Voluntary Report – Voluntary - Public Distribution  Date:  May 22,2020
Report Number: TH2020-0071

Report Name: The COVID-19 Impact on the Thai Economy

Country: Thailand

Post: Bangkok

Report Category: Agricultural Situation

Prepared By: Ponnarong Prasertsri, Agricultural Specailist, Maysa Chanikornpradit, Agricultural Specialist

Approved By: Russell Nicely

Report Highlights:

The COVID-19 outbreak beginning in January 2020 is now under control, but the economy is moving towards recession as businesses lose revenue and households lose income from supply chain disruption, particularly in tourism and exports. The government’s relief measures are unlikely to offset the contraction in aggregate demand in 2020.
Executive Summary

The outbreak of COVID-19 in Thailand began on January 13, 2020. The number of new cases slowly increased, until reaching an average of 130 new cases daily in mid-April 2020. The Thai government imposed stringent measures to curb the spread of COVID-19, including a lockdown, which began on March 26 and is scheduled to end on May 31, 2020. The daily infection rates dropped below 10 new cases in early May 2020 with total confirmed cases at 3,034 on May 20, 2020. The Thai government began easing lockdown measures on May 1, 2020, due to the slowdown of new cases being reported. However, the outbreak caused an economic downturn in the first quarter of 2020 due to a reduced number of foreign tourists in Thailand. Business and consumer confidence fell to a record low as businesses and households lost revenue from supply chain disruptions caused by COVID-19, particularly in tourism and exports. The Thai government expects that the impact of COVID-19 will be even worse in the second quarter of 2020. The Bank of Thailand revised down the economic forecast in 2020 to a negative economic growth of 5.3 percent with a slow economic recovery of 3 percent in 2021. The economic downturn prompted the government to approve a one trillion baht budget (U.S. $31 billion) to alleviate the economic impact from the outbreak of COVID-19. Additionally, the Bank of Thailand (BOT) lowered its policy interest rate to a historical low level, which helped weaken the Thai baht in line with regional currencies after WHO designated COVID-19 a pandemic. Moreover, the BOT will provide a 500 billion soft loan (U.S. $15.5 billion) to help SMEs. Nevertheless, the government’s relief measures and the BOT’s financial assistance to support vulnerable households and businesses will not be able to offset the contraction in aggregate demand in 2020.

1. The Emergence of the COVID-19 Outbreak and Its Development in Thailand

On January 13, 2020, Thailand’s Ministry of Public Health (MOPH) announced the first confirmed COVID-19 case. By the end of January, the total number of confirmed cases rose to 19. The number of new cases rose slowly until mid-April when the Thai government started reporting an average of 130 new cases daily. Due to stringent measures, including the lockdown beginning on March 26, 2020, and continual public communication through the Centre for COVID-19 Situation Awareness (CCSA) to encourage personal health safeguards, the infection rates dropped sharply in early May to below 10 new cases per day. As of May 20, the number of confirmed cases totaled 3,034, with deaths at 56 and recoveries at 2,888.

2. The Government’s Disease Surveillance and Control

In January 2020, the Department of Disease Control (DDC), Ministry of Public Health (MOPH), scaled up the Emergency Operations Center located at all airports (both domestic and international) and seaports to Level 3 to monitor the spread of COVID-19. As the situation worsened around the region and the world, the MOPH officially declared COVID-19 a dangerous communicable disease in order to enforce the administration of COVID-19 tests, medical treatment provisions, and quarantine on February 29, 2020, and on March 25, 2020, Prime Minister (PM) Prayut Chan-o-cha declared a state of emergency and announced a lockdown policy. The lockdown went into effect on March 26, 2020, with the following measures.

1) a nationwide curfew, banning people from leaving home between 10 p.m. and 4 a.m;
2) a temporary closure of schools and several businesses (e.g., restaurants, department stores, and entertainment venues), except for food delivery, supermarkets, restaurants’ delivery service providers and food markets, drug stores, convenience stores, banks, and other stores selling necessary items;
3) a postponement of the Thai traditional New Year's holiday in April;
4) a ban of alcoholic beverage sales in April; and
5) a prohibition of the entry of foreigners into the Kingdom of Thailand except diplomats, cargo shipments, pilots, and foreigners with a work permit and restricting all international incoming flights until May 31, 2020.

On May 1, 2020, the CCSA announced the government’s decision to ease the lockdown measure effective nationwide in four stages. The first stage included the following groups of business: 1) markets, 2) eateries, 3) retail and wholesale trading, 4) sports and recreation 5) barbershops and a beauty salon; and 6) pet grooming shops. On May 17, 2020, shopping malls reopened under strict guidance to enforce social distancing and track the number of people in their stores as the daily number of confirmed cases remained in the single digits during the first half of May.

The chart below depicts the development in a number of affected patients, recovery and get-well cases, and casualty cases.

3. The Impact of the COVID-19 Outbreak on the Thai Economy

Thailand faced an economic downturn in the first quarter of 2020 mainly due to China banning outbound travel that led to a reduction in the number of foreign tourists in Thailand. The impact of COVID-19 became more intensified in March 2020 when the Thai government began to enforce a lockdown to control the spread of COVID-19 leading to reduced household incomes and confidence, which caused private consumption to shrink for the first time in five years despite the fact that spending
on necessary consumer goods still expanded. Manufacturing in the first quarter of 2020, which accounts for 34 percent of the Thai economy, fell 7 percent from the same period last year. The food and beverage (-11%) and automotive (-19%) sectors saw the biggest declines despite increases in the production of hard disk drives (+7%), electrical appliances (+6), and IC and semiconductors (1%), which were driven by growing export and domestic demand for computers and mobile devices during the lockdown. Additionally, the service sector, which accounts for 27 percent of the Thai economy, has been adversely affected by COVID-19, particularly for hotels and restaurants, and transportation services mainly due to reduced number of foreign tourist arrival (-36%) in the first quarter of 2020. The reduced manufacturing production and shrinking service sector made the labor market more vulnerable.

However, the unemployment rate remains low at around one percent due to the shortage of migrant workers from neighboring countries such as Myanmar, Cambodia, and Laos who returned to their home countries before borders were closed. Despite negative inflation in March 2020 due to reduced petroleum prices, inflation in the first quarter of 2020 still increased slightly from the fourth quarter of 2019. Farm income in the first quarter of 2020 increased by 2 percent from the same period in 2019 as a drought-triggered reduction in agricultural production was offset by a temporary surge in agricultural prices, particularly for rice prices, which were driven by strong export demand as key rice suppliers in the Asian region restricted their rice exports during March - April 2020 due to concerns about COVID-19.
The Thai government expects that the impact of COVID-19 will be even worse in the second quarter of 2020, as lockdown enforcement was extended until the end of May 2020. Business and consumer confidence fell to a record low as businesses and households lost their revenue from supply chain disruptions caused by COVID-19, particularly in tourism and exports. The Bank of Thailand revised down the economic forecast in 2020 from 2.8 percent in the previous forecast to a negative economic growth of 5.3 percent with a slow economic recovery of 3 percent in 2021. The number of tourists are expected to decline to 14 million people in 2020, down 62 percent from 39.8 million people in 2019. This reduced tourist numbers will hit the service sector the hardest, which accounts for 12 percent of GDP and constitutes approximately 20 percent of the total employment in Thailand, particularly for hotel and restaurant, and transportation services. Exports are forecast to decline by 8-9 percent from 2019 due to a global economic recession. In addition, farm income is expected to decline in 2020 as MY2019/20 agricultural production was affected by adverse weather condition, particularly by severe drought in the off-season crop during the first half of 2020.
The economic downturn prompted the government to approve a one trillion baht budget (U.S. $31 billion) to alleviate the economic impact from the outbreak of COVID-19, of which 600 billion baht (U.S. $18.6 billion) will be used for economic relief measures, and 400 billion baht (U.S. $12.4 billion) for economic recovery measures. The COVID-19 economic relief spending accounts for around 6 percent of GDP. So far, the government’s relief measures mainly provide financial support to vulnerable households with a direct payment of 5,000 baht per month (U.S. $155/month) for three months. The government estimated that there are around 3 million people eligible for this direct payment. The relief measures will also include direct payments to 3 million farmer households and 2 million disabled people, financial assistance to healthcare and public health sector, tax relief programs for corporates and employees, and the 3 percent discount on electrical and water utility bills for three months (April – June 2020).

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The Bank of Thailand (BOT) lowered its policy interest rate to 0.75 percent per annum in March 2020 and down further to a historical low level of 0.5 percent per annum on May 20, 2020, which helped weaken the Thai baht to 32 – 33 baht/U.S. $1.00 in line with regional currencies after WHO designated COVID-19 a pandemic. In addition, the BOT will provide a 500 billion soft loan (U.S. $15.5 billion) through financial institutions to help SMEs with a concessional interest rate of 2% for two years together with the first six months interest-free. So far, around 20,000 SMEs, which account for 74 percent of total SMEs, are eligible to receive soft loans totaling 36 billion baht (U.S. $1.1 billion). In addition, all SMEs with a credit line not exceeding 100 million baht (U.S. $3.1 million) are eligible for a loan payment holiday for six months. Moreover, the BOT established the Corporate Bond Stabilization Fund to stabilize the corporate bond market with a budget of 400 billion baht (U.S. $12 billion). Nevertheless, the government’s relief measures and the BOT’s financial assistance to support vulnerable households
and businesses will not be able to offset the contraction in aggregate demand in 2020. The Thai economy will be shrinking significantly in 2020, which is the first economic downturn since 2009.

End of Report.
Attachments:

No Attachments.