



Kingdom of the Netherlands

THAILAND ECONOMIC UPDATE

A REVIEW OF H1/2022 AND OUTLOOK TO 2022

The Embassy of the Kingdom of the Netherlands in Bangkok regularly publishes economic updates about Thailand, Thai-Dutch bilateral trade and investment and our business support services to Dutch companies.



Economic Review Thailand

Thailand's economic performance in the first half of 2022

The Thai economy continued its course of recovery after the country's reopening to foreign visitors in November 2021 and the relaxation of the COVID-19 containment measures. The GDP in Q2/2022 expanded 2.5% year-on-year, up from 2.2% in Q1/2022. For the first half of 2022, the economy grew 2.4% from the same period of the previous year, contributed by exports, private consumption and tourism recovery.

The increase in merchandise exports, which was the main engine to the economic growth in the first quarter slowed down in the second quarter, from 10.2% (growth in real terms) in Q1/2022 to 4.6% in the Q2/2022, due mainly to a decline in exports to China, Hong Kong and Australia.

A stronger-than-expected boost in private consumption and tourism helped offset weak goods exports. Private consumption rose by 6.9% in Q2/2022, accelerating from 3.5% in Q1/2022. This was supported by rising income after the relaxation of COVID-19 control measures together with the government's stimulus packages such as subsidies for food, general goods, and domestic tourism.

Tourism related services, particularly accommodation and food service activities, grew favourably for two consecutive quarters by 33.5% and 44.9% in the first and second quarter, respectively. The number of foreign tourists increased notably in the second quarter to 1,582,257 persons, from 497,693 persons in the first quarter, thanks to the termination of the Test & Go program for inbound tourists, border reopening to neighboring countries, and the easing of international travel restrictions in several key countries of origin.

Other services sectors e.g. wholesale and retail trade, transportation, ICT and communication, and finance also expanded in accordance with the increase in economic activities and consumer spending, except the construction sector that contracted as a result of a drop in public investment.

Meanwhile, the agriculture and manufacturing sectors showed signs of deceleration. Agricultural, forestry and fishing increased by 4.4% in Q2/2022, compared with a 4.7% rise in Q1/2022. Major products with production expansion included paddy, sugarcane, maize, fruits, and poultry. Those with contraction were swine, cattle, shrimp, oil palm, cassava and rubber.

Manufacturing decreased by 0.5% in Q2/2022, from a 2.0% increase in Q1/2022, due to a slowdown in external demand and prolonged global supply chain disruption which affected the production of computers and peripheral equipment, electrical devices and machinery. However, the production of motor vehicles, apparels, leather, refined petroleum and pharmaceutical products grew in line with domestic demand.

The labour situation continued to improve with the unemployment rate in Q2/2022 dropping to 550,000 workers or 1.4% of the total workforce. This is the lowest level since the pandemic broke out in early 2020. Household debt remained relatively high at 89.2% of GDP in Q1/2022, but increased at a slower rate of 3.6% compared with a 3.8% rise in Q4/2021.

The headline inflation surged to 6.5% at the end of Q2/2022, driven mainly by supply side factors, clustering in the energy- and food-related categories. Public debt to GDP was at 60.9%.



For the external stability, the current account's deficit became larger at 7.1 billion USD but the international reserves remained high at 222.3 billion USD at the end of Q2/2022.

Thailand's economic outlook for 2022

The economic recovery is likely to solidify in the second half. Output should reach its pre-pandemic level by Q4/2022 supported by the continual improvements in the tourism sector and private consumption, driven by higher income and improved employment. Exports of goods will continue to drive the economy but at a decelerating rate following the softening global demand. For the full year of 2022, research centers forecast Thailand's economy to expand around 3%.

Despite the growth prospects, the economy is facing various risks and constraints. Geopolitical tensions, which have disrupted the global supply chains, have been pressuring Thailand's economic expansion. For instance, the issues between the US and China on Taiwan have affected the global semiconductor supply and the Thai production accordingly i.e. on the manufacturing of products such as computers and electrical devices, as well as vehicles. The tensions will also make export growth difficult as incomes are being squeezed across the world.

The Russia-Ukraine war has not only set back the Thai recovery but also highlighted the economy's dependence on energy imports, particularly oil. Inflation, driven mainly by supply side factors clustering in the energy- and food-related categories, has surged to a 14-year high since June, prompting the Bank of Thailand to raise the policy interest rate for the first time in nearly four years, from 0.50% to 0.75%, at its meeting in August. Inflation is projected to peak in Q3/2022. Price controls will help limit inflation pressure.

In addition to the high inflation, domestic demand is constrained by relatively hefty household debt and increasing liabilities of companies from rising interest rates. The recent flooding also affects agricultural production and service activities, while uncertainties in the pandemic and domestic political situation are worth to monitor.

As for economic stability, the Thai economy has proven to be resilient due to strong fundamentals in three main areas: (1) high international reserves with low level of external debts; (2) a healthy financial position of the banking sector (capital adequacy ratio of 20%); and reasonable level of public debt even after the significant increase in borrowing (at around 60% of GDP) with low cost of finance.

The government's economic management for the short term is therefore focused on: domestic price monitoring to be in line with input costs, along with targeted assistance to the low-income and vulnerable groups; supporting agricultural production; boosting exports; catalyzing the recovery in tourism and related services sector by promoting the development of high-quality tourism, and stimulating private investment especially in the EEC and other special economic zones.

At the same time, Thailand needs to implement its economic restructuring policy aiming in particular at enhancing competitiveness, improving income distribution, and moving towards a low-carbon society. According to the World Bank's report published in June 2022, a transition towards a circular economy could increase Thailand's GDP by 1.2% and reduce the country's greenhouse gas emissions by about 5% by 2030.



The Netherlands-Thailand Trade and Investment

Bilateral trade

According to CBS, bilateral merchandise trade in the first half of 2022 increased by 4.5% year-on-year, to 2.4 billion euros. Positive developments were recorded in both exports and imports. The Netherlands' exports to Thailand grew by 13.7% to 588 million euros and the Netherlands' imports from Thailand expanded by 1.8% to 1.8 billion euros.

Thailand's top import items from the Netherlands are mainly industrial goods i.e. machinery & parts, electronic integrated circuits, chemicals, medicinal & pharmaceutical products, and scientific & testing instruments. Principal agricultural imports are animals and animal products.

Similarly, Thailand's top export items to the Netherlands are concentrated on computers & parts, printers, telephone sets & parts, electronic integrated circuits, and electrical equipment & parts. For agricultural products, key exports are prepared poultry and rubber products.

Bilateral investment

Based on the Bank of Thailand's statistics on Thailand's cumulative investment position, investment from the Netherlands is the biggest EU source of foreign direct investment (FDI) in Thailand, and stood at 17.1 billion USD at the end of the first quarter of 2022, and No. 5 globally (following Japan, Singapore, Hong Kong, and the U.S.).

The Netherlands is also the No.1 EU destination for Thai Direct Investment (TDI) abroad, with accumulated investment of 17.2 billion USD, and No. 3 globally (after Hong Kong and Singapore).

Business Support Services by The Embassy

In the first half of 2022, the Embassy continued to proactively provide business support services despite the COVID-19 interruptions and uncertainties around it. The team completed support to 224 trade requests. The Agriculture & Food sector still received the most requests mainly concerning market access barriers, followed by the Water & Maritime sector. Environment became another area that gained more interests.

As the COVID-19 control measures were relaxed, allowing the organisation of events and larger scale exhibitions, the Embassy organised sessions and set up the NL Pavilion at Horti Asia & Argitechnica in May. This was our first physical participation in trade fairs since the outbreak in early 2020.

The Embassy continued to utilise digital technology in providing support and updates to Dutch businesses. This included virtual meetings and knowledge sharing webinars e.g. an inspirational session for the LSH Mission. Given also the advantage of wider outreach, online platforms or live broadcast were incorporated in most of our events.

In the first half, the Embassy organised/co-organised 15 events. These include: a hybrid session on Fighting Plastic Pollution in Thailand in March, Signing ceremony for the MoU on Ship Design and Ship Building in May, and Floriade Press Conference. The Embassy also facilitated NFIA Roadshow Mission to Thailand.



This update is prepared by the Embassy of the Kingdom of the Netherlands in Bangkok, Thailand

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