Thailand and EEC Focus

Quarterly bulletin - Q4/2021

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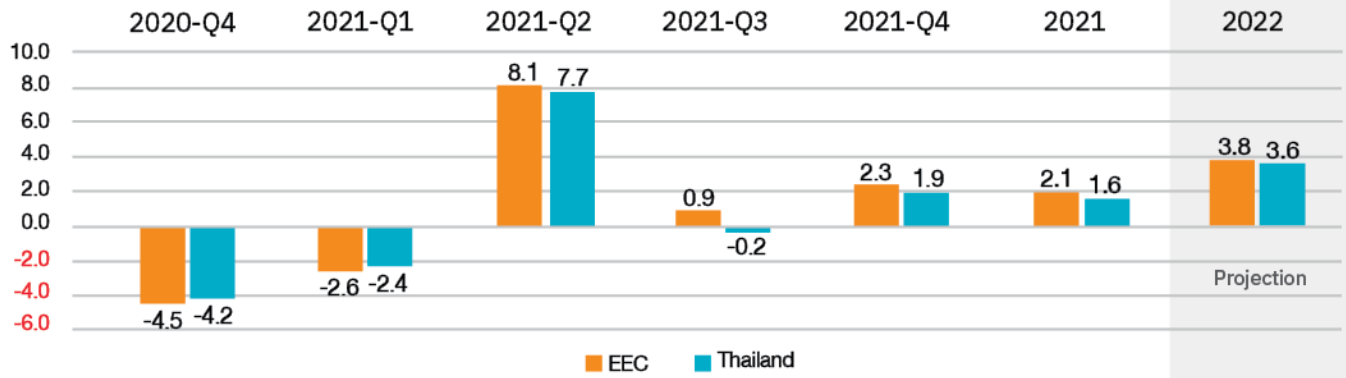
Economic Growth Rate



Positive factors

- The global economy and trade have well recovered, resulting in persistent growth in Thailand's exports. The value of Thai exports hit record-high in Q4/2021.
- Thailand's reopening policy for tourists from aboard, starting November 4, 2021, helped to increase the number of tourists around year end. A rising tourist numbers in the last quarter was urged by the travel policy for foreign tourists from November 1st, 2021 onward.
- The Thai government continues stimulus measures to boost domestic consumption.

Negative factors

- The Omicron variant was widespread globally. This new variant started to spread in Thailand around the year end. The government decided to temporarily tighten travel restrictions for visitors.
- Inflation was on the rise as commodity prices, especially the fuel price, were surging. The production costs, in turn, increased along with fresh food prices.This put pressure on the recovery of households' purchasing power, especially for the low-income group.

Thai economy in Q4/2021

Thai economy expanded by 1.9% (yoy) from in Q4/2021, and by 1.8% (qoq), seasonally adjusted.

- **Private consumption improved** from the previous quarter due to a decline in the COVID-19 situation. The Thai government eased the COVID-19 restrictions and continued to implement the stimulus measures.
- **Export grew faster at the high rate,** in accordance with the recovery trend of global trade and economy, particularly in electronics and automotive sectors.
- **Private investment was contracted** due to a decline of investment in automotive category and a slowdown in public infrastructure projects.
- **Government expenditure continued to expand.**

EEC economy in Q4/2021

EEC economy was projected to grow by 2.3 % in Q4/2021

- **Industrial sector continued to expand** as industrial exports recovered.
- **Service sector was improving** due to better situation of the COVID-19. As a result, the Thai government relaxed the control measures. The "Test and Go" policy was resumed in the "sand-box" areas in Chonburi and Rayong.
- **Agricultural sector was growing at the same pace as the previous quarter.**

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EEC economic outlook in 2022

1 Exports



Exports are expected to have a persistent growth at the high rate as global economy and trade rebound. Semiconductor chip shortages and logistics issues will be resolved. The Thai Baht depreciation will be an economic tailwind in the EEC, where the share of industrial sector is high and most of them are export-oriented, especially fast-growing sectors like automotive and parts, electronics and electrical appliances. Export prices of petroleum and chemical products are rising with crude oil prices.

2 Private consumption



Private consumption shows a sign of recovery since the COVID-19 situation subsided by the end of 2021. Although the COVID-19 situation worsened at the beginning of 2022, the impact of COVID-19 will be less severe than the last round of outbreak due to the vaccination coverage exceeding 70% of total Thai population. The exports will bounce back consistently and incomes of workers in industrial sector will increase. In addition, the Thai government will launch further stimulus measures to boost domestic consumption in Q1/2022.

3 Private investment



Private investment is likely to grow uninterruptedly as investor's confidence restored and appetite for investment resumed. In 2021, 450 projects were applied for the BOI promotion packages with total amount of 219,922 million Baht, up by 34.4% from last year. Moreover, the infrastructure projects in EEC continue to progress as planned.

4 The number of foreign tourists



The number of foreign tourists is expected to increase later. If the Thai government is to control the COVID-19 infection and ease restrictions for tourists and if the conflict between Russia and Ukraine will conclude in the near future, the tourism sector in the EEC, where Chonburi and Rayong are designated sand-box areas, should gain benefits. As a result, the tourism sectors should rebound gradually.

Future risks



The Omicron variant has become the major variant and has spread worldwide rapidly. The situation also needs to be monitored toward the new strain of COVID-19 that possibly be founded in the future as well as the development of vaccine efficiency in correspondence to the new strains.



Geopolitical conflicts in many regions are getting more intensified. Particularly, the case of Russia, Ukraine, and the United States has influenced the recovery of global economy in the aspect of trade, investment, increasing energy prices, and fluctuations in the financial and capital markets.



The rise of inflation following the surge of energy and commodity prices due to geopolitical issues, could postpone the recovery of Thai economy. Furthermore, Thai producers could have diminishing profits. This is because they could not pass all extra costs to customers by hiking the prices in the face of weak domestic demand from low-income group in particular.



Financial status issues and households' debts, as well as vulnerable firms, are key impediments for the recovery of demand in Thailand.

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Thailand and EEC economic projection



Thailand and EEC Economic Projection								
%YoY	2019		2020		2021f		2022f	
	Whole country	EEC	Whole country	EEC	Whole country	EEC	Whole country	EEC
Real GDP growth rate	2.3	1.6	-6.2	-7.8	1.6	2.1	3.6	3.8
Agriculture	-0.9	-2.8	-3.5	-2.0	1.4	2.0	1.4	2.3
Industry	-0.1	-1.0	-5.9	-7.6	3.4	4.0	1.9	2.8
Services	3.8	5.2	-6.7	-8.0	0.7	-2.6	4.7	6.3

Note: Forecasted on Feb 21, 2022.
Source: Eastern Economic Corridor (EEC) Office



Investment Promotion (cumulative)

Targeted Area in the 4th Quarter	Number of projects		Investment Value (million baht)	
	Jan – Dec 2020	Jan – Dec 2021	Jan – Dec 2020	Jan – Dec 2021
Thailand	1,599	1,674	404,610	642,680
EEC (million baht)	423	453	164,010	220,500
(%YoY)		7.09		34.44
Rayong (million baht)	162	212	88,940	112,740
(%YoY)		30.86		26.76
Chon Buri (million baht)	213	177	57,650	74,550
(%YoY)		-16.90		29.31
Chachoengsao (million baht)	48	64	17,420	33,210
(%YoY)		33.33		90.64
% of EEC to a whole country	26.45	27.06	40.54	34.31

Source: Eastern economic corridor (EEC) office collected from BOI



New Factories in EEC

Province	Q2-2021		Q3-2021		Q4-2021	
	No. of factories	Value (MB)	No. of factories	Value (MB)	No. of factories	Value (MB)
Rayong	19	51,047	26	1,820	30	1,446
Chonburi	57	3,238	70	3,490	46	3,020
Chachoengsao	28	1,695	13	2,355	23	1,519
EEC	104	55,979	109	7,665	99	5,985

Source: Eastern economic corridor (EEC) office collected from the department of industrial works

Post-COVID-19 Inflation:

Different Sources of Inflation and The Impact on the Thai Economy

Many economies are currently on the path to recovery from the COVID-19 pandemic, while they are facing the situation of increasing commodity prices, especially for crude oil. Similar to Thailand, supply chain disruption causes inflation rate to rise worldwide. At the first glance, the rapid inflation rate looks common across countries. However, a thorough investigation on the sources of inflation suggests that Thailand's inflation originated from a source, differed from other countries. **Rapid inflation is a risk factor that may affect the global economy, especially fragile recovery of Thai economy.**

Inflation situations



Currently, inflation in many countries has increased over years, stemming from the continuous rise of world commodity prices. In January 2022, the USA experienced an inflation rate of 7.5%, which is the highest in 40 years. Japan's inflation rate rose to 0.5% (highest in 2 years), and in December 2021 EU hit a record high of 4.9%. At the same time, producers in many countries are facing an energy price crisis. China, for instance, witnessed that their producer price index (PPI) in China increased by 9.1% in January 2022 (highest in 26 years), while PPI in the USA and Japan grew by 19.3%, and 8.6% respectively.

Before the COVID-19 pandemic, the inflation rate in Thailand was relatively low, compared to other countries. The inflation is in line with the low GDP growth, attributing to weak purchasing power and structural factors, particularly the aging society. **However, when the pandemic has subsided, the global economy has started to recover. Inflation was detected in Thailand in Q3/2021, but it was still lower than inflation rate in developed countries, whose economies recovered fast.** Thai inflation rate was still below several countries in ASEAN such as Singapore and Malaysia. It reflects that the Thai economy has not fully recovered and has not returned to the pre-COVID-19 level as seen in other countries.

* Definition of Inflation

Definition: Inflation depicts an economic situation where the general prices of goods and services rise widely and continuously. It could be measured by the consumer price index (CPI), which is calculated from consumer prices for goods compared to the consumer prices at the base year, and the producer price index (PPI), which is calculated from the producer price of supplies and inputs over time compared to the producer price at the base year.

Type of inflation 1. Headline inflation refers to the rate of price change, which is calculated from all goods and services. It is an inflation rate that the Bank of Thailand (BOT) set the monetary policy target.

2. Core inflation refers to the rate of price change, which does not include those from food and energy prices because of high volatility. Hence, this index can be reflected in inflation caused by demand.

The reasons for Inflation:

1. An increase in demand for goods and services or demand-pull arises from the high economic expansion and the economic stimulus policy.
2. An increase in production costs or cost-push occurs when the price of raw materials, energy, and labor increases.

If the inflation rate is too high, the purchasing power will fall, income distribution will worsen, producer sales will decline. Also, some manufacturers may decide to delay production and cut investment and employment. Conversely, if inflation is negative or deflation, prices of goods and services will decrease widely and continuously. Producers are forced to lower prices to be available for sale, thereby reducing production capacity, reducing investment, and reducing employment. This could eventually lead to economic stagnation. The target of Inflation in Thailand would be set 1-3% which aimed to maintain price-stability in the medium term.

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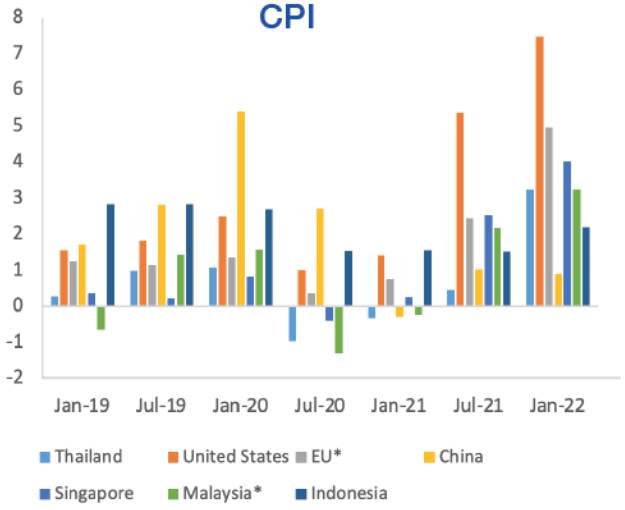
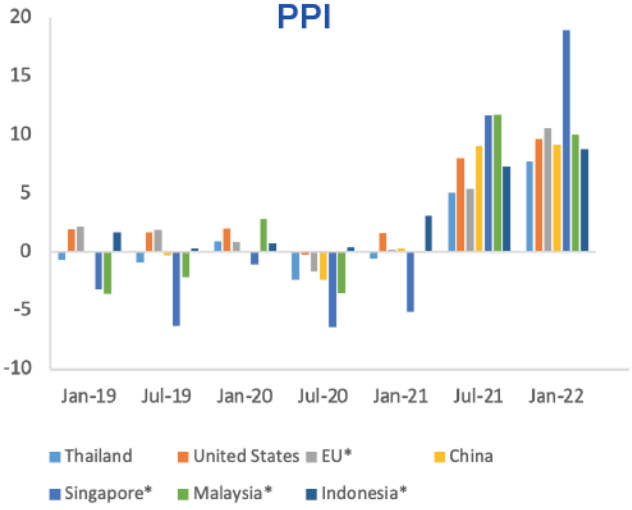
Thailand's inflation rate compared with other countries



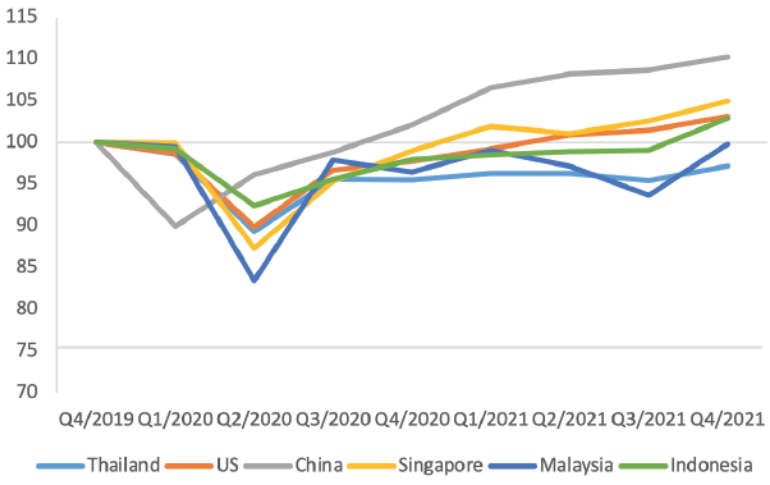




Source: CEIC Database Remark: Latest data as of December 2022

In Jan 2022, Thailand's CPI increased by 3.2% (YoY), driven mainly by soaring energy price at the rate of 19.2% (YoY), consistent with the global energy price. Fresh food's price also rose by 3.1% (YoY), caused by supply side factor, but it did not create as much inflationary pressure as energy price did*. Meanwhile, Thailand's PPI jumped by 8.7% (YoY), mainly driven by energy price, which was up by 68.7% (YoY)

Real GDP (seasonally adjusted) compared to pre COVID-19 level



Source: CEIC Database

*Note: Products from energy sector contributed to a 2.25% increase in inflation, while pork accounted for only a 0.67% increase in inflation and eggs for merely 0.05% increase in inflation.



The Future Outlook

In the next period, energy prices, which are main driving forces behind Thailand's inflation, are expected to remain at high level, due to pent-up demand after lifting lockdown measures in many countries and geopolitical tension. **However, the situation of high energy and commodities prices, and supply chain disruption will ease up in the second half of this year if the Russia-Ukraine conflict does not prolong.** If crude oil prices will jump by 11.9% from previous year as forecasted by IMF, it will translate into an increase in Thailand's CPI 2022 by 1.6%. However, this level of inflation remains within BOT's inflation targeting policy. Meanwhile, the rise of commodity price by 3.1%* will push Thailand's PPI trends to be higher as well, but **if this situation is to be prolonged and severe, inflation rate may exceed the target.**



The Impact on Thai Economy

Rising inflation drags the recovery of Thai economy, which remains fragile, and, unlike many other countries, cannot rebound to the pre-COVID-19 level. Since Thai economy highly relies on tourism sector, which slowly recovers and since exports of goods are now at the higher level than the level before pandemic, this situation reflects an uneven recovery or K-shape recovery. This type of recovery has two distinct groups of businesses: Those with fast recovery and those with slow upturn (in levels of business sector, size of business and household). Self-employed persons, mainly low-income, are likely to have slower recovery than persons in export-oriented industries. A low-income household's basket of consumption has a higher proportion of food than those of high-income households. Therefore, low-income households will be more adversely affected by inflation than high-income.

*Note: Forecasting from IMF World Economic Outlook



Fiscal Policy

A half-half subsidy program and an increase of credits in the state welfare card can reduce the low-income's expenses. Moreover, pegging and subsidizing energy prices measures are expected to alleviate the impact of inflation on household's short-term consumption.



Monetary policy cannot reduce pressures from cost-push inflation

According to Thai MPC's decision as of 9 February 2022, maintaining interest rate could continue to support a recovery of Thai economy and raising interest rate can cause stagflation (i.e., low economic growth and high inflation). Nevertheless, fast recovery countries like the U.S. would make a decision to raise interest rate to combat inflation caused by demand-pull. The difference of interest rate policy can spur fluctuations in the financial market and capital market in the future.



Long-term structural policy should reduce dependence on fossil fuel

Thai inflation fluctuates because of the movements of global energy prices, especially, high percentage of crude oil imports. Therefore, EV promotion policy can save people's spending and reduce the government's fiscal burden on subsidies of oil prices in the future.

Conclusion



Currently, increasing inflation across many countries around the world have a similar pattern. **Although the inflation in Thailand increases following the global trend, it is rather influenced by a cost-push side than a demand-pull side,** unlike in many countries that economies were recovered over the period before COVID-19 outbreak. However, jumped inflation driven by both side of cost-push and demand-pull has forced Thai firms to bear higher cost and have limitation to transmit it to consumers because Thailand's domestic demand has not been fully recovered. The inflation in Thailand is expected to decline in a second-half of the year if the conflict between Russia and Ukraine is not prolonged. Therefore, risks from the inflation are the challenge for Thailand to recover a fragile economy. The weak recovery in purchasing power is also a pressure on the sales figures. As the consequences, **Thai firms should have extra plan to manage increasing cost, and also be prepared for fluctuations in the financial and capital markets that may be occurred due to financial policy differences of Thailand and other major economies in the future.**

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Investment Promotion Status in EEC



January – December 2021

Requested value for investment promotion in EEC

219,922 million baht

⬆ +34% (yoy)

the value is 34% of the total requested value in a whole country

Approved value for investment promotion in EEC

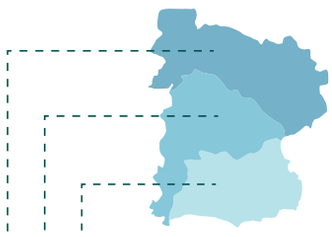
184,082 million baht

First S-Curve	New S-Curve	other industries
44%	10%	46%

Approved value

for investment promotion in agriculture, medicals, tourism, and education increased, compared to the same period in the previous year. In particular, investment in medical industry significantly increased by ⬆ 51%.

BOI distribution in EEC



- **Rayong** 79,012 MB — 44%
- **Chonburi** 65,797 MB — 36%
- **Chachoengsao** 39,273 MB — 21%

Top 3 investment value in targeted industries

1. **Electronic appliances and electronics** 31,703 MB
2. **Automotive and parts** 29,443 MB
3. **Petrochemicals and chemical products** 12,265 MB

Top 3 investor countries

1. **Japan** 19,445 MB
2. **China** 14,183 MB
3. **Netherlands** 9,624 MB

Source: BOI
Status updated as of Mar 3, 2022

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