). Increasing education levels in Thailand mean that future older people will be more educated and would have an incentive to stay in the labor market longer to increase the return to investments in their human capital. Changes in the nature of work may also be favorable for keeping older people in the labor force, particularly in urban areas. Automation means that jobs are increasingly less manual and physically demanding, meaning there are more jobs that older workers can do (ADB 2018; Lipipatpaiboon and Thongsri 2018; Abeliensky et al. 2020).

**Figure 53: Life expectancy at age 60, 1960 to 2060**



Source: UN (2019)

**Figure 54: Healthy life expectancy at age 65, 1990 and 2017**



Source: GBD 2017 DALYs and HALE Collaborators (2018)

**However, older people face several barriers to increasing their participation in the labor market.**

First, older people often have care responsibilities. One recent survey found that nearly 30 percent of grandparents report caring for grandchildren under the age of 10 with older women playing a more significant role (World Bank 2018). Using the 2017 Household Socioeconomic Survey and controlling for other characteristics, having an additional child in the household reduces labor force participation with the effect driven by women in urban and rural areas (Moroz and Naddeo 2021). Second, despite living longer healthier lives now than in the past, older people still face health challenges. A third of people 60 and over say they have one of four functional limitations, and these increase with age (Teerawichitchainan et al. 2019). Reporting a physical or intellectual disability in the Household Socioeconomic Survey reduces the probability of labor force participation for older workers by more than 25 percent. Finally, pensions have an impact on older people's participation in the labor market. Recent analysis using the 2017 Socioeconomic Survey shows that Thailand's contributory pensions have some disincentive effects on older people's labor force participation, but the currently low beneficiary coverage means that these effects are not of immediate concern (Moroz and Naddeo 2021). Still, coverage under the Social Security Fund has been increasing, suggesting that these

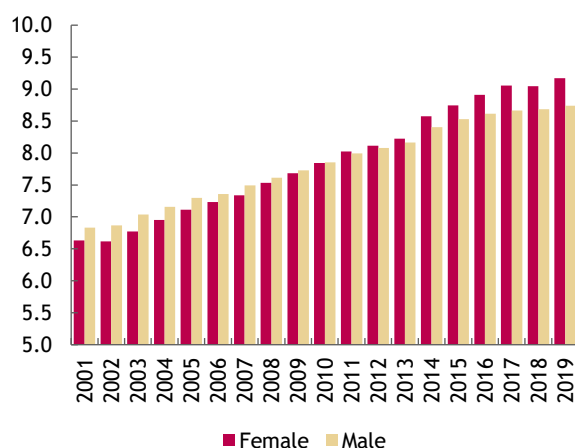
disincentive effects are important to keep in mind going forward. The analysis and other literature suggest that the Old Age Allowance social pension may also have some disincentive effects, though adequacy of the benefits is likely a greater concern (Moroz and Naddeo 2021; Huang 2015; Paweenawat and Vechbanyongratana 2015).

**There is significant room for the labor force participation of women to increase.**

As described above, female labor force participation rates are significantly lower than male labor force participation rates. Women tend to have more years of education, and younger women are more likely than younger men to have a university education, meaning that they should have better opportunities to access good jobs as employment shifts to require more advanced skills (Figure 55). Declines in the fertility rate of the kind Thailand has experienced in recent decades mean that providers of care in households, who tend to be women, may have more opportunities to enter the labor force. Bloom et al. (2009) find that decreased fertility increases female labor force participation rates. This effect has been observed in Thailand, though the relationship is weakest among the 6 ASEAN countries studies (Hartani, Bakar, and Haseeb 2015).

**Figure 55: Average years of education of employment men and women, 2001 to 2019**

(Years)



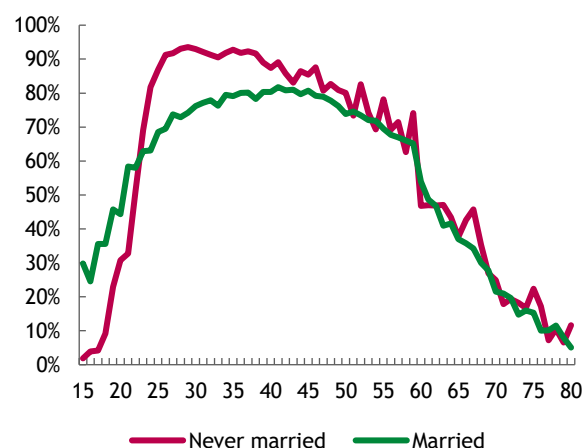
Source: Thailand Labor Force Survey.

**However, women face barriers to participating in the labor market.**

While lower fertility rates imply less time spent caring for children, women in Thailand are still responsible for most household work, which can have a negative impact (ranging from small to large) on labor force participation. Daughters are much more likely than sons to take care of older parents. A recent survey of older people found that 50 percent of older people receive care from a daughter versus 12 percent who received care from a son (World Bank 2018). A recent analysis of time spent on household work, labor market activities, and leisure provides additional insight into the tradeoffs that women providing care in Thailand face (Yokying et al. 2016). Nearly all women (96 percent) undertake household and care activities while only half (47 percent) of men do so. Women's household and care work is also more intensive, with women spending twice as much time on these activities each day as men. Women also face challenges finding good jobs despite their higher levels of education. Socialization and gender stereotyping lead women into fields of study

**Figure 56: Female labor force participation rate by age and marital status in 2019**

(Percent)



Source: Thailand Labor Force Survey.

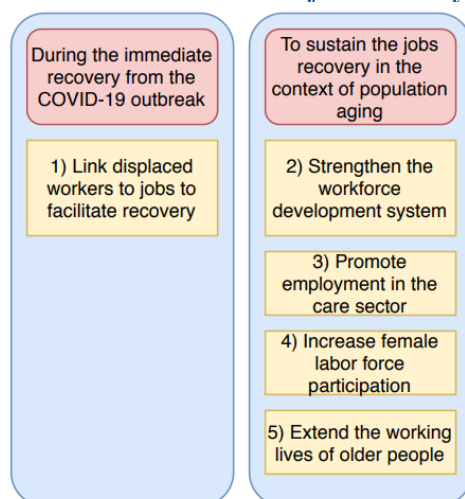
linked to lower-productivity jobs. In 2019, 18 percent of male workers had studied engineering while just 1 percent of women had.

#### 4. Policy Recommendations

**For the recovery from the COVID-19 outbreak to be sustainable, policies will need to take into account the disruptions in the labor market created by the outbreak, fast-paced changes in technology and in the nature of work, and Thailand's rapidly aging population.**

Thailand's most recent 12th National Economic and Social Development Plan recognizes that addressing Thailand's current challenges, including population aging, will require a package of policy actions that are implemented across the lifecycle and not just targeted at older people. Building the skills of new and existing workers, improving the human capital of workers of all ages, and increasing labor productivity are all identified as important objectives. Policies to support these objectives will need to address the ability of older people to extend their working lives, the ability of women to deploy their human capital in the labor market, and the potential to increase productivity by improving the development and deployment of human capital. These policies will need to take into account rapid changes in technology and in the nature of work, including those stimulated by the COVID-19 outbreak, that require workers with new types of skills to fill labor market needs, including those created by population aging. Policies to achieve these objectives can be incorporated into short-term responses to the COVID-19 outbreak that seek to support displaced workers, but additional efforts will be important to sustain the recovery (Figure 57).

Figure 57: Policy recommendations for a sustained jobs recovery amid an aging population



Source: Authors

**These initiatives will need to be undertaken with the fiscal costs in mind.**

Some involve minimal government action, such as disseminating good practices on flexible working arrangements for older workers. Others, however, imply a more significant fiscal cost. In these cases, careful evaluation of the effectiveness of these programs is important, likely through pilots to help determine what works. The effectiveness of existing schemes, such as tax incentives to promote the hiring of older workers, should be evaluated to ensure they are achieving desired objectives. Where ineffective, savings from these programs can be redirected. While costly, action is necessary to ensure that Thailand is able to recover quickly from the COVID-19 outbreak and to counteract the long-term negative implications of population aging on growth.



### **1) Link displaced workers to jobs to facilitate recovery from COVID-19**

**In the short term, upskilling and reskilling programs can be combined with financial support to help displaced workers get back to work.**

Skills training programs will need to be targeted to labor demand in sectors that are recovering more quickly as the economy recovers. Given the weakness in labor demand, however, these training programs may also need to focus on promoting livelihoods and self-employment skills, particularly in rural areas. Training can be focused on digital, socioemotional, and advanced technical skills reflecting evolving needs in the labor market. Training can be linked to wage subsidies that incentivize firms to hire workers or startup support to stimulate livelihoods opportunities. E-learning modules can be explored for program delivery. Thailand has experience with this type of program. In response to the 2008-2009 economic crisis, Thailand launched the Tongla Archeep program that provided a month of vocational training and a cash allowance for three months to encourage beneficiaries to start businesses or find jobs. This training can be targeted to vulnerable groups, including those receiving social assistance, to encourage moves into wage employment. This approach has been done by linking vocational training to the Social Welfare Card. These programs should be followed by longer-term efforts to strengthen the workforce development system.

**The current resurgence of COVID-19 and further outbreaks could warrant additional measures to protect and promote jobs.**

The current resurgence of COVID-19 has led to further transmission control measures that could result in additional labor market disruptions that require a renewed focus on policies designed to preserve and even create jobs in the short term. Such policies could include employment retention policies like wage subsidies that seek to keep workers in their jobs and job creation policies like public works that could make up for workers' reduced working hours. These could build on and extend beyond the measures previously implemented for furloughed workers, including by expanding wage subsidies beyond firms affected by lockdowns, establishing a new job promotion scheme that subsidizes new hires (one has been proposed for new graduates), and increasing access to childcare perhaps through subsidies to protect female employment during school closures. Additional support for informal workers, who make up about half of the workforce, would also be important as they would likely not be covered by the job retention policies. Training subsidies, potentially linked to job search support or self-employment assistance, could be targeted to these workers, who have been already been identified via the 3-month cash transfer program. When implementing these policies, it will be important to balance the need to protect jobs in the short term with the need to promote a competitive labor market in the medium and long term.

### **2) Strengthen the workforce development system**

**Thailand will need to develop a demand-driven, results-oriented workforce development system that functions across the lifecycle.**

This involves updating the technical and vocational education and training (TVET) system, revamping upskilling and reskilling courses, and modernizing employment services. The workforce development system will need to be reformed to meet the human resources needs of a knowledge-based economy so that Thailand can take advantage of the new opportunities created by Thailand 4.0 and the Eastern Economic Corridor. In the context of a difficult environment for jobs during the recovery from the COVID-19 outbreak, the workforce development system will need to target the most vulnerable workers, identify the sectors where job growth is beginning to recover, and adjust training programs to suit the needs of firms in those sectors.

**Updating the TVET system will require several adjustments to ensure that training is demand-driven and results-oriented.**

First, linkages with the private sector will need to be strengthened. To do so, the government will need to help build trust in industry that their actions are valued and identify win-win areas in which both the private sector and the government can benefit. Second, Thailand can explore a transition to performance-based financing that creates accountability and a culture of results. Doing this will incentivize the production of TVET graduates with skills that match labor market needs. Ultimately, the system should move from one that finances input to one that finances outcomes.

**Thailand will need to deploy upskilling and reskilling programs particularly for prime age workers.**

Skills training programs can help people update their skills or learn new skills throughout their working lives in response to changes in the skills demanded by employers. Indeed, higher-order technical skills, digital skills, and soft skills like interpersonal communication and critical thinking will increasingly be demanded as Industry 4.0 takes hold in Thailand, and workers can be trained in these skills. The most training effective programs are those with lower costs targeted to specific groups with training adapted to labor market demands (Betcherman and Moroz 2018). Combining training with additional services such as job search assistance, financial support, and program design that accounts for specific barriers such as those facing young women can also increase effectiveness (Kluve et al. 2019; Stoterau 2019). The growth of freelancing and self-employment mean that learners will likely need to take greater control of their own skills development. Many different instruments can be used to support learner-centered lifelong learning, ranging from individual learning accounts that may or may not be tax advantaged to individual subsidies or vouchers. As technology costs fall, e-learning approaches will become increasingly viable alternatives for individuals and employers, including smaller ones.

**Upskilling and reskilling systems need to be informed by labor market information and linked to effective employment services.**

Adapting training programs to labor market demand is a critical success factor of training programs. A labor market information system that can reveal skills needs and provide this information to training institutions, students, and other labor market stakeholders is a key element of adapting training programs in this way. A particularly promising approach to revealing and communicating labor market demand is the creation of occupational or skills shortage lists. Job matching and placement services can build on the foundation of labor market information to guide beneficiaries of training programs to jobs that are in demand. Advances in data collection and processing and the spread of digital technologies have led to advances in the ability to collect up-to-date, detailed labor market information and to deliver employment services to hard-to-reach populations including through mobile applications.

### **3) Promote employment in the care sector**

**The aging of Thailand's population creates opportunities for care work.**

But filling these opportunities may be challenging given the typically difficult conditions of jobs providing care services. Increasing the skill level of care providers through formal and nonformal training could be a first step in professionalizing care. Low-skilled unemployed workers could be targeted for such training given the availability of employment opportunities post-training, for instance in home-based care which is one of the fastest-growing care occupations. Investments in information and communications technology could improve working conditions and



be coupled with digital skills training to allow care workers to complement new technologies (ILO and OECD 2019). Care jobs could be a focus of efforts to expand social protection coverage. Specialized skills will also be increasingly in demand as non-communicable diseases such as Parkinson's, Alzheimer's, and dementia are becoming more prevalent. These diseases require skilled care workers.

**The longer-term response to population aging will also require measures that expand the supply of workers.**

Simulations undertaken to understand the potential impact of different channels to increase labor supply show that higher rates of labor force participation among older people and women and a liberalized migration system could increase Thailand's labor supply in the long run relative to current projections under population aging (Moroz and Naddeo 2021). Several policy options are available for activating additional labor supply.

#### **4) Increase female labor force participation**

**Improving the accessibility, affordability, and quality of care options could promote employment by relieving women of the extra care burden they often face.**

Making childcare more accessible and decreasing its cost can increase maternal employment. A study of OECD countries found that the provision of formal childcare services is more important for boosting female labor force participation relative to other policies (Thévenon 2013). In Indonesia, Halim, Johson, and Perova (2019) find that access to public preschool increases the likelihood that mothers of age-eligible children will be employed. Several countries in the East Asia and Pacific region subsidize childcare to reduce the costs that mothers face when pursuing employment. Improving the access of older people to quality long-term care options could have a similar effect.

**Improving old age income security also has the potential to increase female labor force participation.**

Within countries, co-residence rates typically decline as household income increases, suggesting that high co-residence rates are often the result of the elderly being unable to afford to live alone (Evans and Palacios 2015). A consequence of this arrangement is that working aged family members, frequently women, may drop out of the labor force at younger ages in order to take on caregiving responsibilities. Age-based social assistance programs can directly address poverty among older people, reducing reliance on informal family care and financial support (Evans and Palacios 2015). While impressive for its wide coverage, the small benefit level of the Old Age Allowance is unlikely to impact old-age poverty (World Bank 2016b). This likely also means that its impact on caregiving responsibilities is minimal. The possible positive impacts of Thailand's social pension on female labor force participation strengthen arguments for evaluating its generosity in more detail.

**More generous parental leave policies could support female labor force participation.**

Though recently increased, maternity leave is relatively short in Thailand at 98 days or 14 weeks. This is the same as China and Japan, but less than Singapore (16 weeks), Vietnam (26 weeks), and the OECD average (18 weeks). Maternal leave policies can increase female employment. An analysis of maternity leave policies in a cross-section of countries found that each additional week of paid maternity leave is associated with a 3.6 percent rise in the share of workers employed in a given firm who are women, an impact that grows when the leave is funded by the government rather than the employer (Amin and Islam 2019). Increasing men's role in childcare is also an important means of supporting women's employment. Men working in

the private sector in Thailand are not entitled to paternity leave. Public sector workers have access to 15 days of leave (Liao and Paweenawat 2019). This contrasts with eight countries in the East Asia and Pacific region that do (World Bank Group 2019).<sup>30</sup>

**Legal changes and communications to influence gender norms are also important.**

While the Gender Equality Act was a step forward, the law does not include provision that promote and protect equal opportunity and gender equality (World Bank 2016). Stronger communication about gender norms, discrimination, and harassment is also necessary. This could include publicizing female and male role models who share care responsibilities, promoting public discussion of norms and values related to gender and the labor market among labor market stakeholders, and widely advertising governmental and non-governmental support available in the case of discrimination or harassment (World Bank 2019b).

### **5) Extend the working lives of older people**

**Policies to extend working lives could be targeted to older people in urban areas who tend to retire at earlier ages than their rural peers.**

Older people in rural areas work longer than their urban counterparts likely because of a need to earn income to make ends meet. This limits the scope for increasing participation in these areas, as do the more limited job opportunities in rural areas, particularly in good jobs outside of agriculture. Older workers in urban areas, in contrast, tend to leave the workforce earlier (as early as age 55). These workers are also more educated than their rural peers, suggesting a possibility to take advantage of additional accumulated human capital. There is more scope for policy to activate this group.

**Flexible working arrangements and age-friendly workplaces can promote the hiring and retention of more highly educated older workers in urban areas.**

Job flexibility has been found to increase the willingness of older people to work. Flexible working arrangements have typically not been very common in Thailand, but recent studies suggest they hold promise to increase working lives (Anell and Hartmann 2007; Sadangharn 2017; Sirisub et al. 2019). Existing government partnerships with the private sector can promote these arrangements. Existing collaboration between the Department of Older Persons and the private sector on business practices promoting elderly empowerment can stimulate efforts to encourage firms to adopt flexible working arrangements for older people and invest in age-friendly workplaces. The benefits and cost effectiveness of such policies should be highlighted. Government and nongovernment agencies in several countries around the world have developed “age management” strategies to provide guidance and support to employers for hiring and retaining older workers (OECD 2019b). Norway’s Center for Senior Policy, for instance, undertakes a range of activities to advocate strategies to lengthen working lives from disseminating good practices to training staff at public employment services offices (Sonnet, Olsen, and Manfredi 2014). Subsidies can also be offered to incentivize the adoption of flexible arrangements and age-friendly workplaces.

**The influence of compensation schemes on the employment of older**

Research from OECD countries suggests that compensation schemes that reward workers based on age or service with a firm – seniority wage systems – can hinder the employment of older workers because they become unaffordable (OECD 2019b). In Thailand, performance-related pay was introduced in Thailand’s civil service in

<sup>30</sup> These are China, Indonesia, Lao PDR, Myanmar, the Philippines, Samoa, Timor-Leste, and Vietnam.

**workers should be examined.**

2008 (World Bank 2014). The current prevalence of performance-based pay in the private sector is less clear. Some evidence from the Labor Force Survey suggests that seniority-based pay may still be in use in Thailand (Moroz and Naddeo 2021). More research is needed to understand the influence of compensation structures on the employment of older workers in Thailand. In case strong negative effects are found, policy can seek to influence the transition away from seniority wage setting schemes and towards performance-based schemes by advocating and – using the civil service's scheme as an example – demonstrating the benefits of this approach. Some countries have taken a more direct approach. Japan has provided subsidies to assist SMEs to adopt performance into wage setting and human resources practices (OECD 2019b). Korea introduced the “wage-peak system” in 2005, which publicized performance-based compensation for different sectors and provided allowances in exchange for adoption (World Bank 2016).

**The effectiveness of Thailand's tax incentives for employment of older people should be evaluated.**

Like Japan, Korea, and Singapore, Thailand provides incentives to firms to hire older workers. Evidence of the effectiveness of this incentive is not available. However, based on international evidence the impact of wage subsidies to support the hiring and retention of older people is questionable. Recent evidence finds that the significant subsidies needed to induce substantial employment effects are unlikely to be cost-effective (Boockmann 2015). Another concern is deadweight loss, that is, that the subsidies are provided for hiring workers who would have been hired anyway (OECD 2006). Evaluating the effectiveness of Thailand's incentives is important to understand whether these funds could be better directed to other employment promotion efforts.

**Increasing the retirement age could minimize disincentives to work as pension coverage expands.**

Thailand has undertaken efforts to increase the retirement age of public sector workers and workers at state-owned enterprises. The 2017 Labor Protection Act also includes provisions that seek to discourage early retirement. More efforts will be necessary as pension coverage expands. As coverage under the Social Security Fund for formal private sector workers expands, policymakers can consider increasing the retirement age both to mitigate disincentive effects and to adjust Thailand's retirement age to its longer, healthier older ages. Age or longevity indexing – that is, tying the retirement age to life expectancy at retirement age – could better link retirement age to potential labor force participation while also ensuring that increased lifespans do not stress the financial sustainability of benefits (Piggott and Sane 2009). Denmark, Italy, and Greece have or will have such a link between pensions and life expectancy (OECD 2011). Establishing effective and trusted implementation arrangements for undertaking this indexing will be important to its success. Japan provides a relevant example for incorporating flexibility into its approach to delay retirement. Japan's Act on Stabilization of Employment of Elderly Persons 2012 requires employers to do one of three things: raise their mandatory retirement age to 65, introduce a continued employment system to allow those employees who wish to work until age 65 to do so, or abolish their internal mandatory retirement age. The system for continuous employment provides an alternative contract to an employee after the “retirement age.”

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