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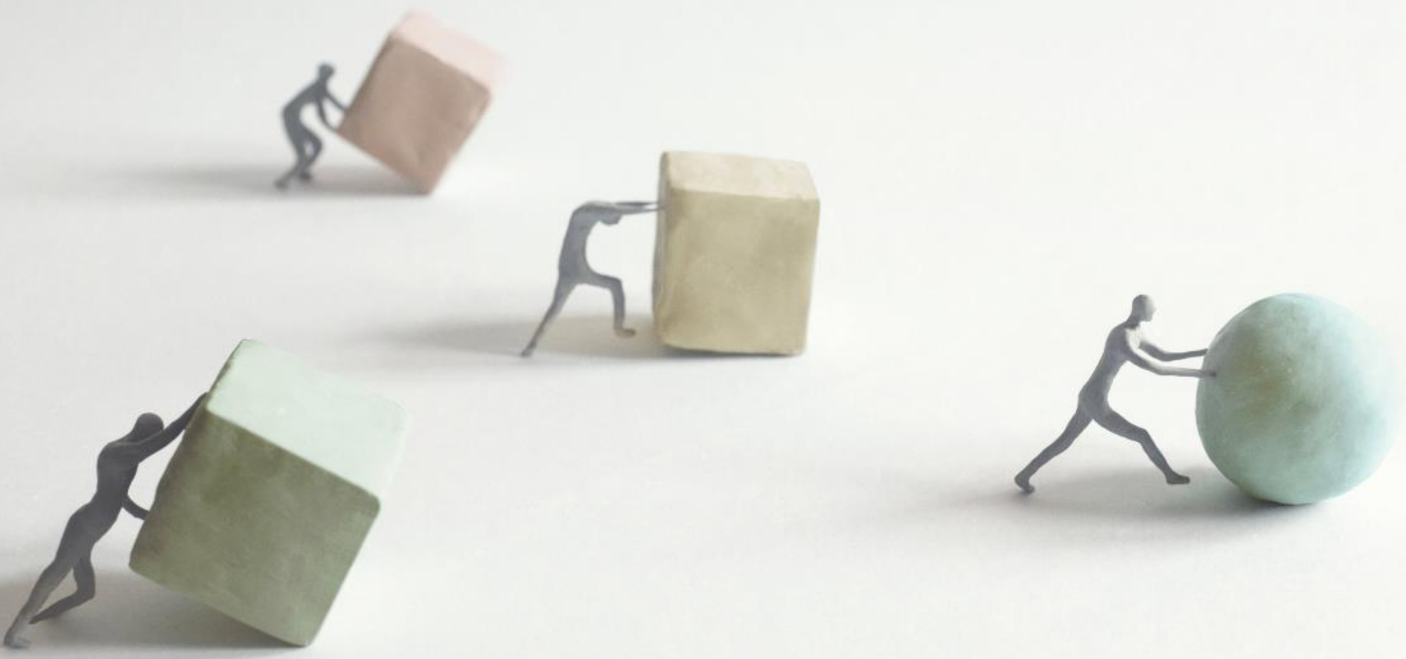
InnovestX Securities Company Limited

Q3/2023

SCB EIC

Outlook

Economic Outlook 2023-2024
as of Q3/2023



SCB EIC downgraded Thailand's 2023 growth forecast to 3.1% after lackluster outturns in Q2 and export contraction. Still, Thai economy will advance to 3.5% in 2024.

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Outlook Q3/2023

Executive summary

The global economic recovery will be increasingly unsynchronized. SCB EIC expects the global economy to expand by 2.4% in 2023 and stand steady in 2024. Despite an outperforming growth over recent months, the global economy from Q4/23 to 2024 will face persistent fragility on the back of elevating inflation, policy rate hikes among advanced economies, and depleting excess savings. China's economy will witness a sharp slowdown in the short and long term, pressured by structural challenges. **The rate hike cycle among advanced economies will come to an end within this year. We expect the Fed, ECB, and BOE to kick off monetary easing in 2H/24** amidst subsiding core inflation. PBOC tended to stay the course on an accommodative stance to bolster the flagging economy. In contrast, BOJ will likely scale down its ultra-loose monetary policy due to signs of soaring inflation.

Thailand's economy will continue to expand in 2023 and 2024, yet the rebound should be uneven across economic sectors. SCB EIC downgraded Thailand's 2023 GDP forecast to 3.1% (from 3.9%) due to export contraction and disappointing outturns in Q2, but there remained significant impetus from private consumption and the tourism sector. **We expect more upbeat GDP growth at 3.5% in 2024, backed by export rebound and improving private investment—as BOI tended to greenlight more investment projects next year. Inflation will likely pick up** in Q4 alongside energy and food prices, but still hover within the target range.

In our view, Thailand's policy rate will ascend to the terminal rate of 2.5% as the economy continues to regain its potential strength, while inflation faces upward pressures from rising energy and food prices. Thus, the real interest rate should gradually turn positive and contribute to Thailand's economic and financial stability in the long term.

Looking ahead, The Thai economy will face with some major uncertainties. (1) China's economic slowdown will hamper exports of some products and weaken inward FDI from China. The slowdown might also deter Chinese buyers' demand in some segments of Thailand's property market. **(2) Severe drought** could slash Thai GDP growth by -0.5 pp and drive inflation by +0.63 pp during 2023-2024 in our base case. **New government policies also pose uncertainties to the economic outlook.** Massive stimulus packages (such as a digital wallet scheme) might bolster Thailand's GDP growth to over 5% in 2024, yet the effects will be temporary. Besides, a large-scale stimulus might not enhance Thailand's economic potential in the long term. Instead, It will entail a higher fiscal burden and smaller fiscal space to address future uncertainties. The new government's short-term stimulus packages will likely benefit businesses related to consumption, tourism, and agriculture. In contrast, such measures will heighten costs for businesses with a large proportion of basic-skilled labor, while pressuring the energy sector's revenue.

Thai economic outlook for 2023-2024

SCB EIC revised down its GDP growth forecast for 2023 to 3.1% due to a much lower-than-expected outturn in Q2 and a large contraction in exports. In 2024, the Thai economic growth is expected to accelerate to 3.5% with uncertainties on China's economic slowdown, severe drought and government stimulus.

Key forecasts

GDP
(%YOY)

2023F	2024F
3.1 (3.9)	3.5

SCB EIC revised down its GDP growth forecast for 2023 to 3.1% (from 3.9%) due to a much lower-than-expected outturn in Q2 and a continued export contraction. Still, there remains impetus from private consumption and tourism sector. In 2024, the Thai economic growth is expected to accelerate to 3.5% with an upbeat recovery in foreign tourists around 37.7 million. Also, private investment is expected to grow in line with the better trend of investment greenlights from Thailand's Board of Investment (BOI) and export recovery. Looking ahead, the Thai economy will face uncertainties from China's economic slowdown and severe drought, while government stimulus should also be monitored.

Policy rate (year-end)
(%)

2023F	2024F
2.50 (2.50)	2.50

SCB EIC expects one more policy rate increase at the Monetary Policy Committee (MPC) Meeting in September to the terminal rate of 2.50% as the Thai economy is expected to continue expanding to its potential level while there remains inflationary pressures from rising energy and food prices. This will allow real policy rate to turn positive, fostering long-term economic and financial stability against the backdrop of financial imbalance accumulation during a low-for-long period.

Exchange rate (year-end)
(THB/USD)

2023F	2024F
33.5-34.5 (32-33)	32-33

The baht is expected to gradually strengthen toward the end of the year on the back of recovery of the Thai economy and current account, with less political uncertainty. However, the baht may not strengthen as much as previously expected due to China's weaker-than-expected economy and massive Thai government stimulus potentially resulting in a larger discal deficit.

Source: SCB EIC analysis based on data from Office of the National Economic and Social Development Council, Office of Agricultural Economics, National Statistical Office, Office of the Election Commission, Ministry of Finance, Bank of Thailand, Ministry of Commerce, Tourism Authority of Thailand, CEIC, and Bloomberg.

Thai economic outlook for 2023

Positive factors

The number of foreign tourists continues to improve, benefiting the recovery in the service sector whereby reducing vulnerabilities in the labor market.

Private investment is expected to grow in line with a better trend in investment greenlights from the BOI and export recovery.

Negative factors

Chinese economy is expected to slow down, putting pressure on Thai exports.

High household debt and rising default risks after relief measures expire will affect consumption.

Severe drought could affect the agricultural sector.

Risk factors

China's economic problems become more severe than expected, spreading into a financial crisis in China.

The US economy's hard landing could occur as inflation could accelerate, forcing the Fed to continue raising interest rates.

Global geopolitical risks may escalate such as the Russia-Ukraine conflict or the US-China economic polarization, which could affect global supply chain and Thai good exports.

The drought could become more severe than expected, resulting in a severe slowdown in agricultural prices and output.

Source: SCB EIC analysis based on data from Office of the National Economic and Social Development Council, Office of Agricultural Economics, National Statistical Office, Office of the Election Commission, Ministry of Finance, Bank of Thailand, Ministry of Commerce, Tourism Authority of Thailand, CEIC, and Bloomberg.

Global economic outlook for 2023-2024

SCB EIC revised up its global GDP growth forecast for 2023 to 2.4% thanks to outperforming US and Japanese economies, which help offset the impact of China's economic slowdown.

Economic growth

SCB EIC revised up its global GDP growth forecast for 2023 to 2.4% (from 2.1%). Although the global economy has been outperforming the consensus, the slowdown is still expected from Q4 onwards.

In 2024, the global economy is projected to grow 2.3% close to this year's forecast. The slowdown is expected to continue in the first half of the year as a result of inflation and policy rate hikes in advanced economies, as well as depleting excess savings. However, the global economy could resume expansion in the latter half of the year as monetary policy easing starts.

Inflation rate

Inflationary pressures in advanced economies remain high in recent periods but are expected to decline during the remainder of this year as the labor market and wage pressures have started to weaken.

Nevertheless, headline inflation could accelerate looking ahead in line with outlook of energy and commodity prices.

Monetary policy direction

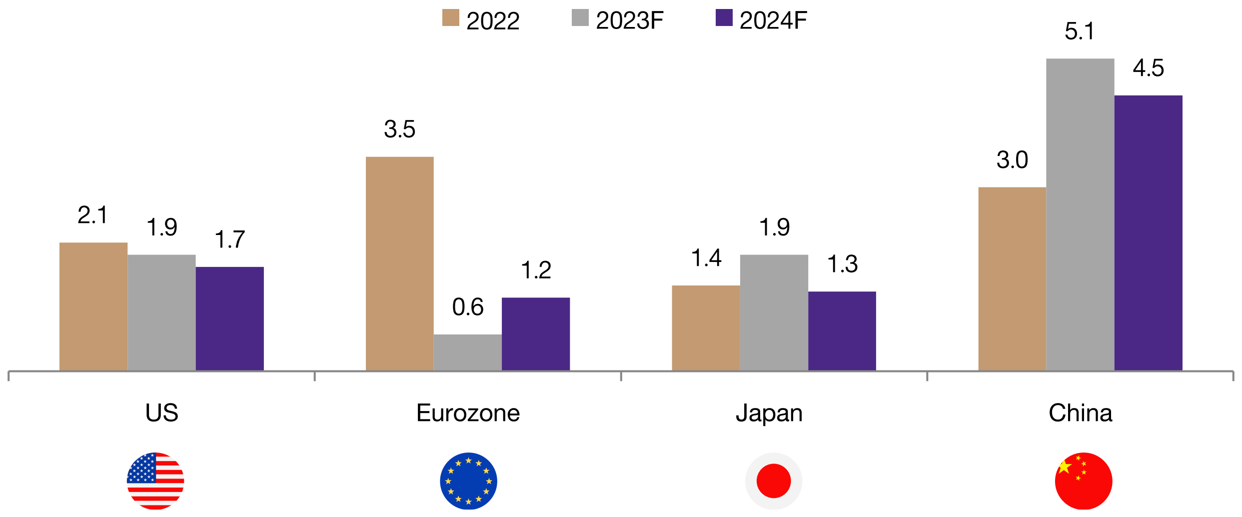
Fed is expected to hold the policy rate at 5.25-5.5%. Similarly, the ECB is expected to maintain its policy rate at the current rate of 4% in order to bring inflation down to target of 2%.

BOE is expected to raise policy rate to the terminal rate of 5.75% in November, the highest level among advances economies (AEs). Policy rate is expected to be raised by 0.25% 2 more times in September and November due to high inflationary pressures, while real policy rate remains largely negative.

Source: SCB EIC analysis.

Global economic growth for 2022-2024

Unit: %YOY



Supporting factors

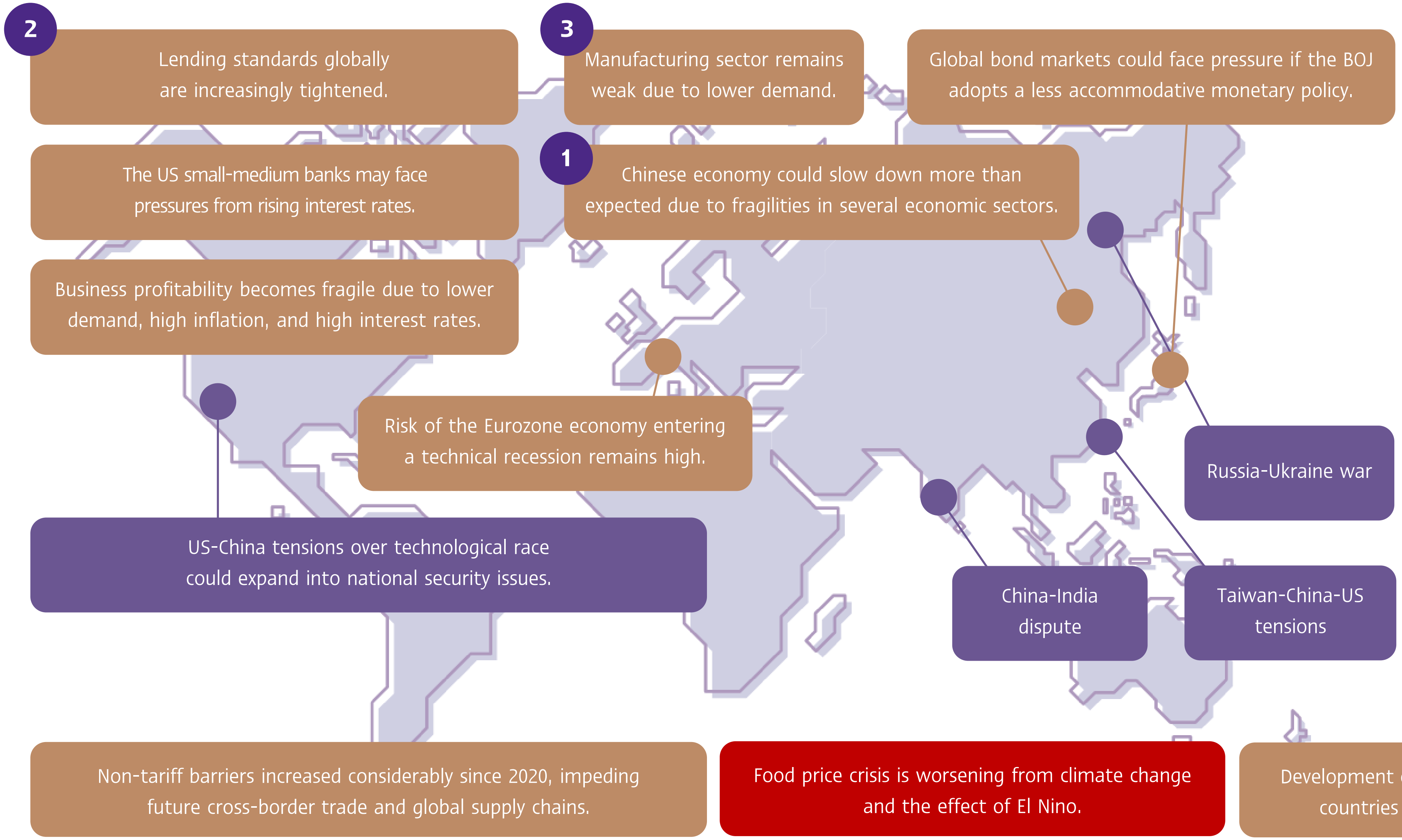
- A stronger-than-expected US economy in Q3 from consumer spending and a better-than-expected growth of the Japanese economy in Q2 driven by larger net exports.
- High flexibility in the global labor markets, supporting labor income and consumption.
- Continued recovery in the services sector while manufacturing sector starts to stabilize.

Risk factors

- Tightening lending standard while excess savings are depleting
- China's economic slowdown.
- Weakening manufacturing sector and international trade.
- Potentially accelerating commodity prices in Q4.
- Prolonged geopolitical conflicts.
- Risk of US government shutdown and uncertainty in the US small-medium banking sector.

Source: SCB EIC analysis.

Global economic risk map for 2023-2024



2023 Global economic risk categories

- Politics and geopolitics
- Economic and finance
- War and military
- Social

Note

1 2 3

Are 3 major risks to the global economy with high probability and high impact within 2023.

Source: SCB EIC analysis.

Major events for the global economy in 2023 and Q1/2024

Watch list for 2023

September 14	ECB meeting with macroeconomic projections	European Central Bank (ECB) holds a monetary policy meeting and releases Eurozone economic growth forecast.
September 19-20	FOMC meeting with macroeconomic projections	The Federal Reserve (Fed) holds a monetary policy meeting and releases US economic growth forecast.
October 26	ECB meeting with macroeconomic projections	European Central Bank (ECB) holds a monetary policy meeting and releases Eurozone economic growth forecast.
October 30-31	BOJ meeting with outlook report	Bank of Japan (BOJ) holds a monetary policy meeting and releases Japanese economic growth forecast.
November 2	BOE meeting with monetary policy report	Bank of England (BOE) holds a monetary policy meeting and releases monetary policy report.
December 12-13	FOMC meeting with macroeconomic projections	The Federal Reserve (Fed) holds a monetary policy meeting and releases US economic growth forecast.
December 14	ECB meeting with macroeconomic projections	European Central Bank (ECB) holds a monetary policy meeting and releases Eurozone economic growth forecast.

Watch list for 2024

January 22-23	BOJ meeting with outlook report	Bank of Japan (BOJ) holds a monetary policy meeting and releases Japanese economic growth forecast.
February	BOE meeting with monetary policy report	Bank of England (BOE) holds a monetary policy meeting and releases monetary policy report.
March 7	ECB meeting with macroeconomic projections	European Central Bank (ECB) holds a monetary policy meeting and releases Eurozone economic growth forecast.
March 19-20	FOMC meeting with macroeconomic projections	The Federal Reserve (Fed) holds a monetary policy meeting and releases US economic growth forecast.

Source: SCB EIC analysis based on data from the Federal Reserve (Fed), European Central Bank (ECB), Bank of England (BOE) and Bank of Japan (BOJ).

Global economy

Global economy is experiencing unsynchronized recovery and vulnerability, especially short and long-term challenges in China.

Global economic growth likely accelerates to 2.4% in 2023 from a better recovery in the US and Japan offsetting a slowdown in China. However, high interest rates and inflation beyond Central Banks' targets continue to make global economy vulnerable in 2024.

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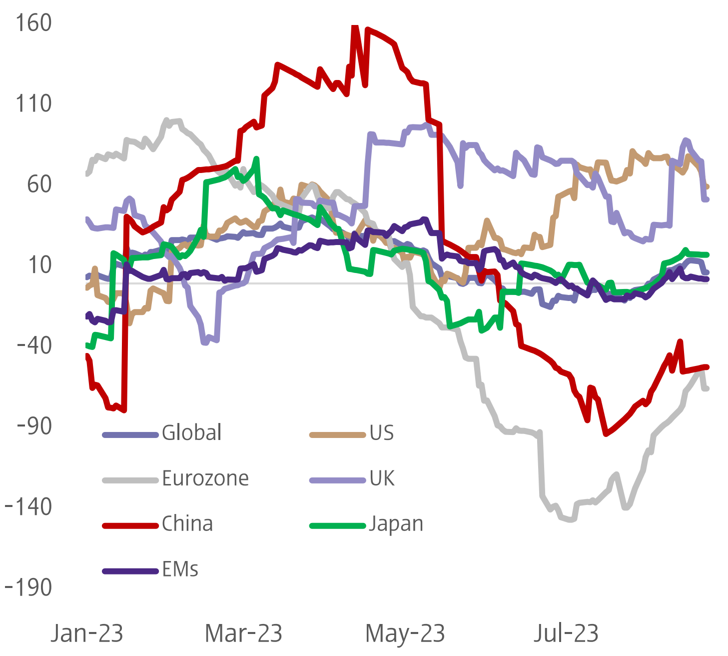
Global economic growth forecast by SCB EIC

Unit: %YOY

GDP growth	2022	2023 Forecast		2024
		Jun	Sep	
Global	3.0%	2.1%	2.4% ↑	2.3% ↓
US	2.1%	1.4%	1.9% ↑	1.7% ↓
Euro	3.5%	0.6%	0.6% ↔	1.2% ↑
UK	7.5%	-0.6%	0.4% ↑	0.7% ↑
Japan	1.4%	1.2%	1.9% ↑	1.3% ↓
China	3.0%	5.7%	5.1% ↓	4.5% ↓
India	6.7%	6.4%	6.1% ↓	6.3% ↑
CLMV	6.4%	4.6%	4.6% ↔	5.8% ↑

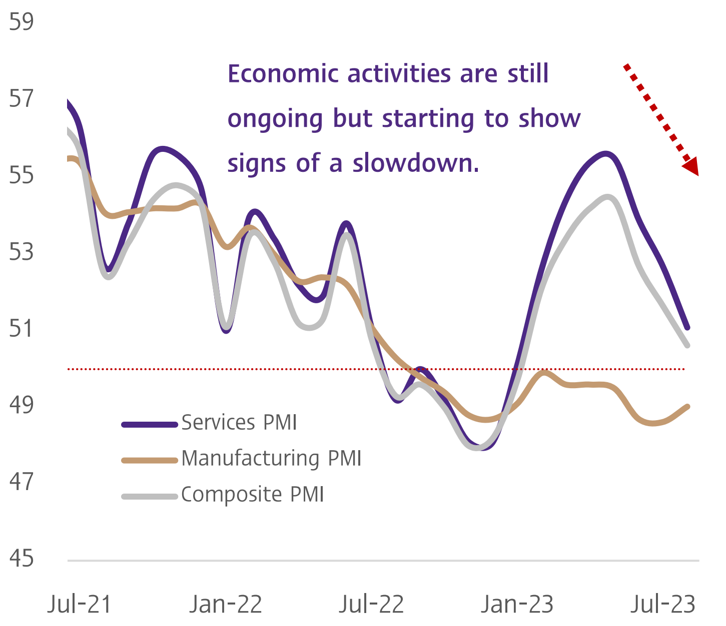
Citi Economic surprise index

Unit: Index, < 0 = Actual economic indicators worse than forecasts (as of August 24, 2023)



Global Purchasing Manager Index (PMI)

Unit: Index, > 50 = Expansion



Upside

- **US economy in Q3 is likely to be stronger than expected** from consumer spending, which driven by temporary factors (movies and concerts). **Japan economy reported better growth in Q2 due to an increase in net exports.**
- **Global labor market has been resilient,** supporting wage growth and consumption.
- **Recovery in Service sector,** despite some signs of slowing down, is expected to continue in the future, while manufacturing sector started to be stable.

Downside

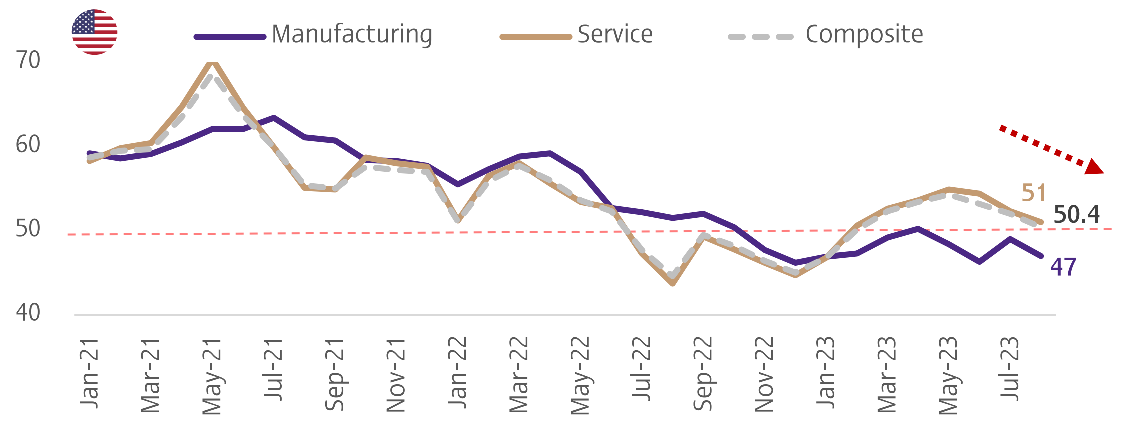
- **Tightened credit standards** hinder investment and consumption, **while excess savings start to decline.**
- **China's slow economic recovery** due to sluggish real estate sector and domestic demand.
- **Weak manufacturing sector and international trade** from stagnant global demand.
- **Commodity prices may accelerate in Q4,** following OPEC+ oil supply cut and agricultural production protection policies in several countries and **El Niño** may cause agricultural product prices to rise at the end of this year.
- **Prolonged geopolitical conflicts.**
- **Risks of US government shutdown and uncertainties in US small – medium banking sector.**

Source: SCB EIC analysis based on data from Bloomberg, S&P Global, and CEIC.

Global economic recovery became unsynchronized. US and Japan economies reported stronger growth driven by service sector, while EU and China economies shown more signs of deceleration, especially in manufacturing sector.

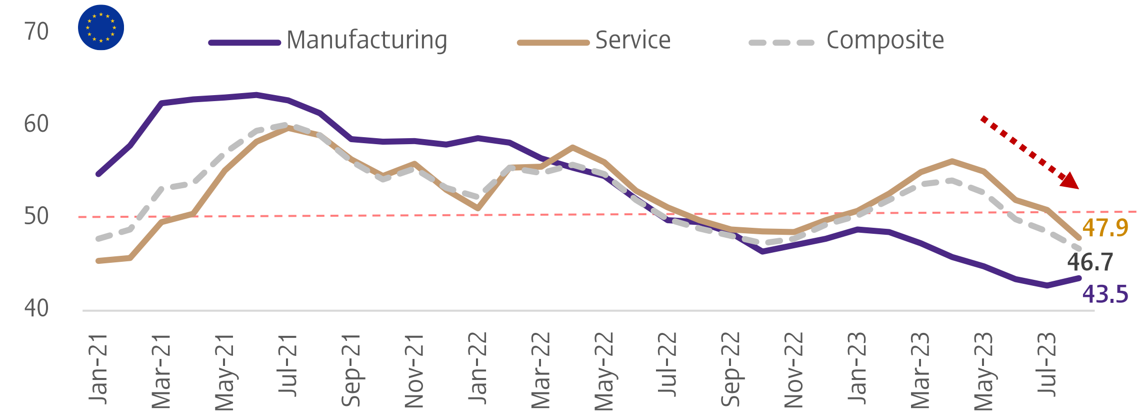
S&P Global PMI: US

Unit: Index (> 50 = Expansion)



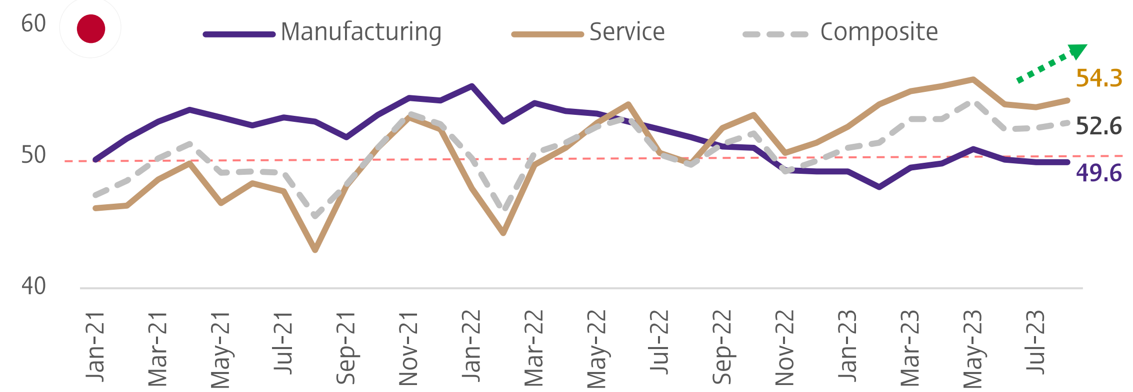
S&P Global PMI: EU

Unit: Index (> 50 = Expansion)



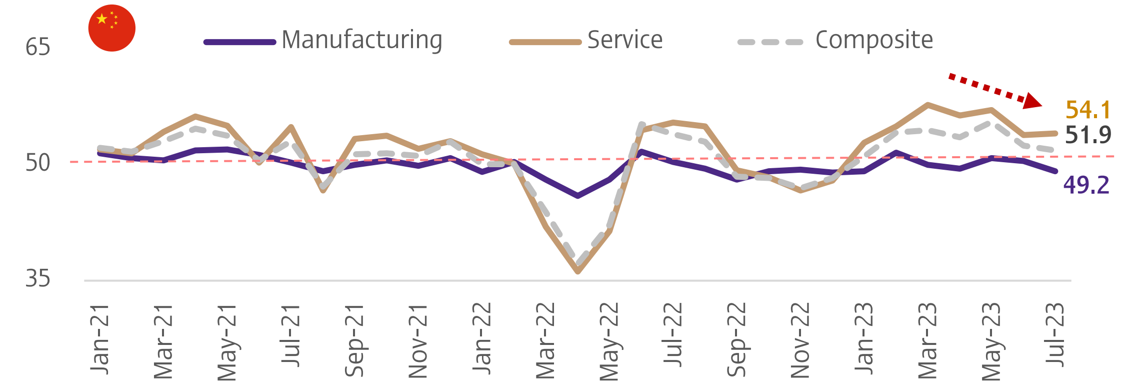
S&P Global PMI: Japan

Unit: Index (> 50 = Expansion)



S&P Global PMI: China

Unit: Index (> 50 = Expansion)



Source: SCB EIC analysis based on data from Bloomberg.

The labor market in AEs showed signs of weakening , but remained relatively strong compared to pre-COVID-19 level. It is expected that the labor market in AEs will further weaken, leading to lower inflationary pressure in the near future.

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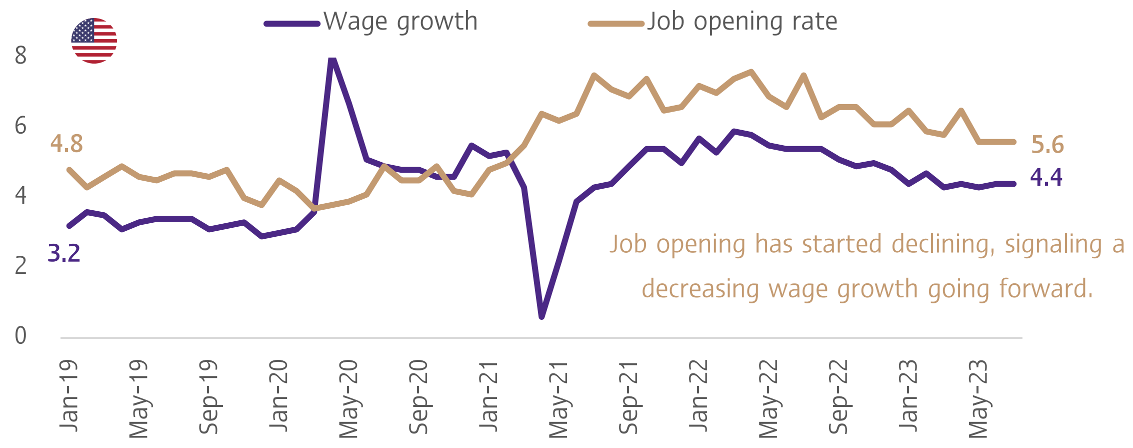
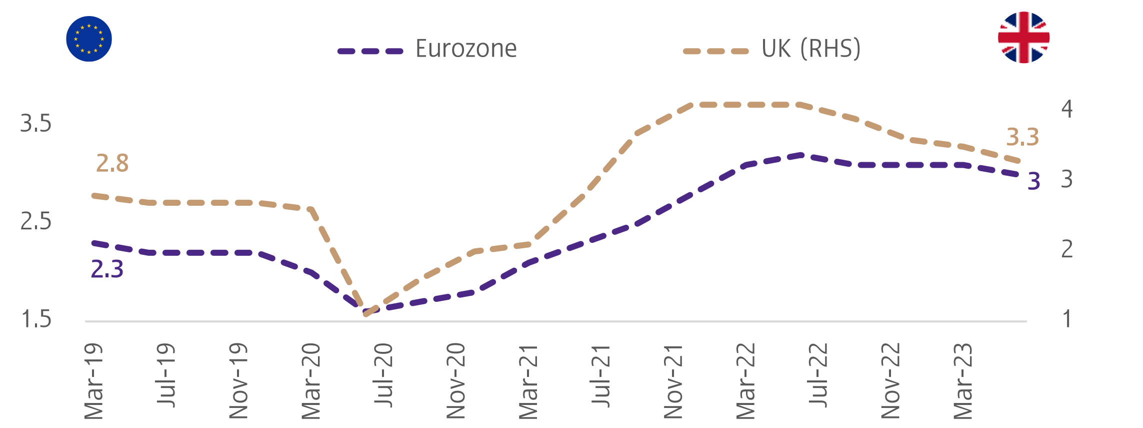
US wage growth and job opening rate

Unit: %YOY



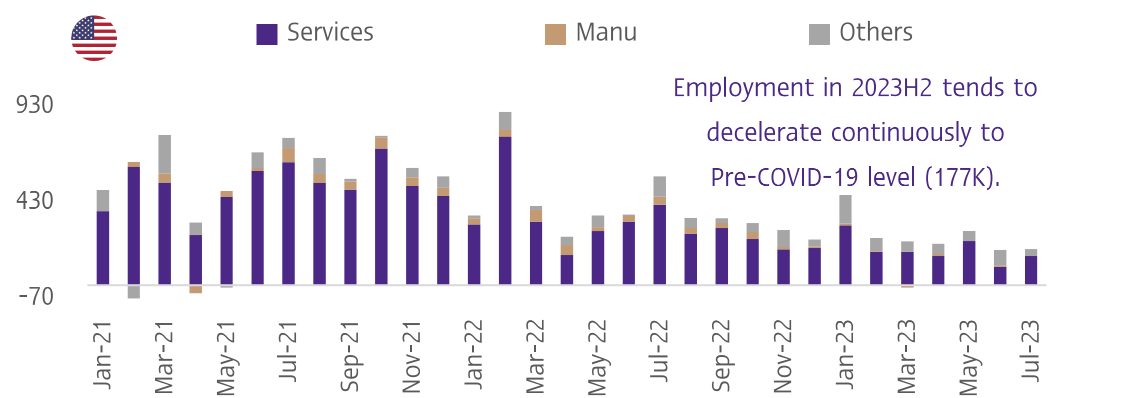
Job vacancy rate began to slow down, but remained above pre-COVID-19 level

Unit: %



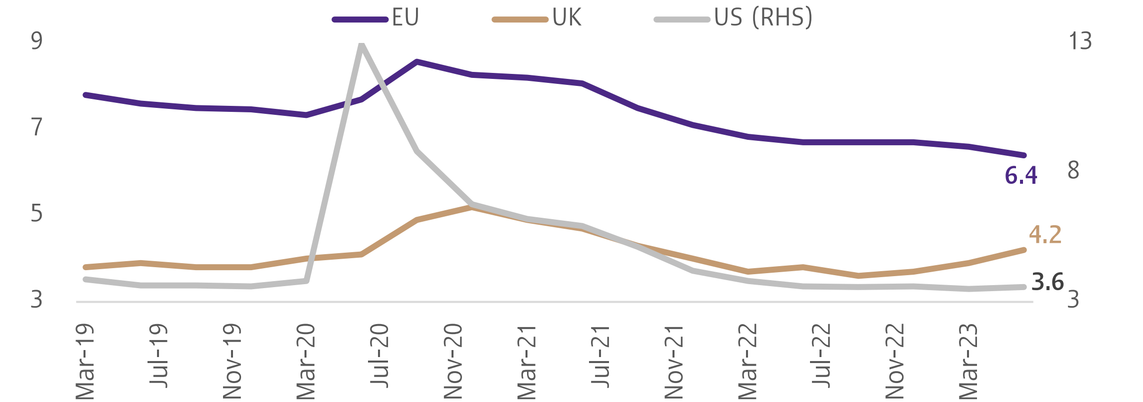
US nonfarm payrolls

Unit: Thousand positions



Unemployment rate in US and EU hit the historical low levels, despite UK figure started to pick up.

Unit: %



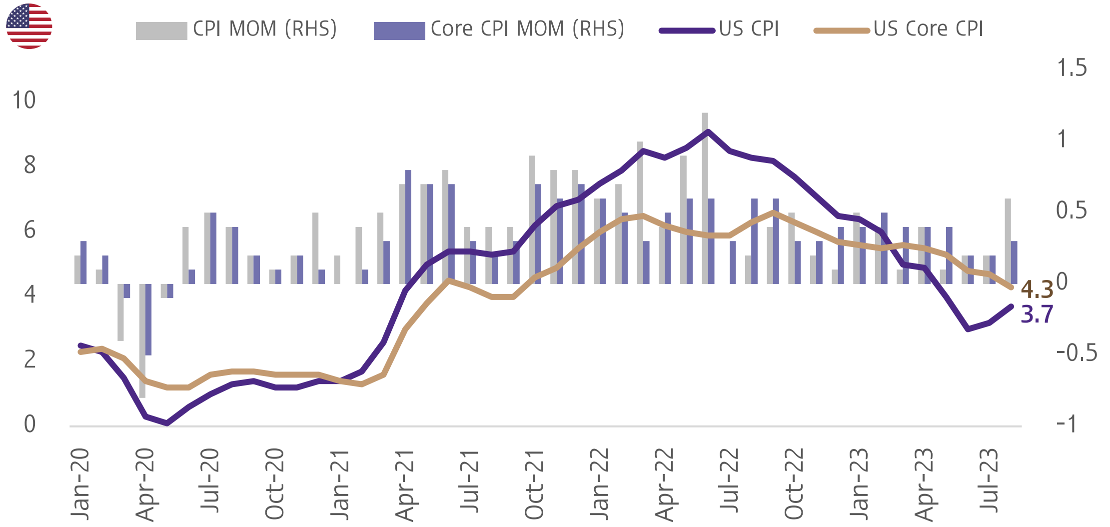
Source: SCB EIC analysis based on data from Bloomberg.

Rate hike cycle is approaching the end, even though inflations remain above target levels.

FED and ECB are expected to keep interest rates consistently high, while BOE will raise policy rates slightly toward the terminal rates and maintain them.

US Inflation rate

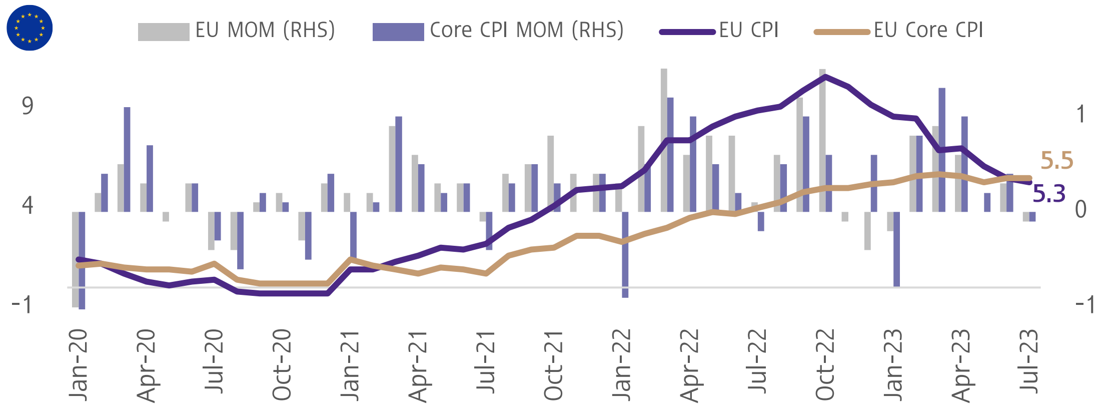
Unit: %YOY Unit : %MOM



- **Fed is expected to keep Fed Fund rates at the current level at 5.25-5.5%,** as well as **ECB** that will maintain the policy rate at 4% going forward, in order to bring inflations down to the 2% target.
- **BOE will continue hiking to the terminal rate at 5.75% in November, the highest rate among AEs.** It is expected to raise policy rate by 0.25% in September and November, due to persistent high inflation pressure, while the real interest rates remain significantly negative.

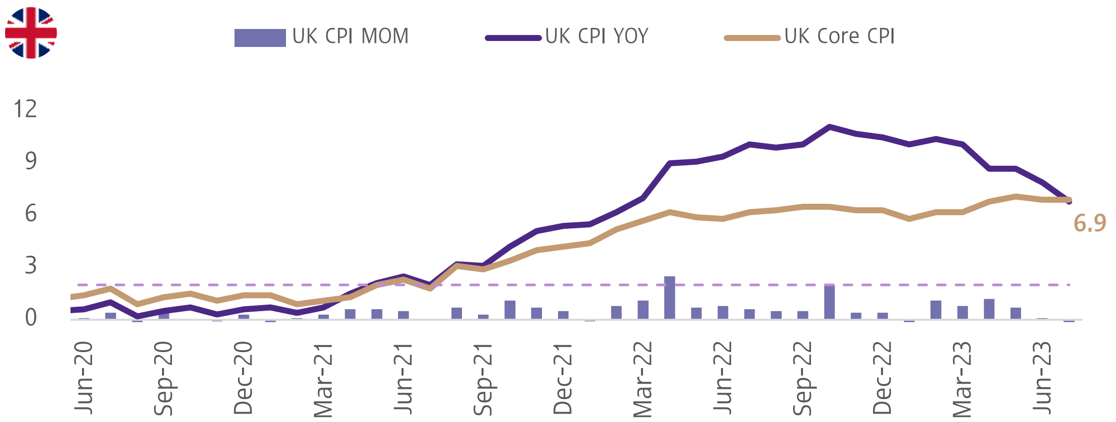
EU inflation rate

Unit: %YOY, %MOM



UK inflation rate

Unit: %YOY, %MOM

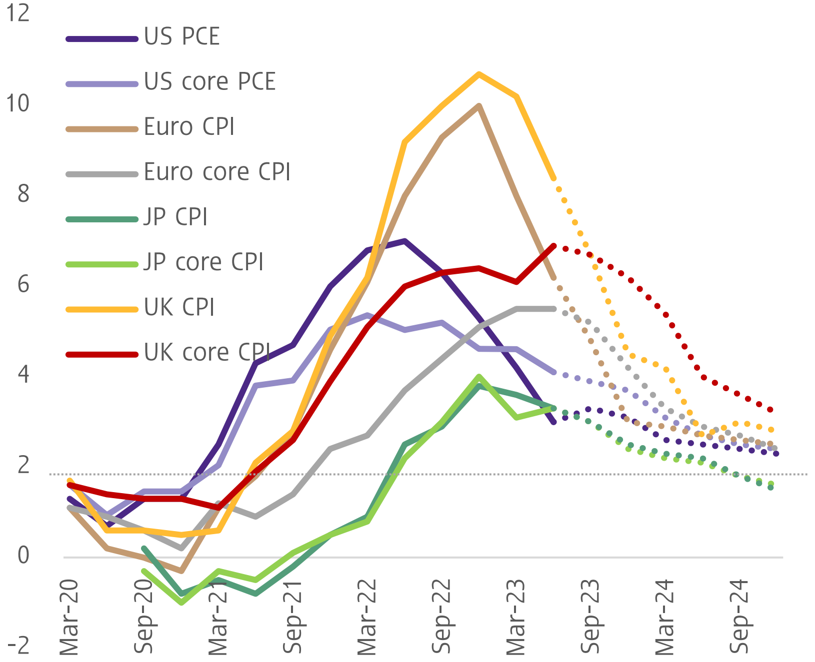


Source: SCB EIC analysis based on data from Bloomberg, CEIC, Eurostat. ECB and BOE.

FED, ECB, and BOE might start easing monetary policy in the second half of 2024 once core inflations clearly decline. PBOC will continue accommodative monetary policy to support economic growth. BOJ's direction will become less accommodative due to rising inflationary pressure.

Inflation forecast in 2024

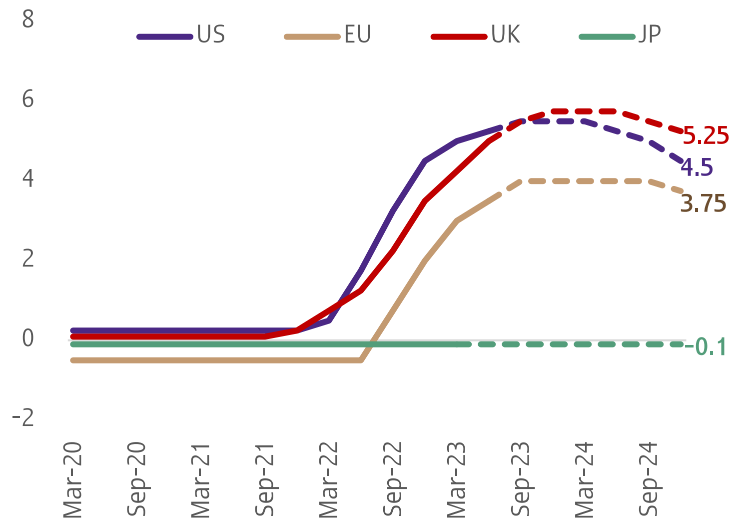
Unit: %YOY



- **Headline inflation in 2024 likely stays above 2% target of major Central Banks** due to higher prices of energy and agricultural products, such as rice and palm oil, compared to 2023 levels.
- **Core inflation is expected to notably decline following weaker labor market and a slowdown in consumer spending .**

Monetary policy direction forecast in 2024

Unit: %YOY



- **Monetary policy direction in US, EU, and UK will become more accommodative in the second half of 2024,** turning from restrictive policy rates to less stringent rates. However, the policy rates will remain above the neutral rate until 2025.
- **China will continue accommodative monetary policy** to support economic growth.
- **Japan monetary policy is expected to less accommodative** from Ultra-loose monetary policy and may terminate YCC in the latter half of 2024 or possibly sooner if the Yen remains significantly weak. However, the negative interest rate policy will be maintained.

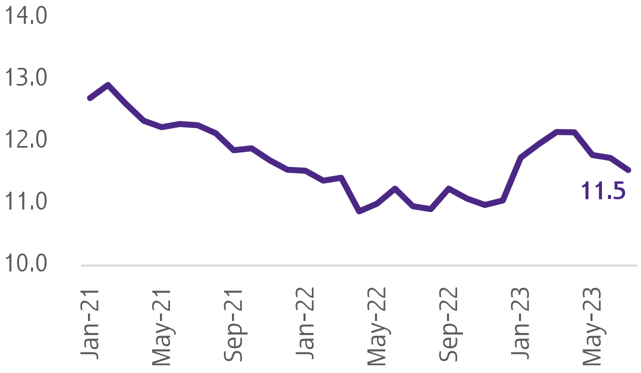
BOJ inflation forecast (as of July 2023)

Unit: %YOY

	Core CPI	Core-Core CPI
2023 (Apr)	2.5% (1.8%)	3.2% (2.5%)
2024 (Apr)	1.9% (2.0%)	1.7% (1.7%)
2025 (Apr)	1.6% (1.6%)	1.8% (1.8%)

China outstanding loan growth

Unit: %YOY

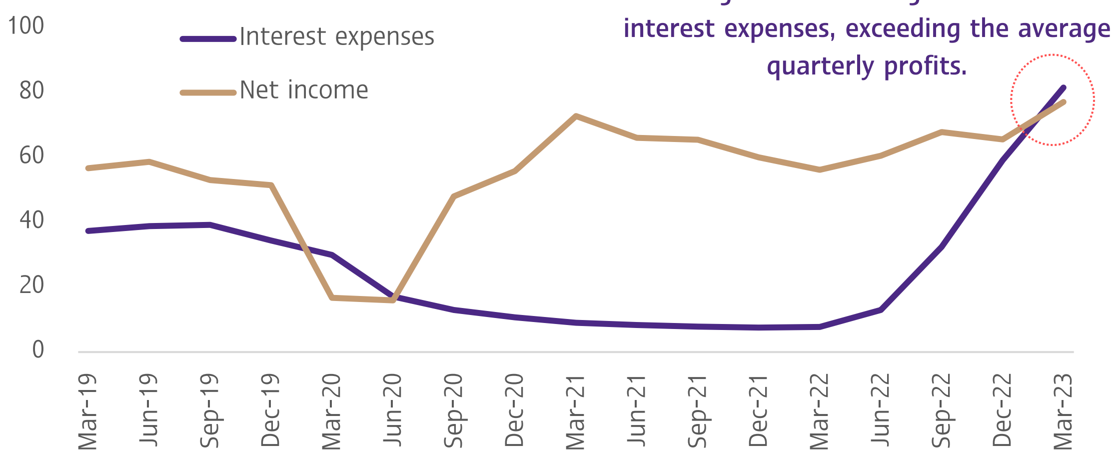


Source: SCB EIC analysis based on data from Bloomberg, S&P Global, PBOC, BOJ, and CEIC.

The higher interest rates have resulted in liquidity challenges for US Banking sector, including deposit outflows, funding risks, and rising risks of NPL, particularly in commercial real estate (CRE)'s loans.

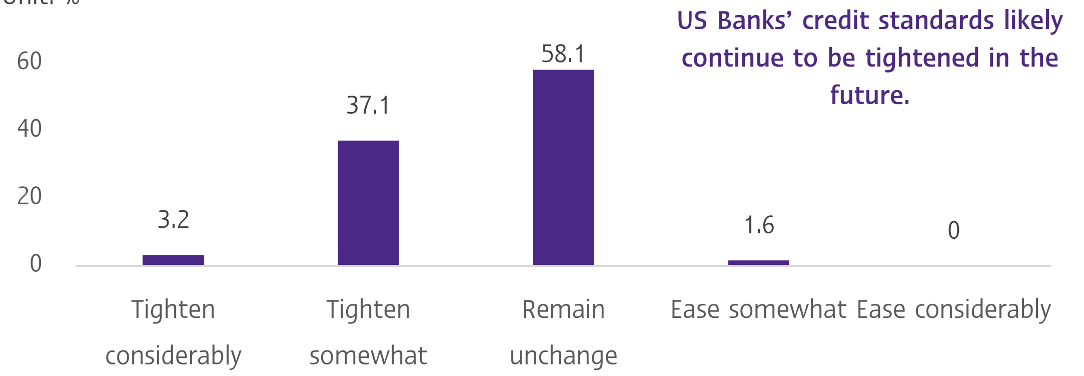
US Banking sector interest expenses and net income

Unit: USD Billion



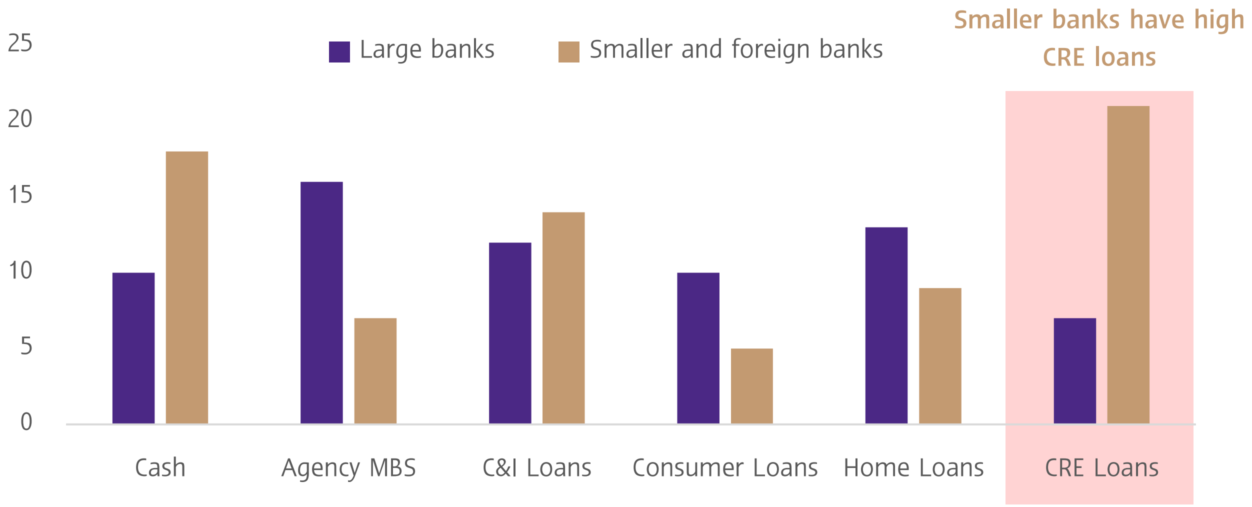
Direction of credit standards of US Banking sector for the rest of 2023

Unit: %



Asset composition of US Banking sector

Unit: % of total asset



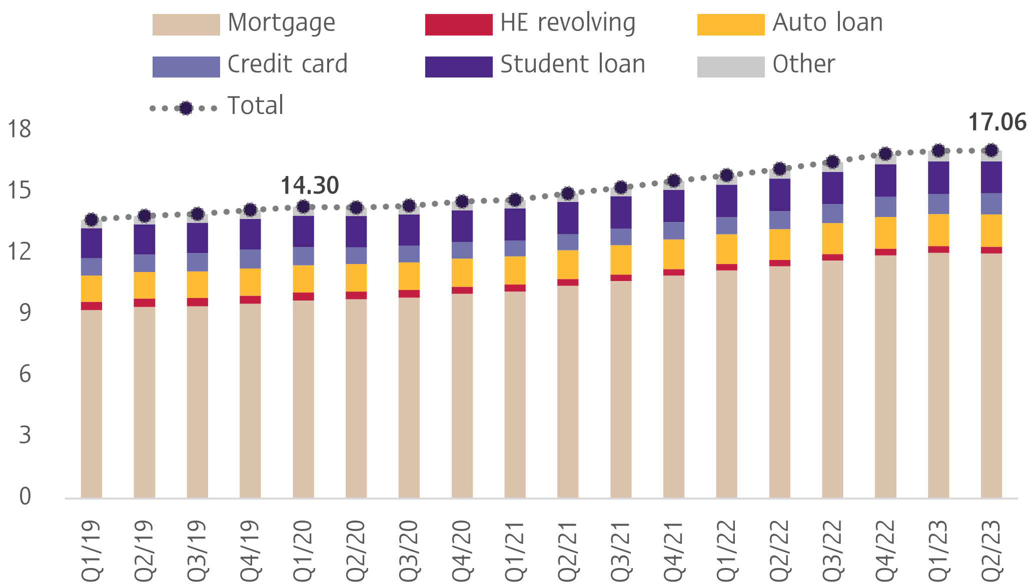
- **Several banks in the US had their credit ratings downgraded in Q3 due to**
  1. **Liquidity risk** from deposit outflowing to higher-yield investment affects banks' capital
  2. **Rising funding costs** from an increase in deposit rates and the reliance on other funding sources with higher cost, such as brokered deposits or a sale of loss securities, deteriorating earning and profitability.
  3. **Small and mid-size banks have high CRE concentrations,** with CRE having refinance risk due to rising interest rates and NPL trending upwards.
- **Pressures from liquidity conditions and economic uncertainties have led tightened credit standards in US banking sector to continue,** making it more difficult for businesses and households to access lending.

Source: SCB EIC analysis based on data from Bloomberg and Fed's senior loan officers.

Key downside risks to US economy in the coming future include 1) increasing debt burdens amid rate hike cycle, 2) decreasing savings, and 3) weakening labor market, which suppress consumer spending, a key economic driver.

US total debt balance continues to rise

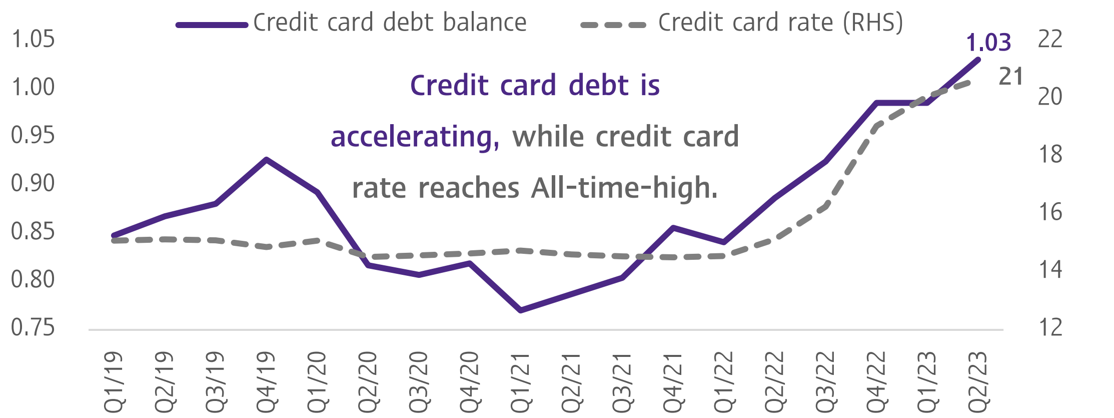
Unit: USD Tillion



- **US consumers continue spending although wealth accumulated during COVID-19 started to decline.** Going forward, consumers will rely more on borrowing if spending behavior remains unchanged, leading to poorer financial health, especially in low-income households.
In addition, more than 40 million US citizens have to repay student loans in October after a 3-year pause. This will tighten financial position of households with student debt **and may become a key pressure to consumer spending in the future.**

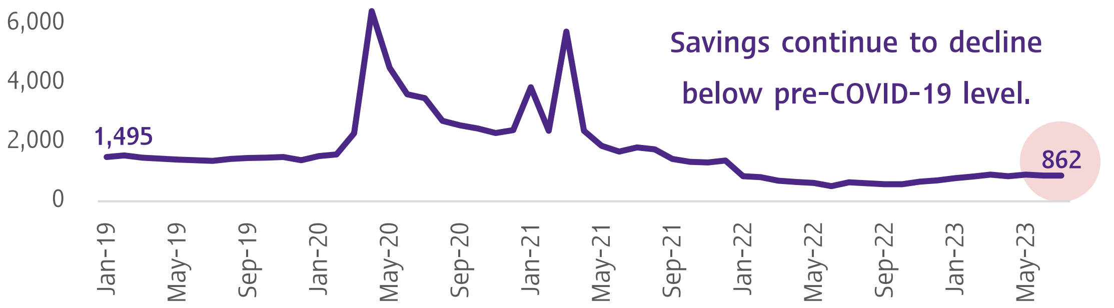
Credit card debt balance and credit card rate

Unit: USD Tillion Unit: %



US personal savings

Unit: USD Billion



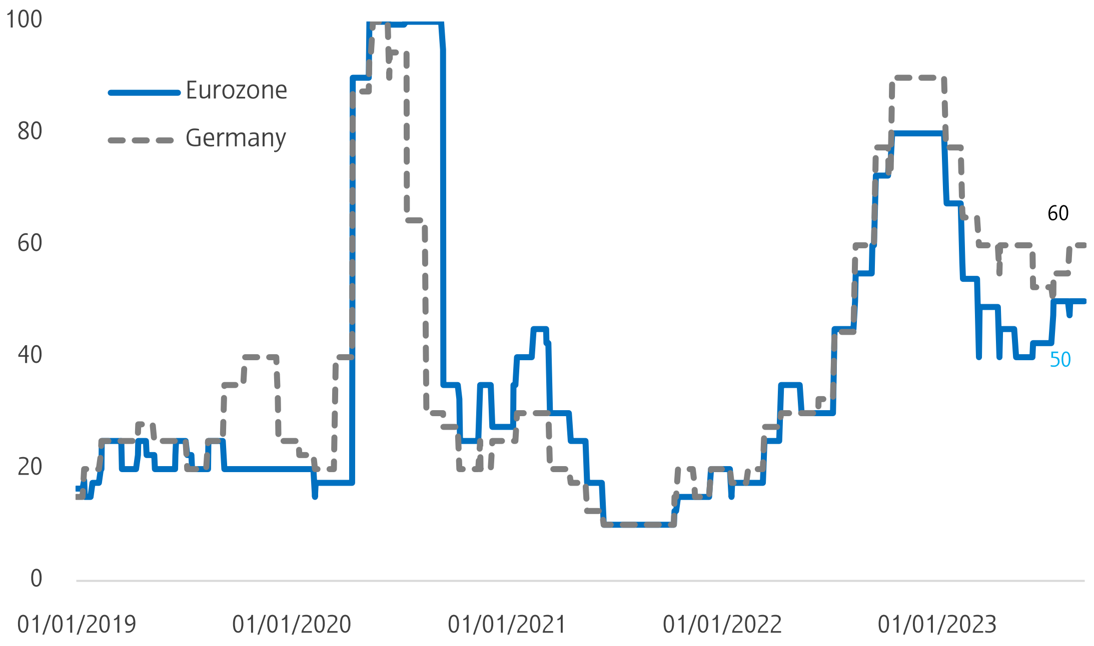
Source: SCB EIC analysis based on data from Bloomberg.

EU economy is still exposing to many risk factors, potentially leading to recession in the future.

Economic indicators in Q3 stated some signs of slowdown in both consumption and investment.

The probability of Eurozone entering recession in the next 12 months

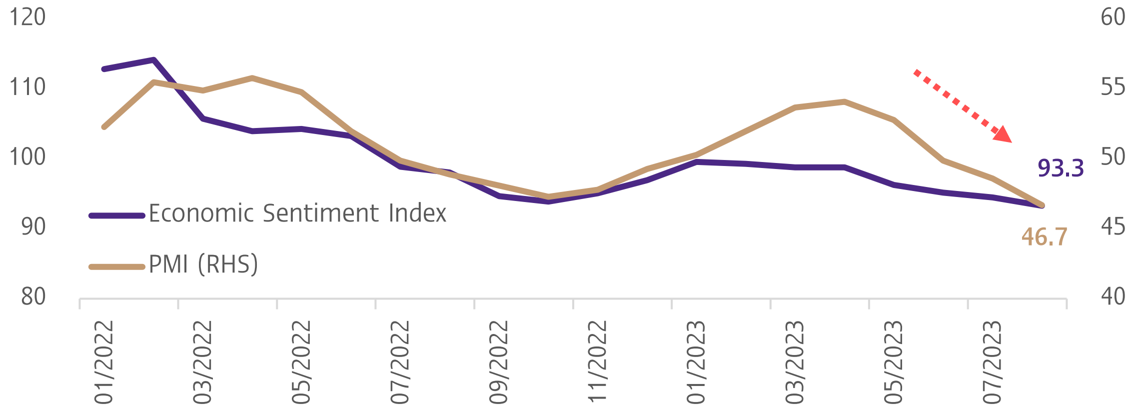
Unit: %, Data as of September 8



Eurozone economy escaped recession in Q2/2023 but risks remain, from weak consumption and subdued investment in both industrial and service sectors, particularly, in Germany. There are additional downside risks from Russia-Ukraine war, geopolitical tensions and effects of high policy rates.

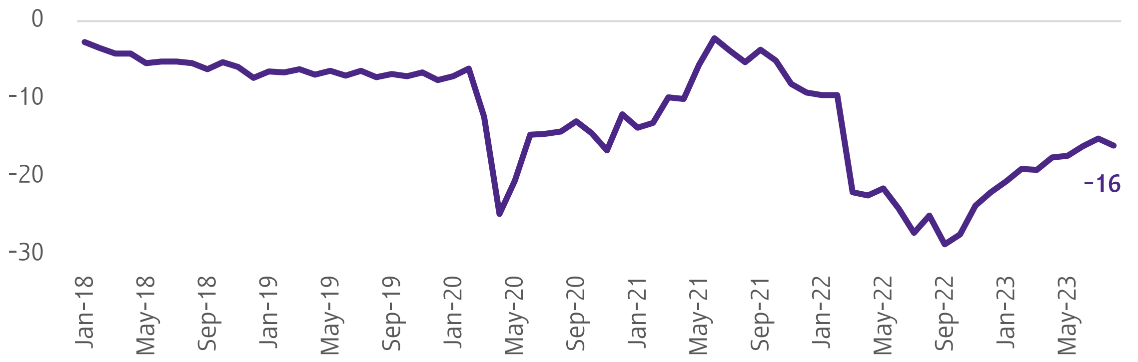
Eurozone economic growth

Unit: Index



Eurozone Consumer Confidence Index

Unit: Index

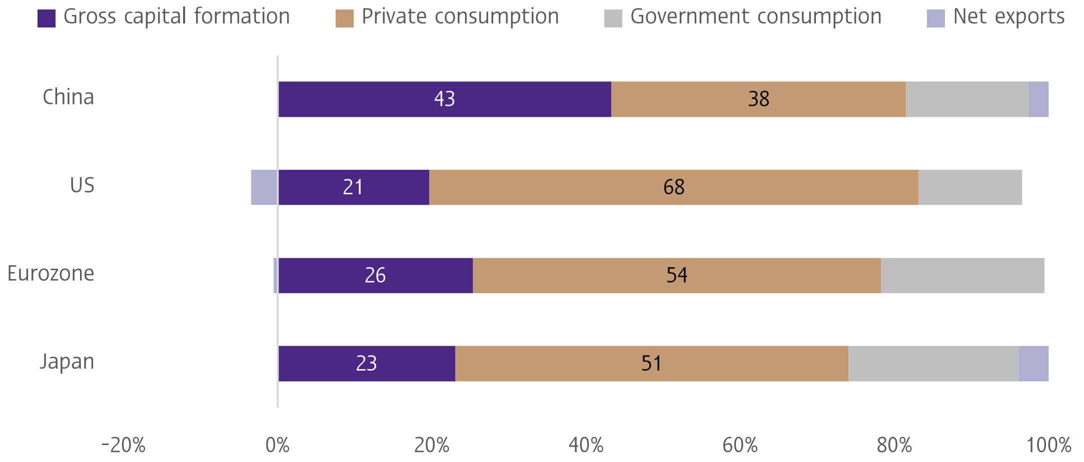


Source: SCB EIC analysis based on data from European Commission, S&P Global, Bloomberg, and CEIC.

China economy is facing increasing structural pressures, making it unable to rely on the same economic growth model with high dependency on investment. The economy is showing signs of deceleration in the medium term.

China's economic structure relies on gross capital formation more than other countries

Unit: % of GDP

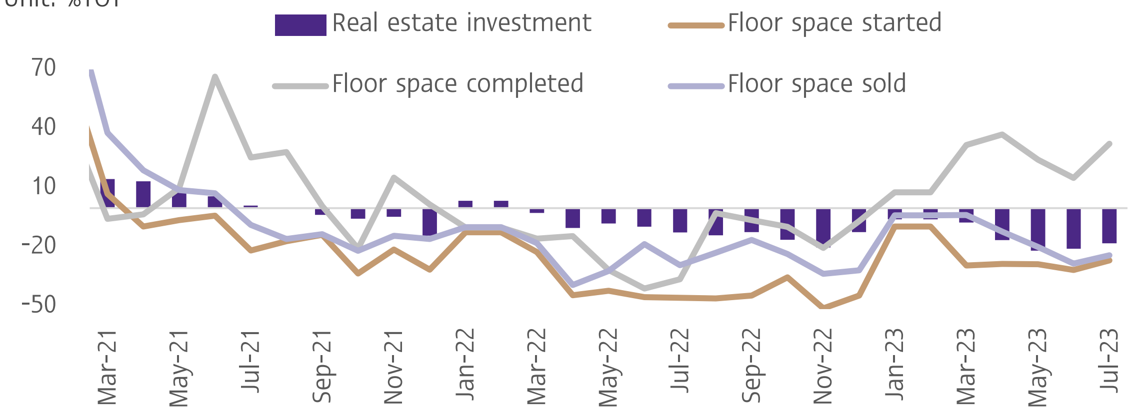


- **In the past 20 years, China's economy has been driven by investment and exports.** China heavily invested in infrastructure and real estate sector, and joined WTO, becoming a key player in the global supply chain and a crucial manufacturing base for international companies.
- **This economic model will have lower impact on driving the economy in the coming years** as local governments have accumulated significant debts from investment-focus policy, leading to limited fiscal space for additional public investment. Moreover, the central government is not incline to implement further debt-inducing measures.
- **Geopolitical tensions have made several countries, particularly Western countries, reduce their dependence on China.** The global supply chain is slowly decoupling and fragmenting, impacting China's investment and international trade.

Structural issues that will pressure China's investment in the medium term.

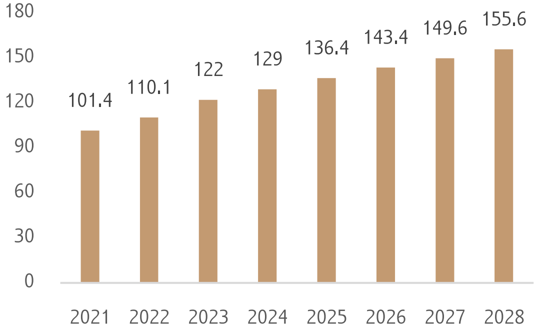
Real estate slowdown: China's real estate sector slowdown is expected to continue

Unit: %YOY



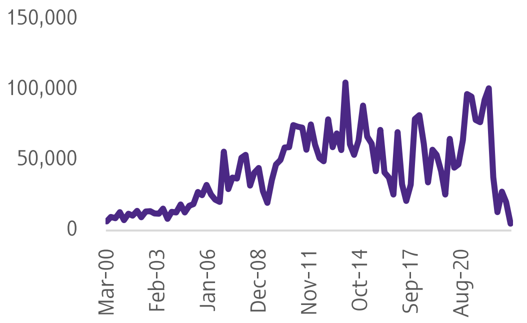
Public Debt: China's public debt remains high*

Unit: % of GDP



Geopolitics: FDI flow to China hit a 25-year low

Unit: USD Million



Note: *IMF forecast, including Local Government Financing Vehicle (LGFV) and Government Fund.

Source: SCB EIC analysis based on data from IMF, World Bank, National Bureau of Statistics, PBOC, and CEIC.

US-China decoupling is a key pressure to foreign direct investment in China. Decoupling is expected to accelerate and broaden following the economic policies of the US and its allies.

Implications to international politics

US insists on maintaining international order

- **One-China Policy** | no escalation to conflicts
- **Invest and strengthen domestic supply chain**
- **Impose trade protection measures to maintain competitive advantages**
- **Build partnership network**

China maintains Status Quo, focusing on self-reliance

- **Made in China 2025 | Dual Circulation**
- **Against escalation of the situation,** focusing on long-term mutual benefits
- **Economic growth is not as high as before**
- **Accelerate supports for domestic technology production** to deal with trade protectionism from the US while cooperating with partners (BRICs and BRI)

US policy implications to Geopolitics

Bipartisan infrastructure law

Develop more resilient infrastructure.

Inflation reduction act

Invest in renewable energy, enhance energy security, support EV industry with domestic supply chain.

CHIPS and Science act

Promote semiconductor production in the US and restrict companies receiving subsidies from manufacturing advanced chips in China.

Semiconductor Export curbs

Restrict exports of advanced semiconductor chips to China and ban US citizens from helping the production of chips at Chinese facilities.

Investment ban

Banning investment of critical technologies in China such as semiconductors, quantum computing, AI.

Decoupling is expected to accelerate and broaden.

US collaborates with its allies to reduce dependence on China :

- **US, Japan, and the Netherlands** have agreed to restrictions on exporting chips/ semiconductor manufacturing technology to China.
- **US, Canada, and EU / US and Japan** (on going) signed trade agreements on minerals/ rare earths to reduce reliance on imports from China and strengthen their supply chains in renewable energy and electric vehicles.
- **Indo-pacific** (on going) aims to make the economy more flexible by investing outside of China/shifting more production base to partner countries.

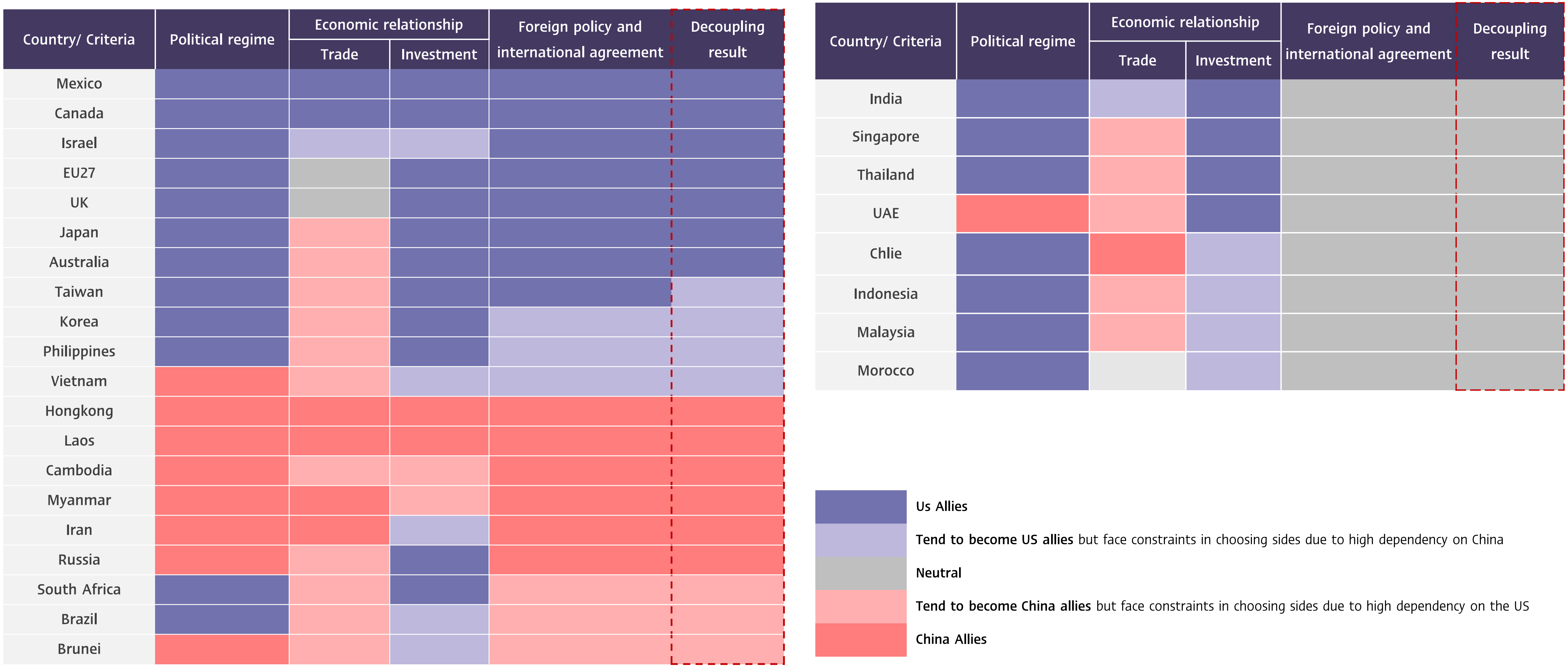
China is ramping up its support for domestic technology production : to establish the fund to support semiconductor industry worth USD 41 billion.

Source: SCB EIC analysis.

Most major economies are aligned or tend to align with the US and may implement trade and investment restrictions similar to US policies against China. **They may shift investment to allied or neutral countries instead of China.**

SCB EIC

The results of global economic decoupling (ranked by level of partnership) by SCB EIC.



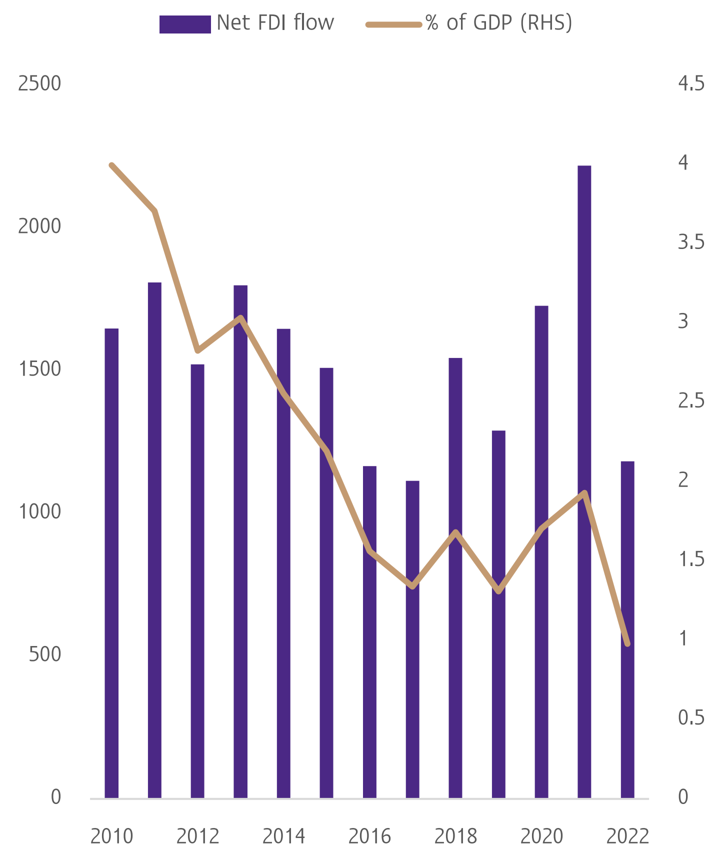
Source: SCB EIC analysis based on data from IMF WEO April 2023, Trade Map, Statista, CEIC, and World Bank Database.

Global FDI showed signs of lower flow to China and increasing flow to other regions.

This will be a key factor pressuring China's investment in the medium term and affect China's role in the global supply chain.

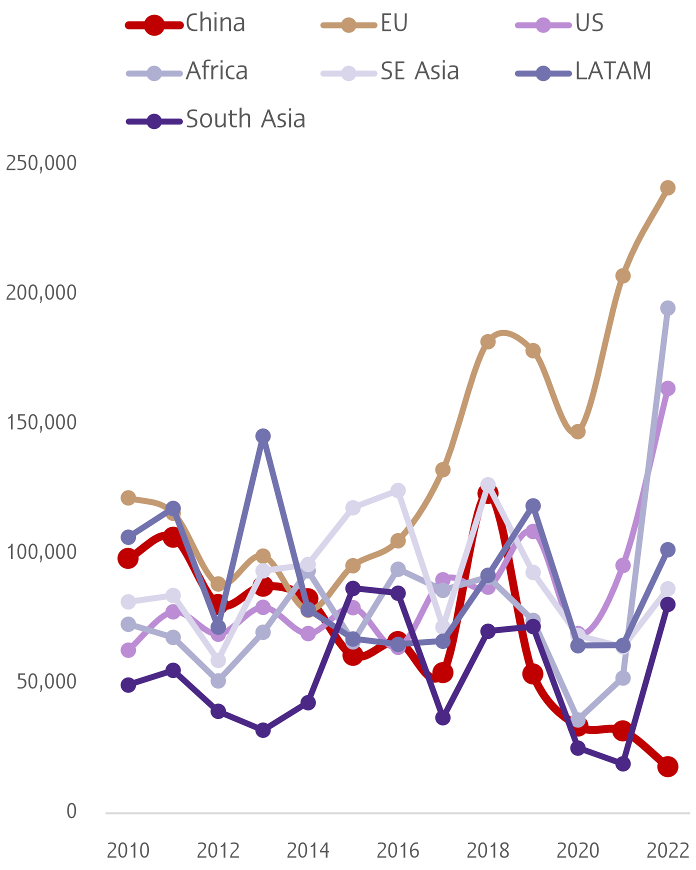
China's Net FDI Flow

Unit: CNY Billion Unit: % of GDP



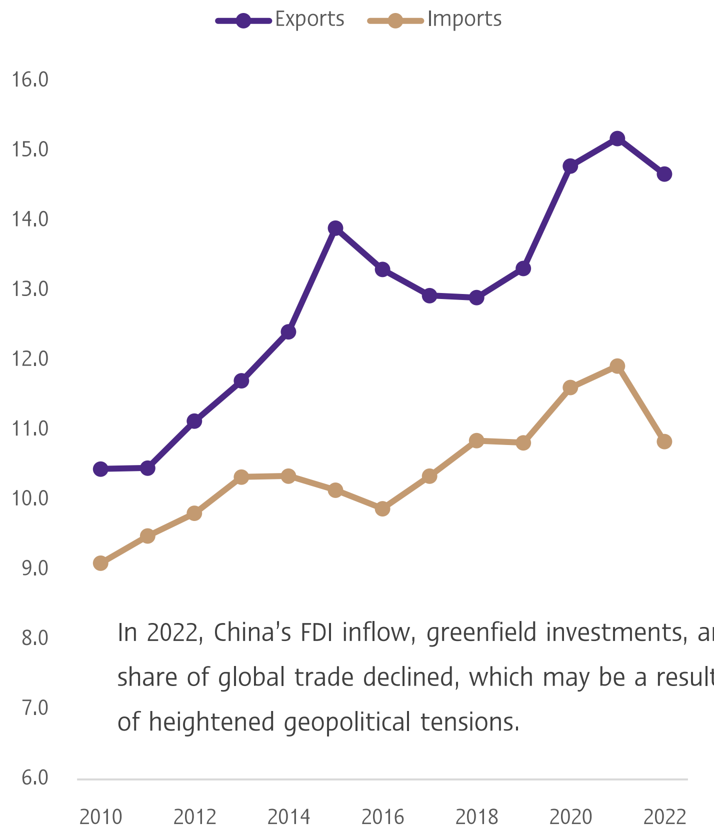
Announced Greenfield FDI projects by region of destination

Unit: USD million



China's share of global trade

Unit: % of global trade



In 2022, China's FDI inflow, greenfield investments, and share of global trade declined, which may be a result of heightened geopolitical tensions.

Source: SCB EIC analysis based on data from State Administration of Foreign Exchange, National Bureau of Statistics, UNCTAD, Trademap, and CEIC.

Thai economy

China’s economic slowdown and a severe drought will threaten Thailand’s economic outlook. All eyes are on the new government policy.

Thailand's economic indicators in July still pointed toward a recovery, thanks to impetus from the tourism and service sectors. In contrast, the industry sector remained somber due to shrinking exports.

Lagging indicator		Unit	2022	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
Coincident Economic Index (CEI)		2019=100, SA	97.8	98.2	98.6	98.9	99.2	99.7	99.8	98.9	99.5	99.2	99.8	
Consumption	Private consumption index	2010=100, SA	141.2	141.1	143.1	144.1	145.9	146.6	147.6	151.4	150.2	150.0	153.6	
	Unemployment compensation	% insured person	2.1%	1.8%	1.8%	1.7%	1.7%	1.6%	1.9%	1.9%	2.1%	2.1%	2.1%	2.1%
	Unemployment rate	% labor force	1.3%		1.2%			1.1%			1.1%			
Investment	Private investment index	2010=100, SA	140.0	137.5	136.5	135.6	137.5	138.9	140.2	137.0	145.6	140.9	142.9	
Export (Custom basis)	Exports ex. Gold	%YoY	4.6%	-5.1%	-4.8%	-13.7%	-4.5%	-2.5%	-0.5%	-9.4%	-4.7%	-5.1%	-5.2%	3.6%
		%MoM, SA	4.4%	-8.1%	3.3%	-0.6%	-1.7%	3.9%	2.5%	-5.5%	5.2%	0.5%	-3.2%	7.6%
Agriculture	Agriculture production index	2005=100, SA	144.3	143.6	146.6	145.0	148.7	150.4	147.5	152.2	143.6	151.3	144.7	146.0
Manufacturing	PMI : Manufacturing	50 = Stable	52.4	52.0	51.6	54.9	59.0	56.4	54.2	59.9	58.6	52.6	48.7	48.9
	Manu production index	2016=100, SA	98.1	94.8	94.9	93.5	94.3	96.3	94.4	92.7	94.9	95.1	95.5	
	Capacity utilization rate	%, SA	62.8	60.5	60.1	60.0	60.3	61.5	60.8	58.7	59.8	59.9	60.8	
Service	Service production index	2016=100, SA	111.0	114.8	114.4	115.2	117.8	119.7	119.3	119.9	121.5	121.7	123.7	
	Foreign tourist arrivals	thousands	11164.7	1475.4	1748.4	2241.2	2144.9	2113.6	2219.0	2182.1	2013.9	2241.2	2490.6	
	Hotel occupancy rate	%	47.2	54.6	63.3	70.0	71.4	69.9	69.5	70.1	65.5	65.1	66.7	

Source: SCB EIC analysis based on data from the Ministry of Commerce, NESDC, Bank of Thailand, Office of Agricultural Economics, Office of Industrial Economics, Federation of Thai Industries (FTI), National Statistical Office, Social Security Office, Tourism Authority of Thailand, S&P Global, and CEIC.

Most leading indicators showed recovery trends, albeit with downward pressures from merchandise exports.

Leading indicator		Unit	2022	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
Leading Economic Index (LEI)		2000=100, SA	158.2	157.2	158.0	158.6	158.7	159.1	161.5	158.7	160.2	160.6	159.1	
Consumption	CCI : Future	100 = Stable	51.1	53.4	55.2	56.9	59.2	60.2	61.4	62.5	63.1	63.9	62.8	64.2
Export	Global PMI : Manu export orders	50 = Stable	47.8	46.2	46.2	46.2	47.5	48.3	47.7	48.4	47.3	47.1	46.4	47.0
	Korea exports : First 25 days	2021=100, SA	106.8	94.9	107.0	98.7	85.1	104.6	98.6	91.4	99.8	96.8	91.8	96.4
	Korea exports	2021=100, SA	106.3	98.3	95.6	97.1	91.2	100.6	96.4	90.5	97.3	100.1	91.7	98.8
	China exports	2021=100, SA	106.4	104.3	97.9	97.3	99.3	106.1	117.7	102.8	102.2	98.9	96.4	98.3
	China imports from Thailand	2021=100, SA	92.0	85.1	86.9	84.6	65.7	92.4	85.6	93.6	82.2	87.3	81.5	78.6
Investment - Near term	BSI : Expectation	50 = Stable	53.4	51.9	53.3	55.0	56.5	56.2	54.2	56.0	54.6	55.2	53.3	54.1
	Construction area permitted	2000=0.1, SA	6.0	5.9	6.0	5.9	5.7	5.7	5.6	5.6	5.8	5.9	6.5	
	Net business open Value	THB billions	302.8	27.3	10.7	-0.9	16.6	16.2	276.9	15.7	20.2	33.4	9.1	
Investment - Longer term	BOI : Cert. issued value	%YOY	21.3%	-25.1%			29.4%			-9.1%				
	BOI : Approved value	%YOY	20.8%	-27.8%			170.8%			-52.2%				
	BOI : Application value	%YOY	27.2%	84.9%			77.3%			61.9%				
Manufacturing	TISI : Expectation	100 = Stable	98.2	98.8	97.0	99.9	101.1	103.2	106.3	105.0	104.3	102.1	100.2	99.5

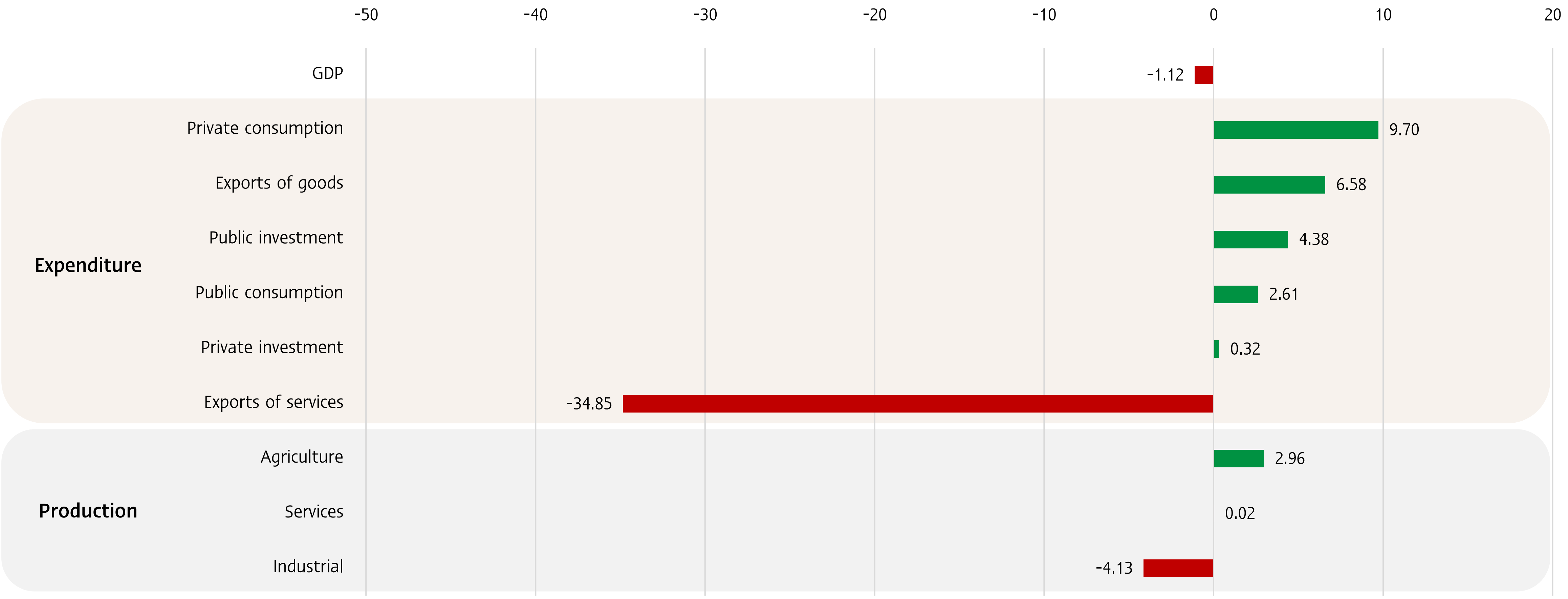
Source: SCB EIC analysis based on data from the Bank of Thailand, Ministry of Commerce, FTI, China Customs, Korea Customs Service, Board of Investment, S&P Global, and CEIC.

SCB EIC

Overall, Thai economic activities remained 1.1% below the pre-COVID-19 level. Most components have resumed to the pre-crisis pace, except for service exports (tourism) and industrial production.

Thailand's GDP Breakdown: Now vs. Pre-pandemic

Unit: % vs. Pre-COVID-19 GDP, rolling 4 quarters (a total of GDP in the most recent quarter and three previous quarters)



Source: SCB EIC analysis based on data from NESDC.

SCB EIC downgraded Thailand's 2023 GDP growth to 3.1% (from 3.9%) due to lackluster outturns in Q2 and persistent export contraction. The GDP growth should ascend to 3.5% in 2024, backed by a robust rebound in private investment and exports.

Gross Domestic Product (GDP) forecast by SCB EIC

Economic forecast (Base case)	Unit	2023F*		2024F
		As of Jun 23	As of Sep 23	As of Sep 23
GDP	%YOY	**3.9**	**3.1**	**3.5**
Private consumption	%YOY	4.3	6.1	3.2
Government consumption	%YOY	-2.2	-2.2	1.5
Private investment	%YOY	2.4	1.6	4.4
Public investment	%YOY	2.2	1.8	3.2
Goods exports value (USD BOP)	%YOY	0.5	-1.5	3.5
Goods imports value (USD BOP)	%YOY	0.7	-1.0	3.4
Foreign tourist arrivals	ล้านคน	30.0	30.0	37.7
Headline inflation	%YOY	2.1	1.7	2.0
Core inflation	%YOY	1.7	1.4	1.5
Crude oil price (Brent)	USD/Bbl.	80.7	81.5	84
Policy rate (Year-end)	%	2.5	2.5	2.5
Exchange rate (Year-end)	THB/USD	32-33	33.5-34.5	32-33

Headwinds to Thailand's economy in 2024

- Tourism and private consumption have stayed upbeat.
- **Private investment will expand** alongside an improving trend of investment greenlights from BOI and **rebounding exports.**

Downside risks

- China's economic slowdown will hamper Thai exports.
- Rising household debt and heightened default risks, after financial supports petered out, might impair household consumption.
- Drought damages on the agricultural sector

Upside risk

- Economic stimulus measures

Note: *Red = forecast downgraded from Jun 2023, Green = forecast upgraded from June 2023.
Source: SCB EIC analysis based on data from the Office of the National Economic and Social Development Council (NESDC).

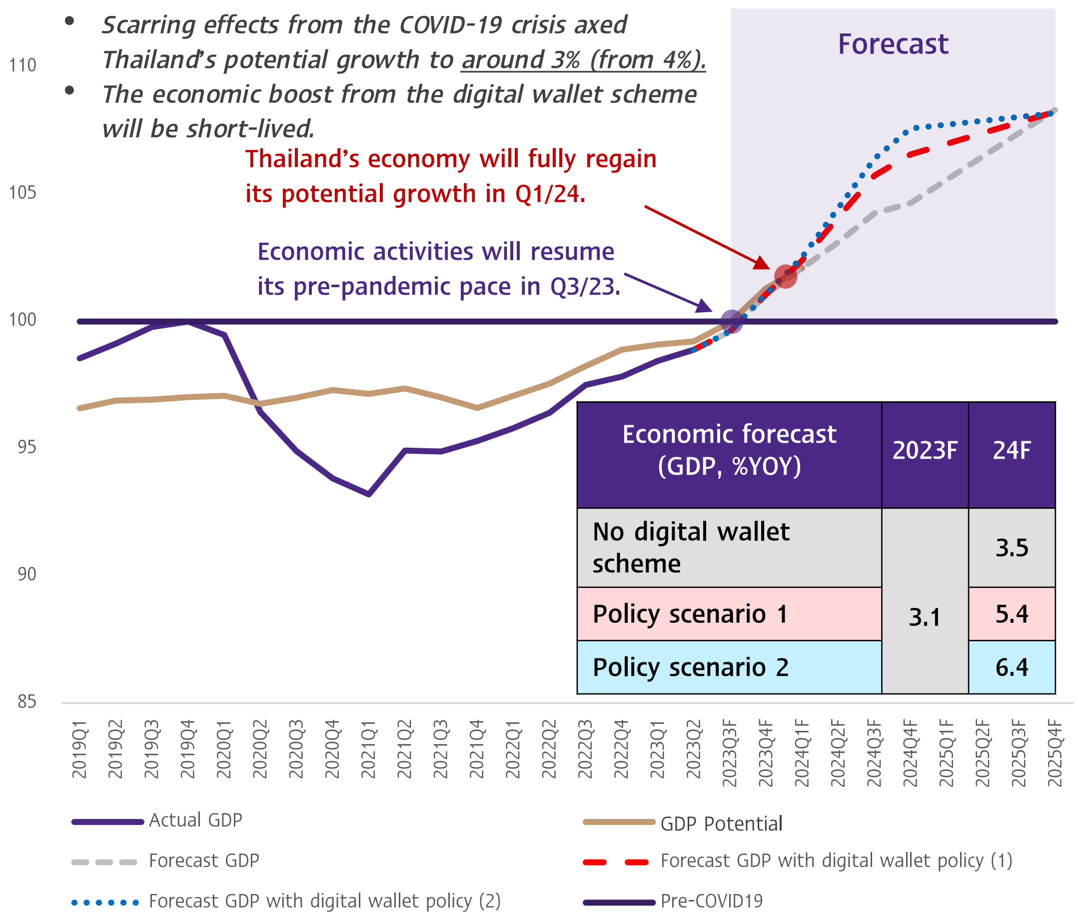
The digital wallet scheme could temporarily bolster Thai GDP growth to over 5% in 2024.

Still, this large-scale stimulus might not propel Thailand's long-term economic potential, as it must be traded off with higher fiscal costs and lower fiscal space to address future uncertainties.

Economic recovery from the COVID-19 crisis

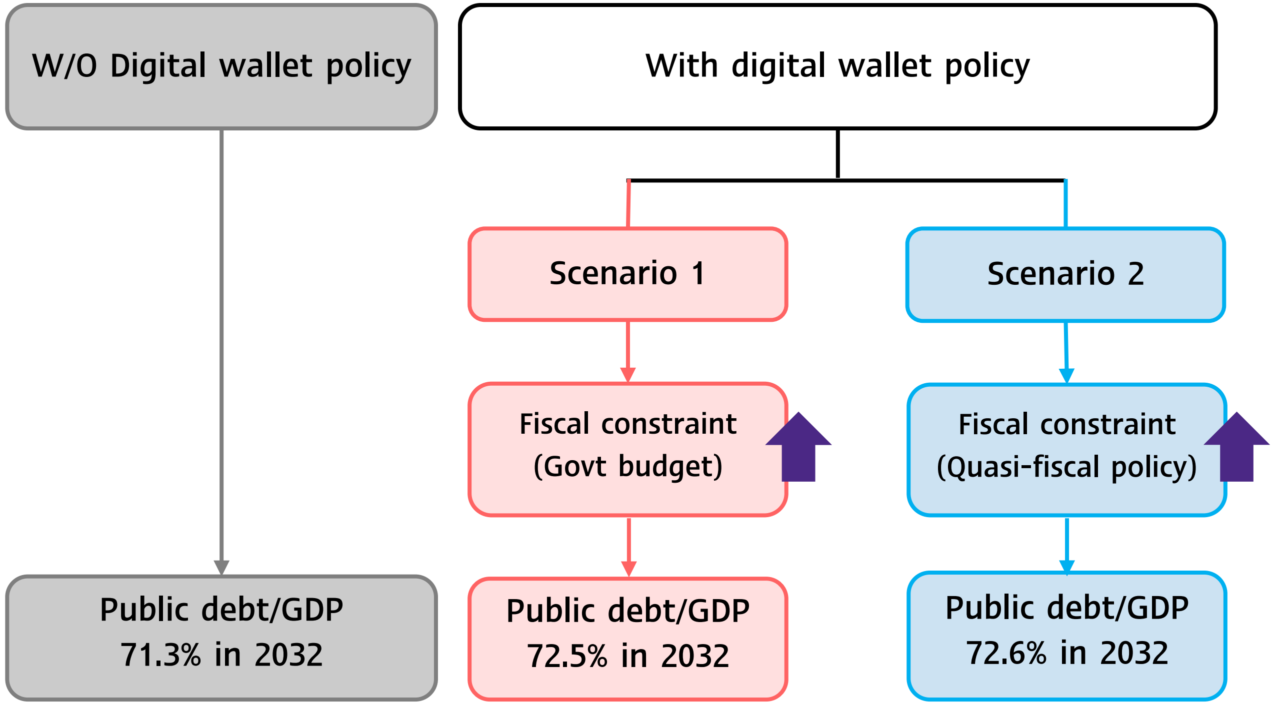
Unit: Index, rolling sum over 4-quarter period (2019Q4 = 100)

- *Scarring effects from the COVID-19 crisis axed Thailand's potential growth to around 3% (from 4%).*
- *The economic boost from the digital wallet scheme will be short-lived.*



Economic forecast (GDP, %YOY)	2023F	24F
No digital wallet scheme	3.1	3.5
Policy scenario 1		5.4
Policy scenario 2		6.4

Scenario	Source of funding for the digital wallet initiative
Scenario 1	**Funding is covered by the government agency. The government then allocates the FY2024 budget to repay the previous disbursement**, utilizing increased tax revenue and budget relocation from other segments.
Scenario 2	**Funding is covered by the government agency. The government then sets up a long-term budget plan for repayment,** resulting in higher government expenditure/ lower transferred revenue from the government agency.



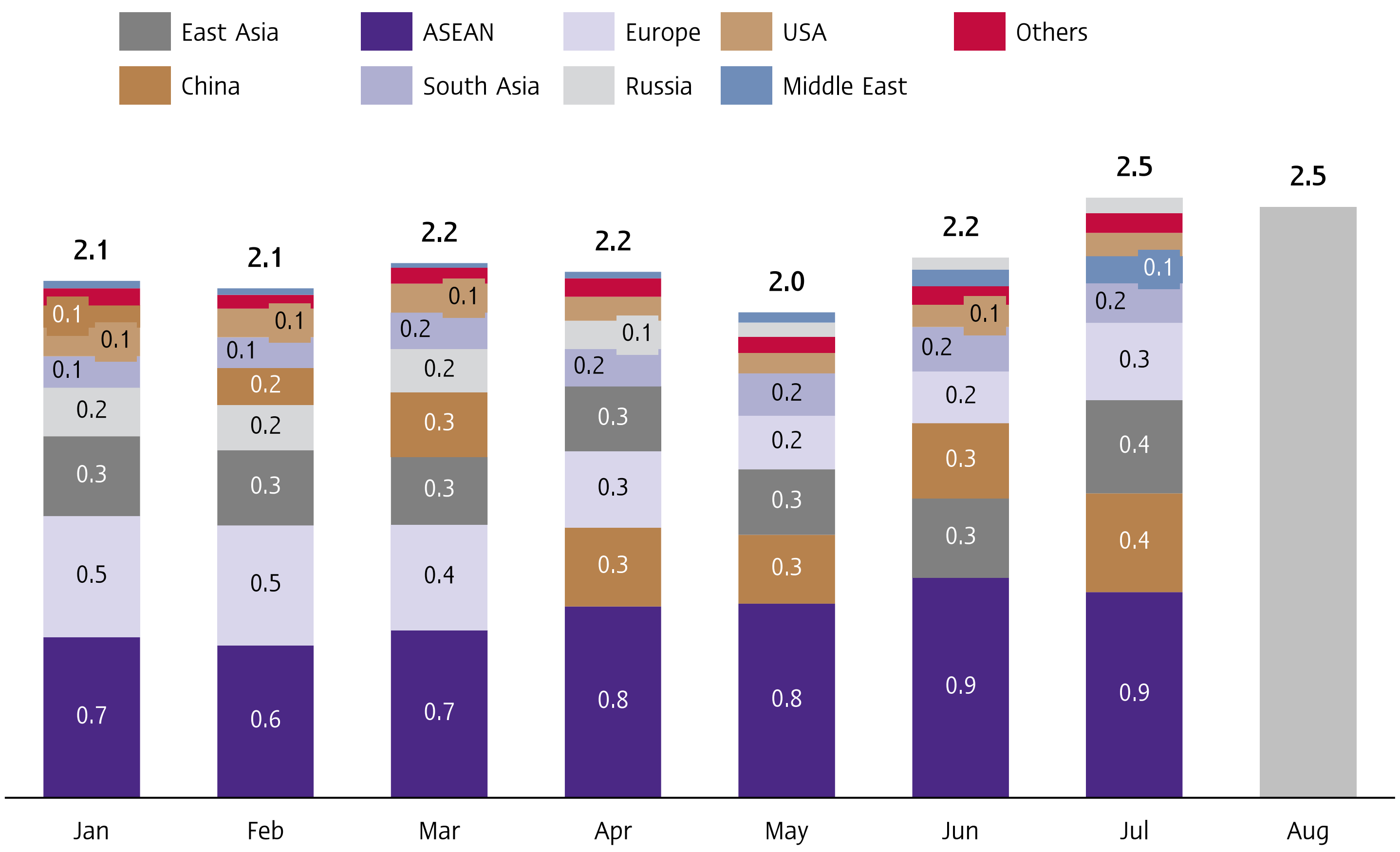
Source: SCB EIC analysis.

China’s economic slowdown threatened Thailand’s growth outlook.

Inbound foreign tourists exhibited an upbeat rebound in line with our forecast of 30 million in 2023, particularly the Middle East visitors—Thailand's new potential target.

Thailand has welcomed over 18 million foreign tourists (data as of 3 Sep 2023).

Unit: Million persons



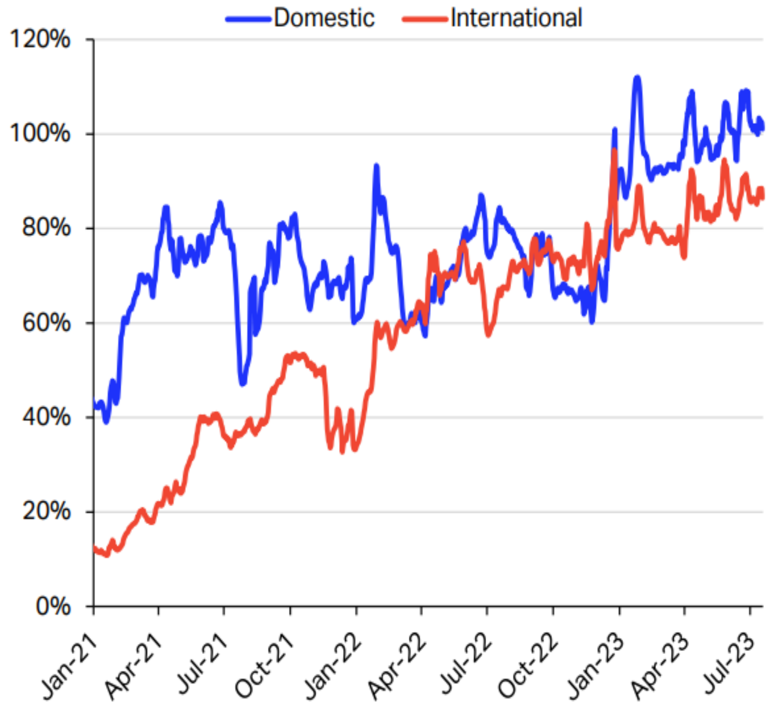
Foreign tourist arrivals	July (persons)	%MOM	Index (2019 =100)
China	410,311	32%	42
Malaysia	371,200	-9%	116
Europe	386,750	50%	82
South Korea	150,385	23%	91
India	128,070	-18%	78
Vietnam	121,784	10%	97
Middle East	111,855	66%	140
USA	75,914	0%	82
Russia	64,937	28%	139

Note: The number of tourist arrivals in Aug was based on a preliminary estimation by the Economics Tourism and Sports Division, Index vs. the same month in 2019.
Source: SCB EIC analysis based on data from the Ministry of Tourism and Sports.

Global tourism demand continued a firm growth streak, but tourism spending was hampered by uncertain global economic conditions and rising airline ticket price - driven by jet fuel costs.

Global international air ticket sales are poised to increase.

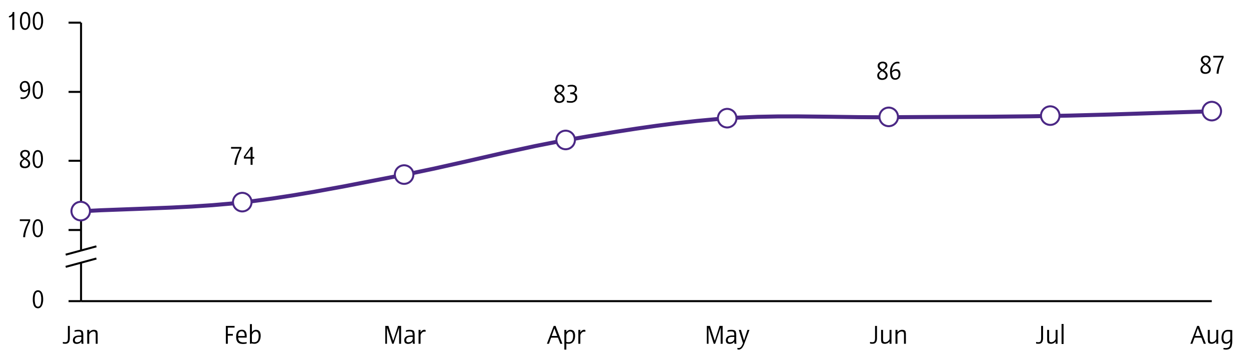
Unit: % vs. 2019, 7-day moving average



Sources: IATA Sustainability and Economics, DDS

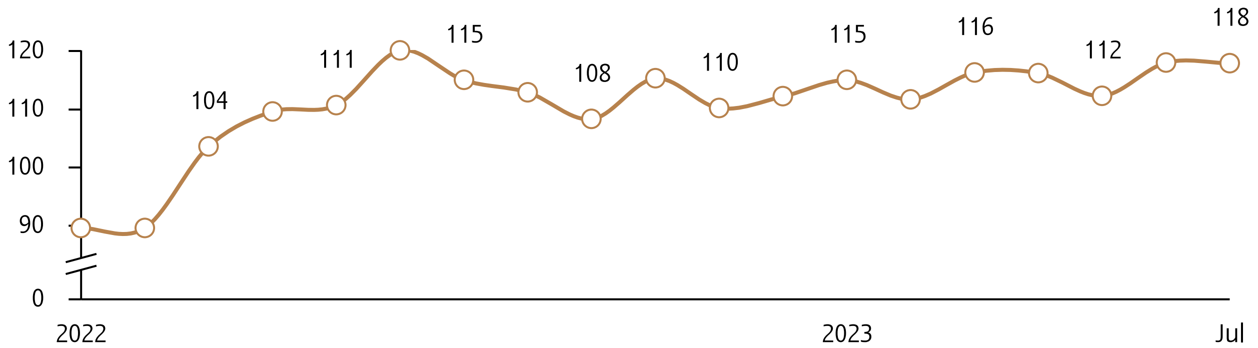
In Thailand, foreign tourist spending per person per trip in 2023 remained below 2019's readings.

Unit: Index (2019=100)



Airline ticket prices stayed elevated, as evident in the US PPI-Scheduled Passenger Air Transportation.

Unit: Index (2019=100)



Note: Foreign tourist spending/ person/ trip was calculated from the accumulated foreign tourism receipts, compiled by the Economics Tourism and Sports Division.

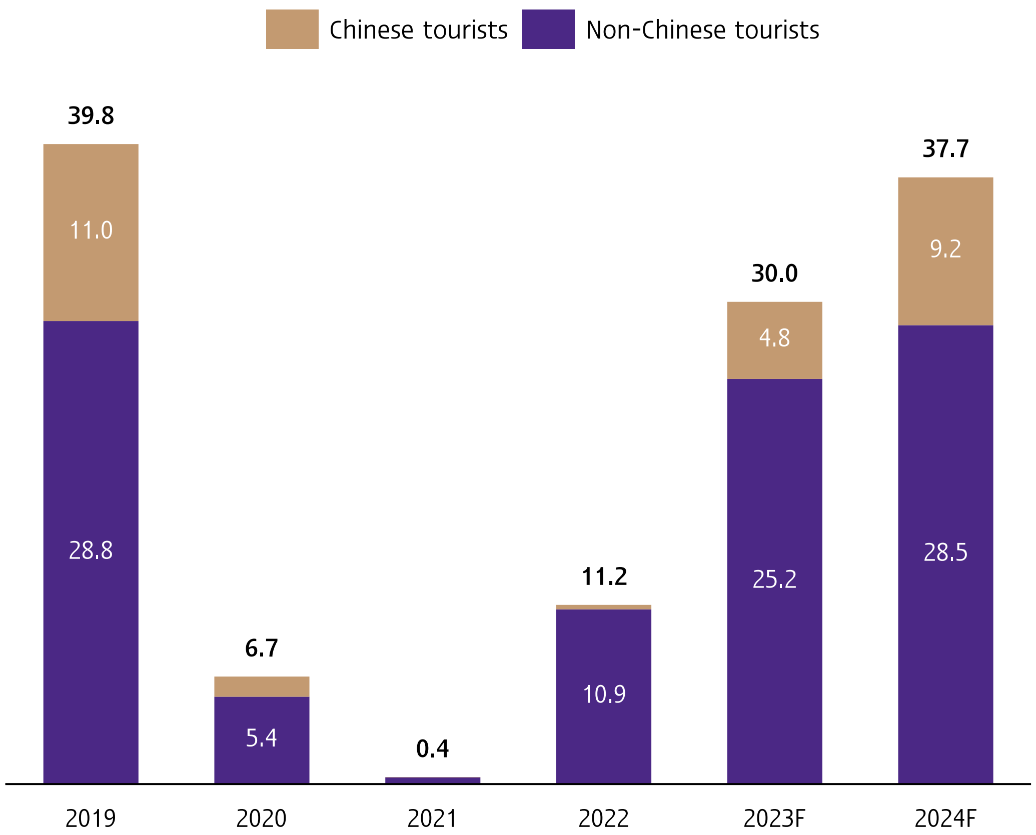
Source: SCB EIC analysis based on data from the Ministry of Tourism and Sports, IATA, and Federal Reserve Bank of St. Louis.

SCB EIC expects Thailand to welcome 37.7 million foreign tourists in 2024. Still, inbound Chinese tourists will face headwinds from China's slowdown and competition from other destinations as China lifted a Covid-era ban on outbound group tours.

SCB EIC

Forecasts of foreign tourists in 2024: international tourist arrivals will return to the 2019 level by the end of 2024.

Unit: Million persons



Factors that could affect the number of foreign tourists in 2024.

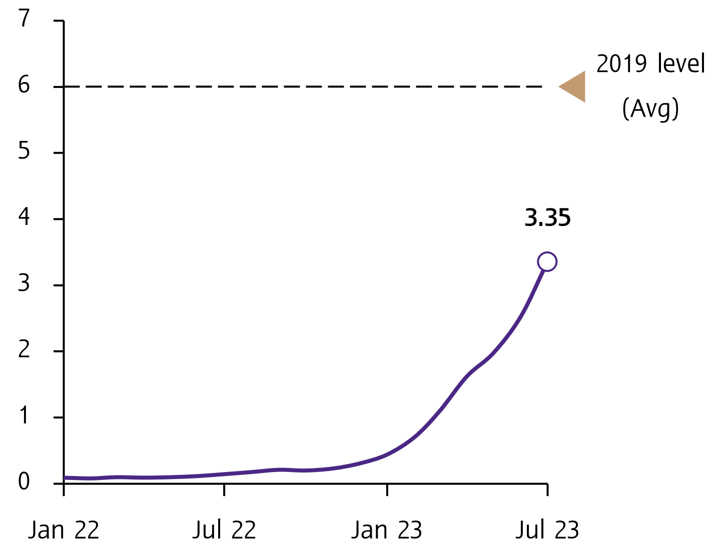
- **+ Airline capacity in the Asian region will likely rebound to a pre-pandemic level.** Based on OAG data in August, international scheduled seats among airlines in many regions were approaching or surpassed 2019's readings—except for Asia-Pacific airlines, which still gathered momentum.
- **+ New government's tourism policies** such as visa-free entry for tourists from potential targets (China, Kazakhstan) and refurbishing airport ground handling services.
- **– China's slowdown will derail a rebound in Chinese tourists.** The number of inbound visitors from China might drop below the forecast if the Chinese economy weakens further.
- **– More intense competition in attracting Chinese tourists,** partly due to China lifting bans on group tours to many destinations.
- **– Airline ticket prices will remain elevated due to high jet fuel costs and the pricing policy of the airlines.**

Source: SCB EIC analysis based on data from the Ministry of Tourism and Sports, OAG, and news agencies.

Chinese tourists' demand for outbound travel was on the upswing, yet China's slowdown will likely undermine the spending. **Tourists from the less-affected provinces should be the major group to travel abroad.**

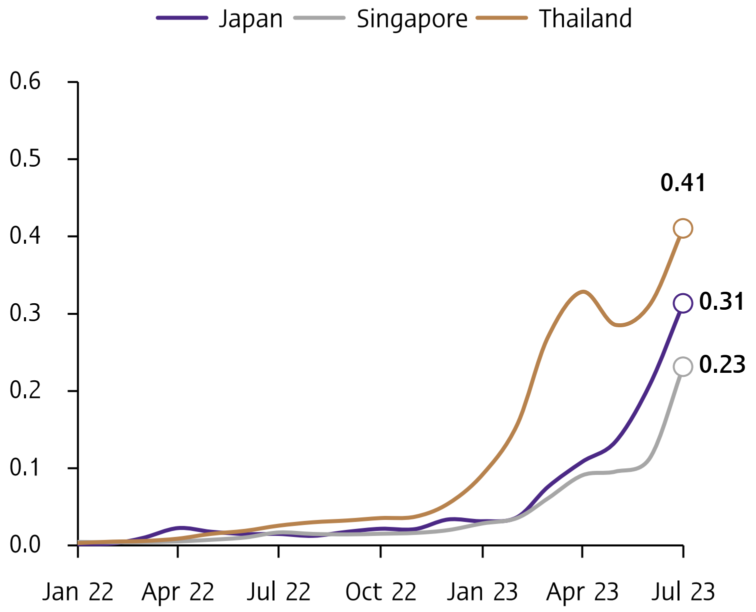
Number of air passengers in China: International routes*

Unit: Million persons



Inbound Chinese tourists in Thailand, Japan, Singapore

Unit: Million persons



As of 7M2023, there were more than 11.72 million Chinese tourists abroad. Thailand and Japan were the top destinations, accounting for over 10% of total outbound Chinese tourists—followed by Singapore and South Korea.

Major outbound Chinese tourists

The majority of outbound tourists are expected to come from Shanghai, Jiangsu, and Zhejiang because:

- These 3 provinces are among the top 6 counties with the largest number of outbound tourists in H1/23.
- As the key industrial cities producing food and medicine, their GDP growth has outpaced China's overall economy.

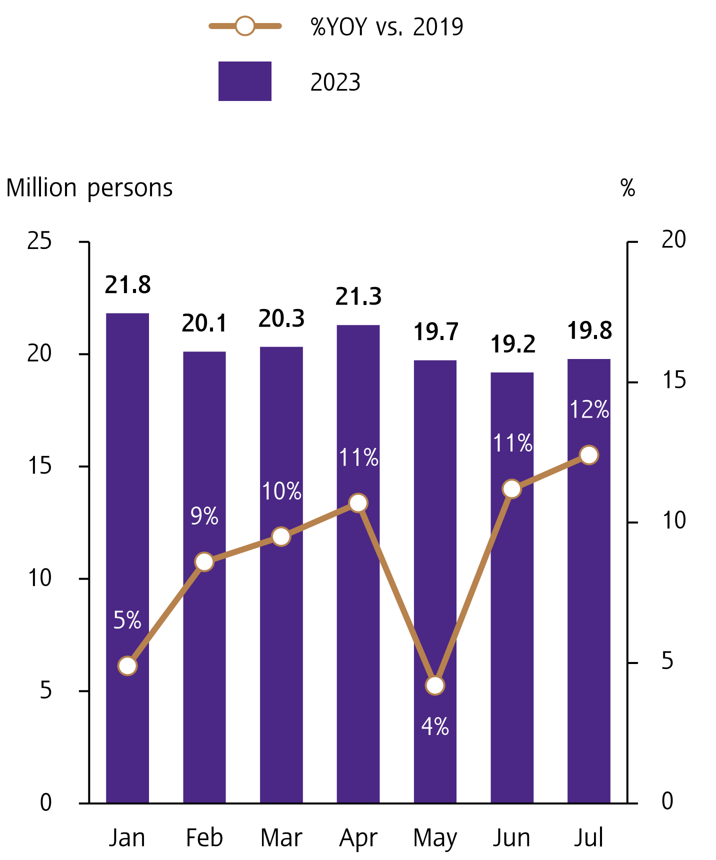
Note: *Except for travel routes to Hong Kong, Macao, and Taiwan.

Source: SCB EIC analysis based on data from the Ministry of Tourism and Sports, Civil Aviation Administration of China, Japan National Tourist Organization, Singapore Tourism Board, China National Bureau of Statistics, local statistics bureaus, and ThinkChina.

Thailand's domestic tourism growth will stay intact in 2023. Still, Thai travelers tended to opt for shorter trips to cut down spending amidst the downcast economic conditions.

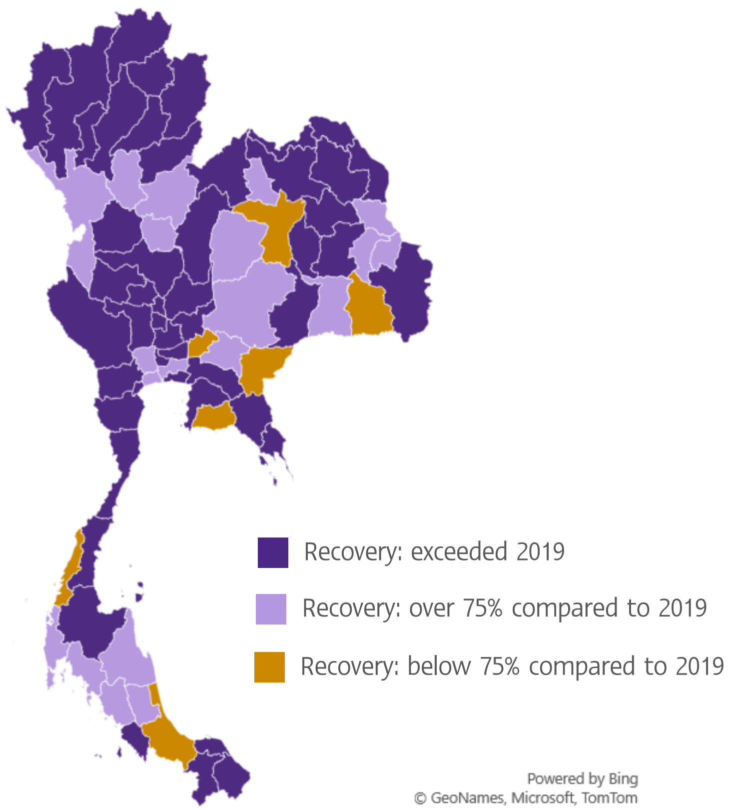
Number of Thai visitors

Unit: Million persons, %



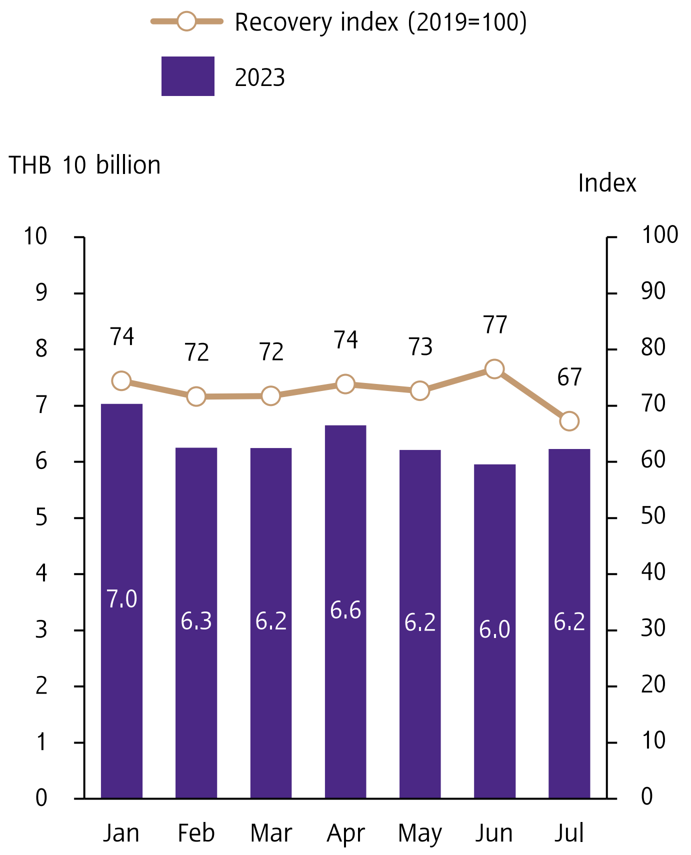
Recovery of Thai visitors by province in 7M2023

Unit: Million persons, %



Tourism receipts from Thai visitors

Unit: THB 10 billion, index

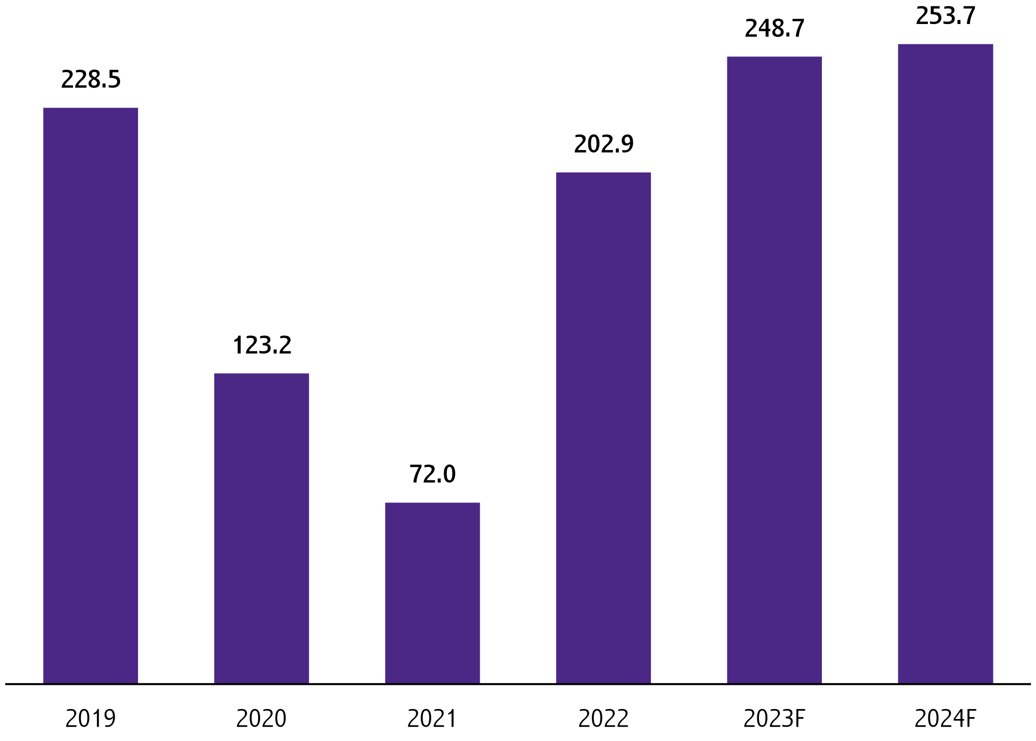


Source: SCB EIC analysis based on data from the Ministry of Tourism and Sports.

SCB EIC expects up to 253.7 million Thai visitors in 2024. The new government stimulus will help bolster tourism spending, but there are pressures from rising Thai outbound tourists.

Number of Thai visitors will continue to expand in 2024.

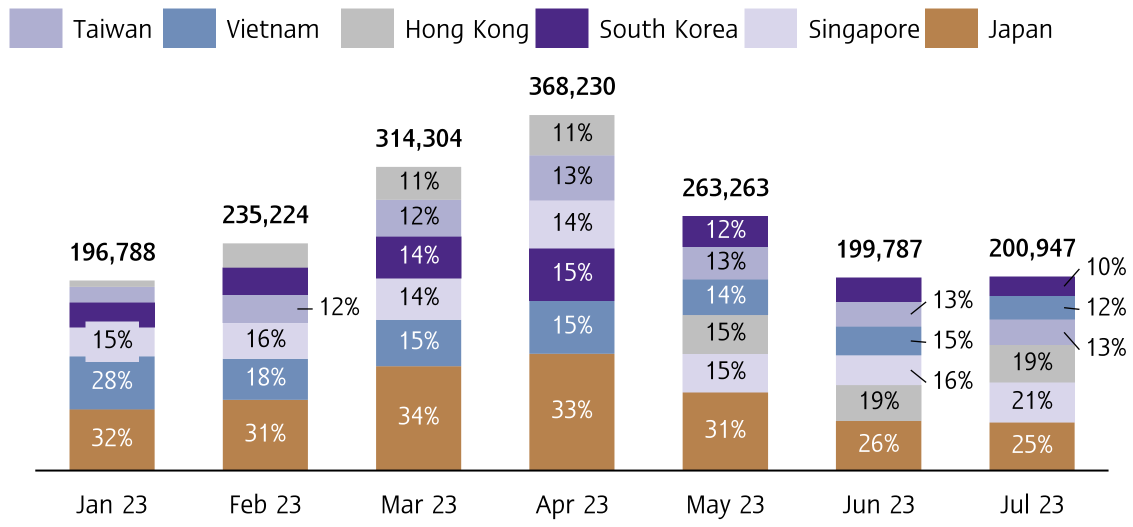
Unit: Million persons



Factors affecting the number and receipts of Thai visitors in 2024.

+ The new government stimulus and cost-of-living supports, such as
  - THB-10,000 digital wallet
  - Reducing electricity bill and fuel cost
  - Raising minimum wage and base salary

− **Thai outbound tourists have been on the rise,** particularly to top destinations in Asia.



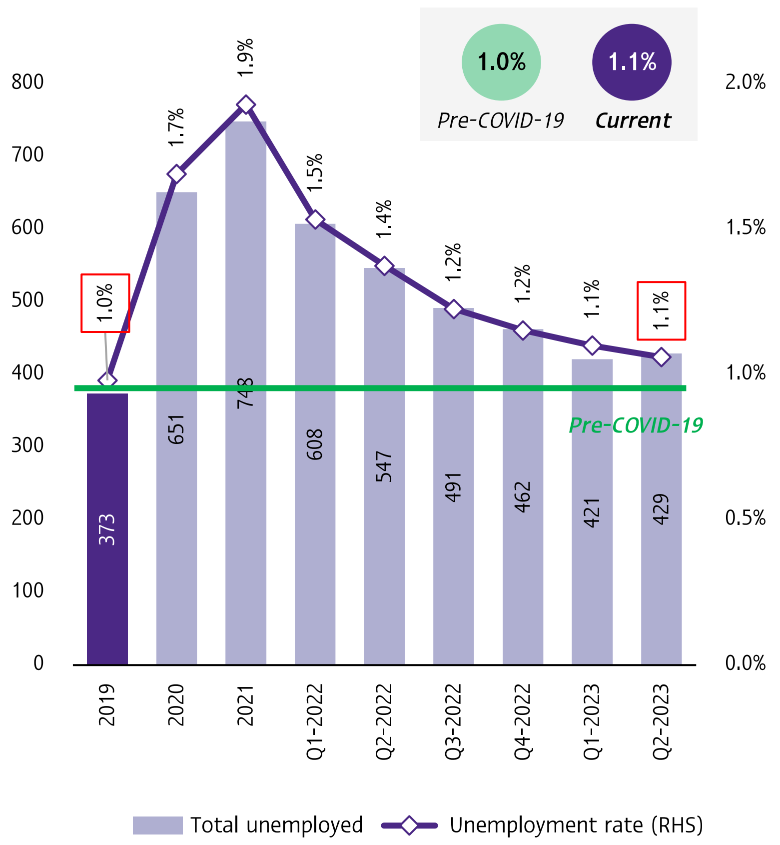
Source: SCB EIC analysis based on data from the Ministry of Tourism and Sports and CEIC.

A steady rebound in tourism and service sectors helps cushion labor market fragilities.

Unemployment rate, underemployed workers, and hours worked already bounced back to the pre-COVID-19 levels.

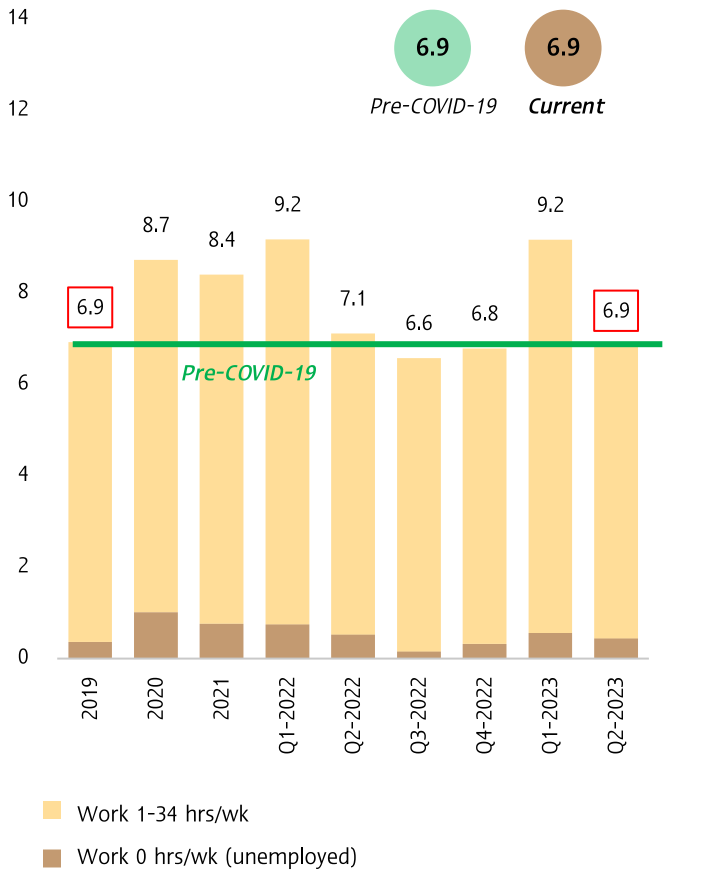
Number of unemployed persons and unemployment rate

Unit: Thousand persons Unit: % Of total workforce



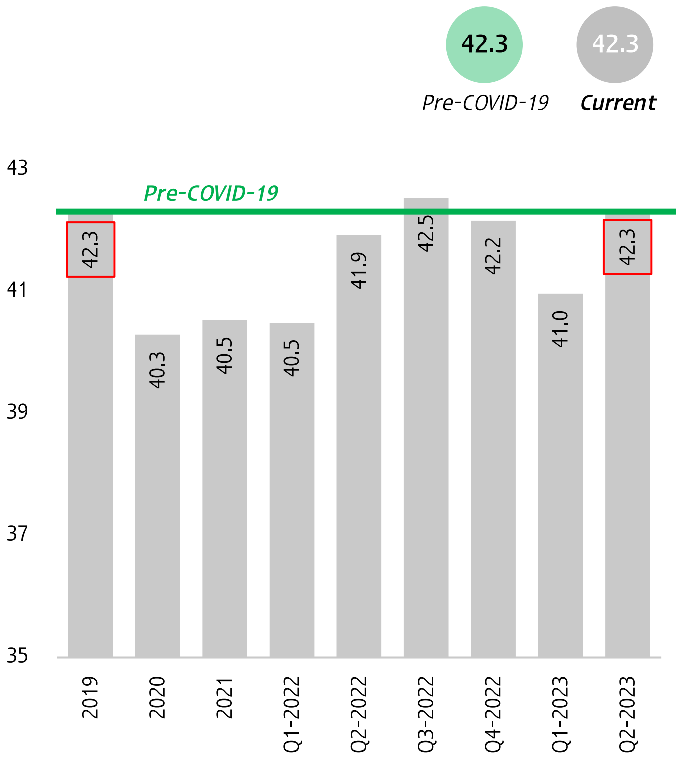
Number of the underemployed (work < 35 hours/ week)

Unit: Million persons



Average hours worked

Unit: Hours/ week

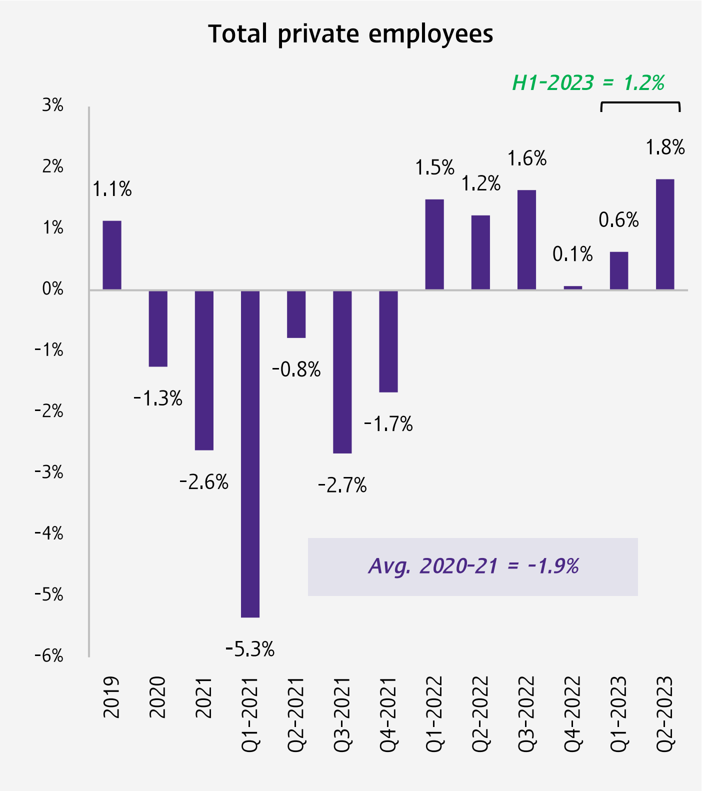


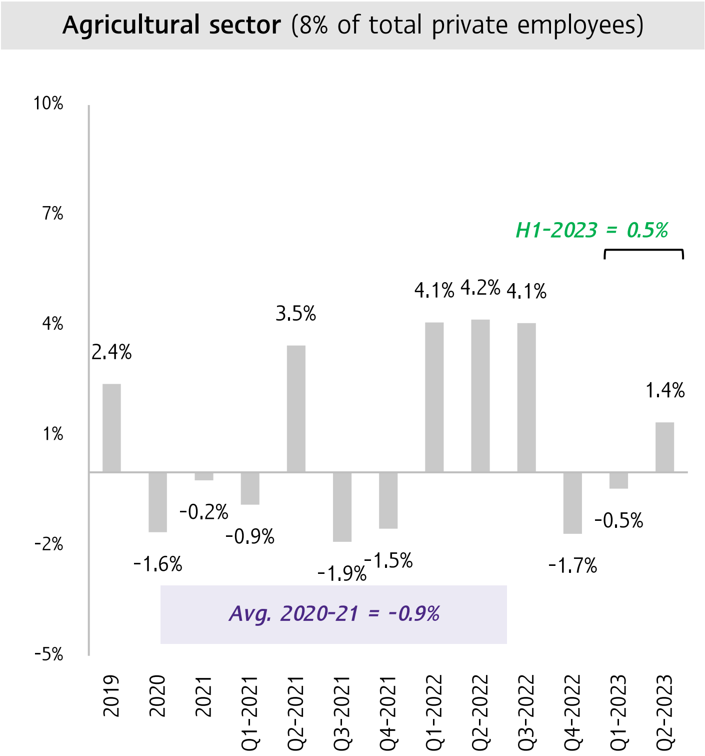
Source: SCB EIC analysis based on data from the National Statistical Office.

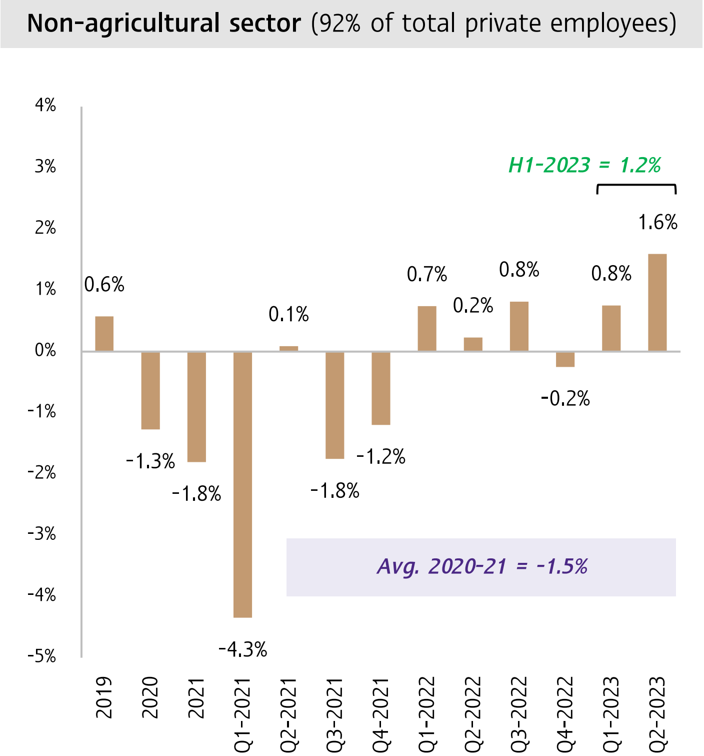
This was in line with an improving growth in private employee's real earnings in 2023, especially in non-agricultural sectors.

Real earnings of private employee, by sector

Unit: %YOY





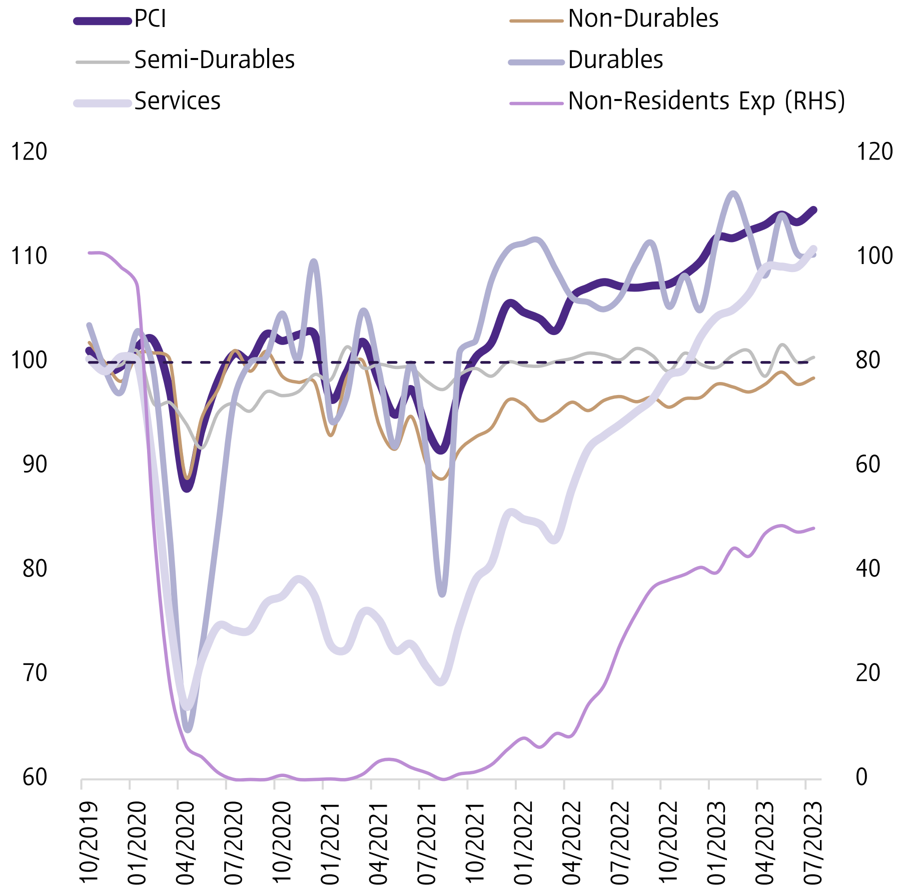


Note: Total earnings of private employees consist of wage, OT pay, and bonus earned by employees in each sector. Over 90% of the average annual bonus was paid in Q1.
Source: SCB EIC analysis based on data from the National Statistical Office.

The labor market recovery helped buttress an outlook for consumption rebound, especially in the service sector. Consumer confidence index edged up thanks to more stable political conditions, yet people remained wary of high living costs.

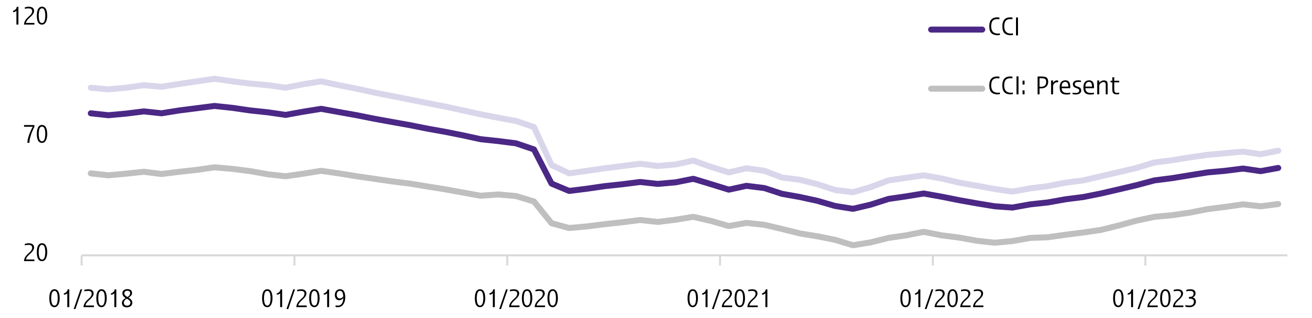
Private Consumption Index

Unit: Index (2019Q4 = 100), Seasonally adjusted



Consumer Confidence Index

Unit: Index (100 = Sentiment unchanged)



Private consumption poised for steady growth

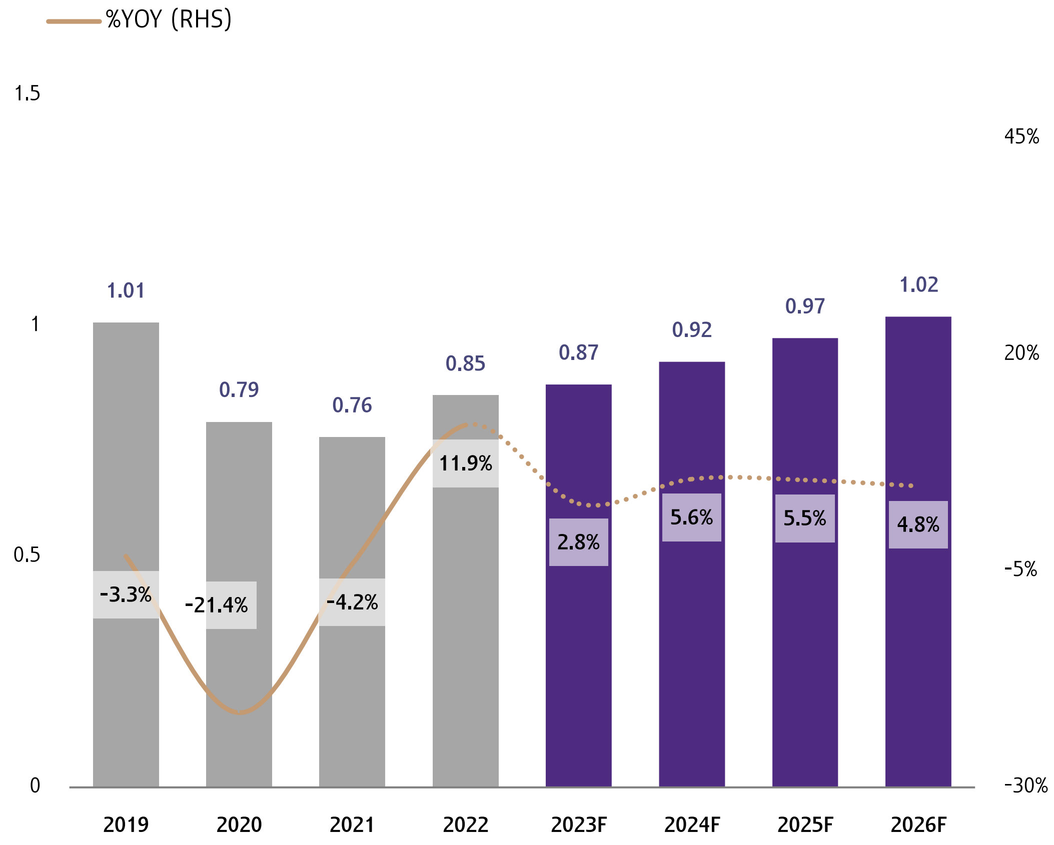
- **Private Consumption Index (PCI) expanded from the prior month** (seasonally adjusted), led by spending on service—particularly hotels & restaurants and passenger transportation. Spending on non-durable goods also climbed from the previous month, whereas spending on durables and semi-durables stayed unchanged.
- **Consumer Confidence Index (CCI) rose to 56.9** (not seasonally adjusted) **in Aug,** after ebbing for the first time in 14 months in Jul due to uncertainties over the government formation, policy rate hikes, and elevated living costs. The improving CCI in Aug was backed by political stability with the new government in place, rising foreign tourists, and higher prices for various farm crops.
- **Private consumption still faces headwinds from high living costs, policy rate hikes,** global recession risks, geopolitical conflicts, subdued exports, and concerns over the impacts of El Nino and the drought crisis.

Source: SCB EIC analysis based on data from the Bank of Thailand, University of the Thai Chamber of Commerce, and CEIC.

A rebound in non-farm income helped uplift domestic car sales, whereas commercial vehicle sales tended to lose pace.

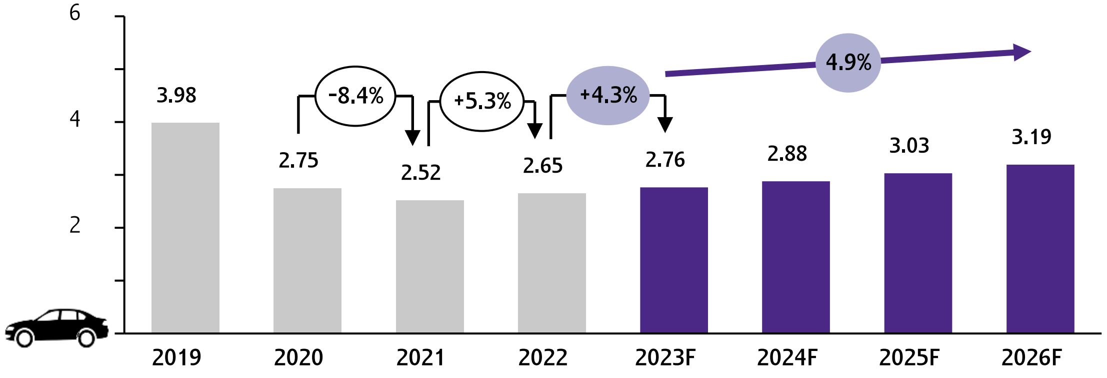
Domestic car sales & forecasts in 2023-2026

Unit: Million units (LHS), %YOY (RHS)



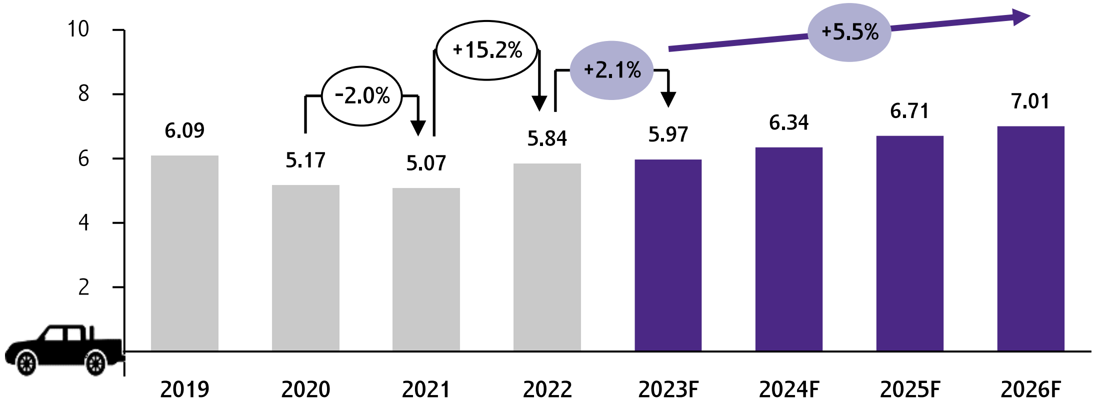
Passenger car sales & forecasts in 2023-2026

Unit: 100,000 units



Commercial vehicle sales & forecasts in 2023-2026

Unit: 100,000 units



Source: SCB EIC analysis based on data from FTI and Department of Land Transport.

Thai exports remained in contraction but will likely improve through the rest of 2023, thanks to a more upbeat global outlook in Q4. SCB EIC expected overall exports to shrink by -1.5% (from 0.5% growth) in 2023.

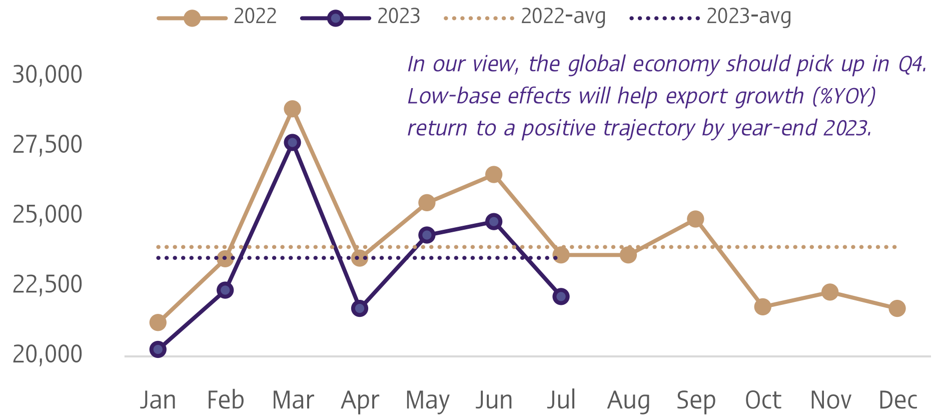
Export value and top export markets

Unit: %YOY, (2022 share)

Products	2022	2022Q3	2022Q4	2023Q1	2023Q2	Jul-23	YTD
Total exports (100%)	5.7%	6.7%	-8.2%	-4.5%	-6.2%	-6.2%	-5.5%
Excluding gold (97.5%)	4.6%	6.3%	-8.0%	-2.4%	-6.3%	-5.2%	-4.5%
Agriculture (9.3%)	2.2%	-2.7%	-7.1%	0.2%	-5.5%	-7.7%	-3.8%
Agro-industrial (7.9%)	17.9%	21.5%	-4.0%	3.4%	-7.5%	-11.8%	-3.7%
Principle manufacturing (78.6%)	4.5%	6.3%	-8.0%	-5.9%	-4.7%	-3.4%	-5.0%
Mining and fuel (4.1%)	15.6%	10.8%	-22.7%	-2.1%	-28.2%	-35.7%	-20.6%
US (16.5%)	13.4%	15.9%	-1.3%	-3.9%	-3.3%	0.9%	-3.0%
China (12%)	-7.6%	-17.7%	-13.5%	-7.4%	-0.7%	-3.2%	-3.7%
ASEAN-5 (14.2%)	9.7%	11.8%	-17.3%	-2.4%	-12.4%	-18.3%	-9.1%
CLMV (10.8%)	11.5%	29.3%	-0.3%	-6.4%	-19.3%	-26.5%	-15.2%
Japan (8.6%)	-1.4%	-0.3%	-7.3%	-0.3%	-2.3%	-1.7%	-1.3%
EU-28 (9.3%)	6.6%	17.4%	-1.8%	-1.4%	0.7%	-4.8%	-1.0%
Hong Kong (3.5%)	-13.0%	-22.6%	-24.7%	-3.4%	-9.6%	9.6%	-4.8%
Australia (3.9%)	2.1%	17.8%	-1.8%	-13.3%	15.1%	2.7%	0.4%
Middle East (3.8%)	23.5%	38.6%	14.2%	14.9%	-4.4%	8.5%	5.4%
India (3.7%)	22.6%	14.0%	-5.9%	3.7%	-19.4%	-2.1%	-7.9%

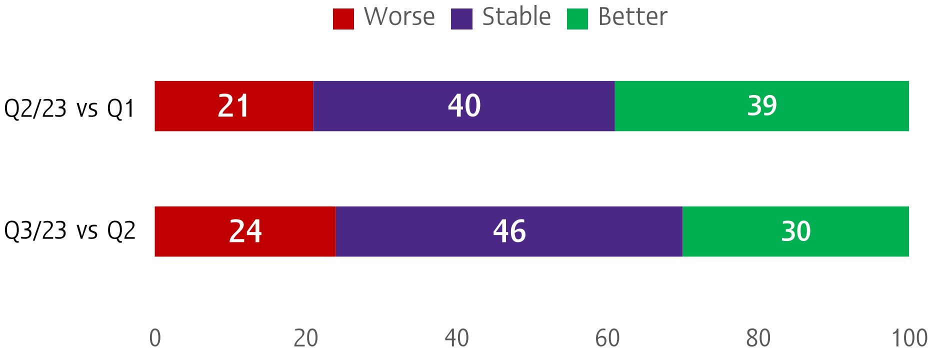
Thailand's export value

Unit: USD million



Exporters' business sentiment in the next 3 months, compiled by BOT*

Unit: % of respondents



Note: *Business sentiment survey compiled by the Bank of Thailand (BOT) during 1-25 Aug 23, with a total of 300 respondents, including large enterprises and SMEs.
Source: SCB EIC analysis based on data from the Ministry of Commerce, Bank of Thailand, and CEIC.

Weaker Chinese growth momentum has undermined Thai exports that rely heavily on China's market and are part of its supply chain, particularly natural rubber, rubberwood, petrochemicals, computer and parts, and automotive parts.

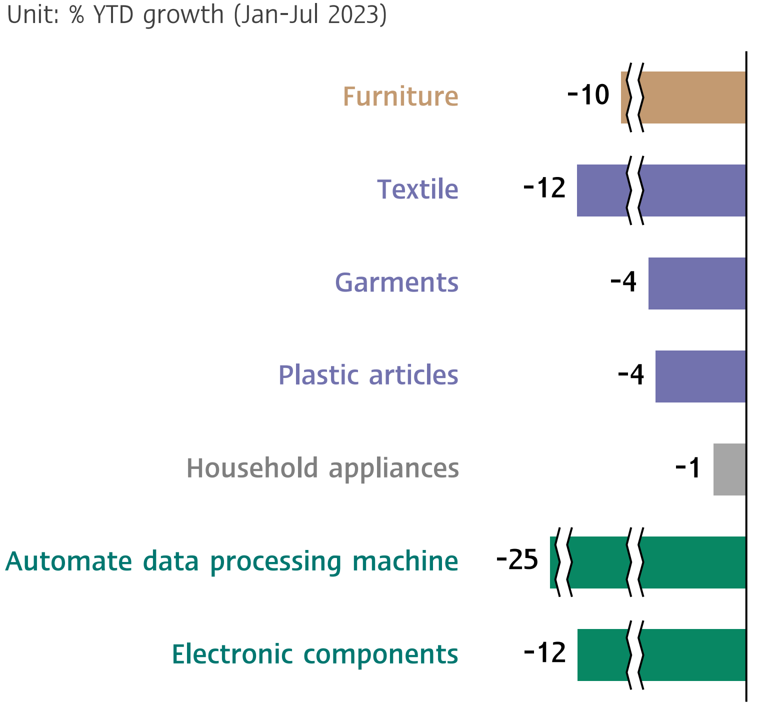
Thai exports which have already been impacted from China slowdown are mostly intermediate goods which directly linked with China's supply chain. While those depend on Chinese final demand, especially some necessities in people's daily lives, have not been affected much yet. However, if the slowdown is worse-than-expected, higher impacts can be felted for medium and low-risks categories, particularly those with high linkage with China, like cassava products.

High risk*
- Natural rubber
- Rubber wood
- Petrochemical

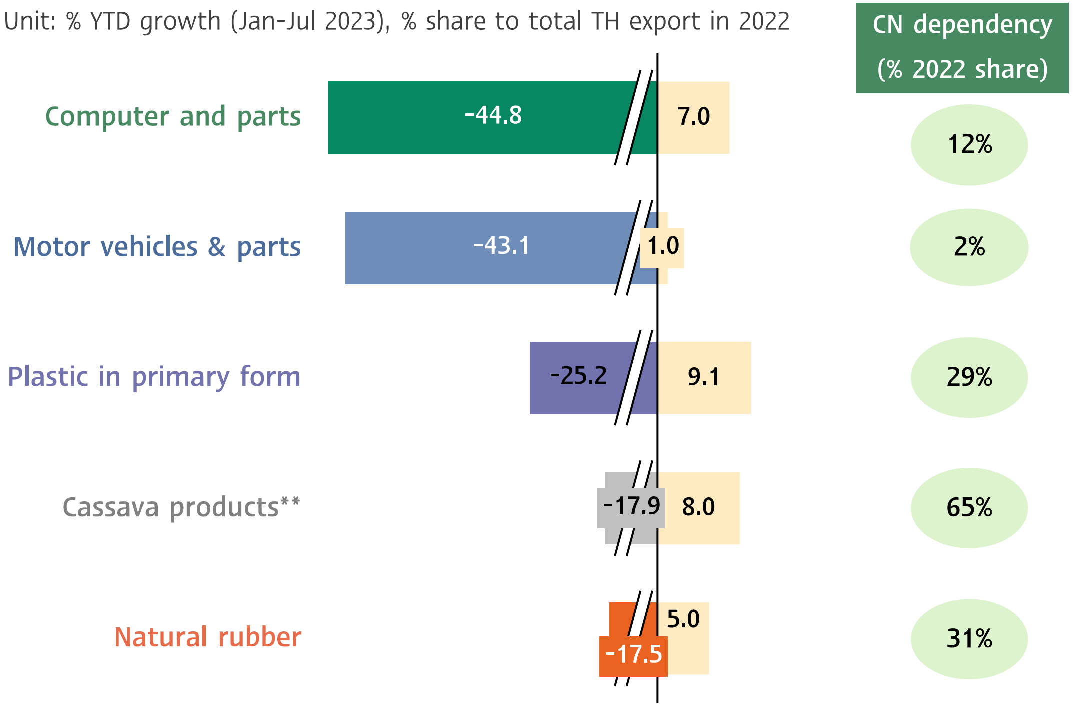
Medium risk*
- Computer & Parts
- Auto parts

Low risk*
- Cassava products
- Electronic components
- Fresh fruits
- Cement

CN export to world



TH export to CN



Note: ***High risk**: high reliance on China (>20%) and a part of China's export supply chain; **Medium risk**: moderate reliance on China (10–20%) and a part of China's export supply chain; **Low risk**: 1) essential products (consumer goods, substitute goods for inadequate supply in China) with high reliance on China or 2) low reliance on China (<10%) and not a part of China's export supply chain **A decline in cassava exports was resulted from supply shortage in Thailand, as evident in stable prices despite a sharp drop in export volume.

Source: SCB EIC analysis based on data from China's General Administration of Customs, CEIC, and Ministry of Commerce (MOC).

Industrial product exports in 2023 are poised for a contraction in almost all segments due to the global demand slowdown and price factors. Still, industrial exports should regain traction in 2024 alongside the global trade outlook and improved supply disruption.

Export value: Industrial products

Unit: %YOY

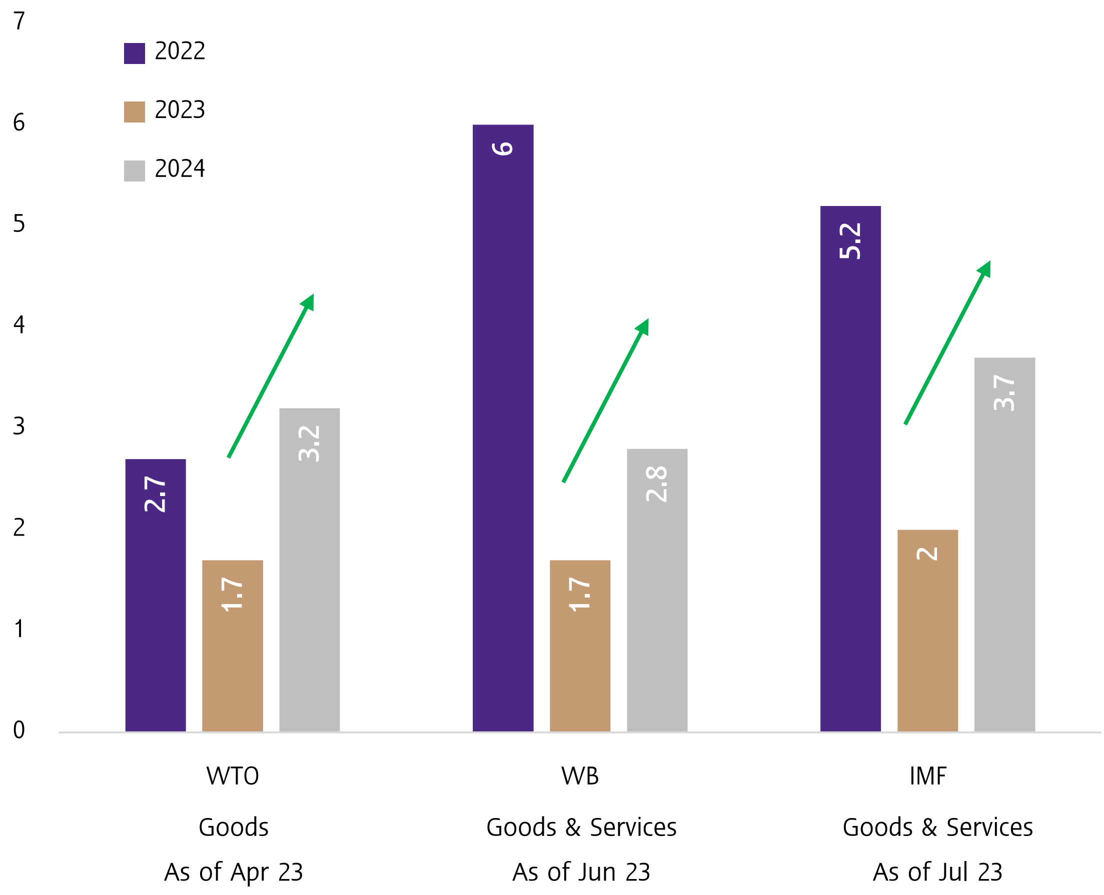
Industry export	Export share in 2022	%YOY			%YTD		%YOY	
		2022	2023Q1	2023Q2	Jun-23	Jul-23	2023F	2024F
Agricultural commodities	7.7%	3.7%	-5.0%	-8.8%	-14.4%	-20.0%	-6.4%	0.3%
Food and beverage	6.1%	16.1%	11.2%	24.8%	4.2%	-2.6%	9.1%	12.5%
Electronics & Electrical appliances	25.9%	5.1%	-0.2%	0.8%	1.3%	-0.5%	-1.5%	2.0%
Automotive & Parts	10.4%	-11.4%	6.1%	0.6%	7.4%	24.1%	2.6%	3.1%
Steel	0.2%	17.2%	-8.3%	-10.7%	-8.9%	3.0%	-14.2%	-5.0%
Building materials	0.1%	-23.0%	-18.3%	-35.3%	-52.0%	18.0%	-28.0%	-2.8%
Energy	8.9%	3.2%	-14.1%	-22.3%	-23.5%	-25.6%	-13.2%	4.4%

Source: SCB EIC analysis based on data from the Ministry of Commerce.

Nonetheless, Thai export growth should rebound to 3.5% in 2024 as the global trade prospects and supply bottlenecks have improved. Yet, there remained headwinds from El Nino impacts and weak China's economic recovery.

Global trade forecast (volume)

Unit: %

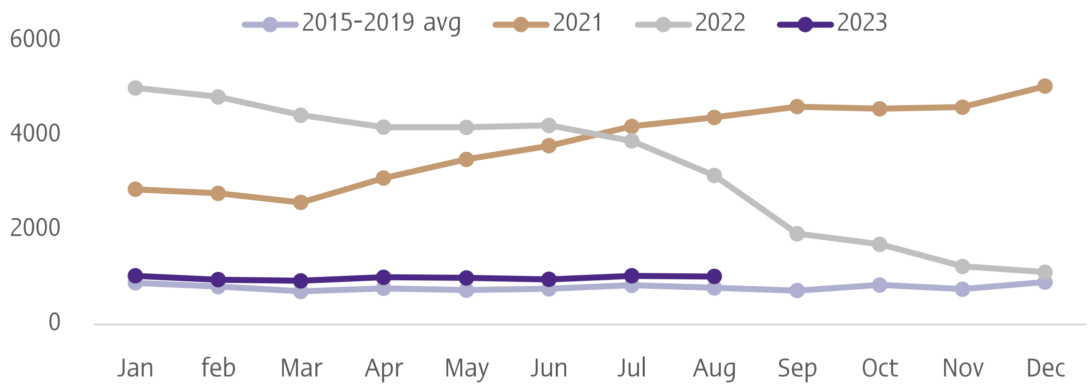


Manufacturing PMI: Suppliers' delivery times steadily declined.

Unit: Index, > 50 = improving delivery times

Shanghai containerized freight index plummeted close to the pre-pandemic level.

Index: Index, calculated from the spot freight rates of 15 individual routes



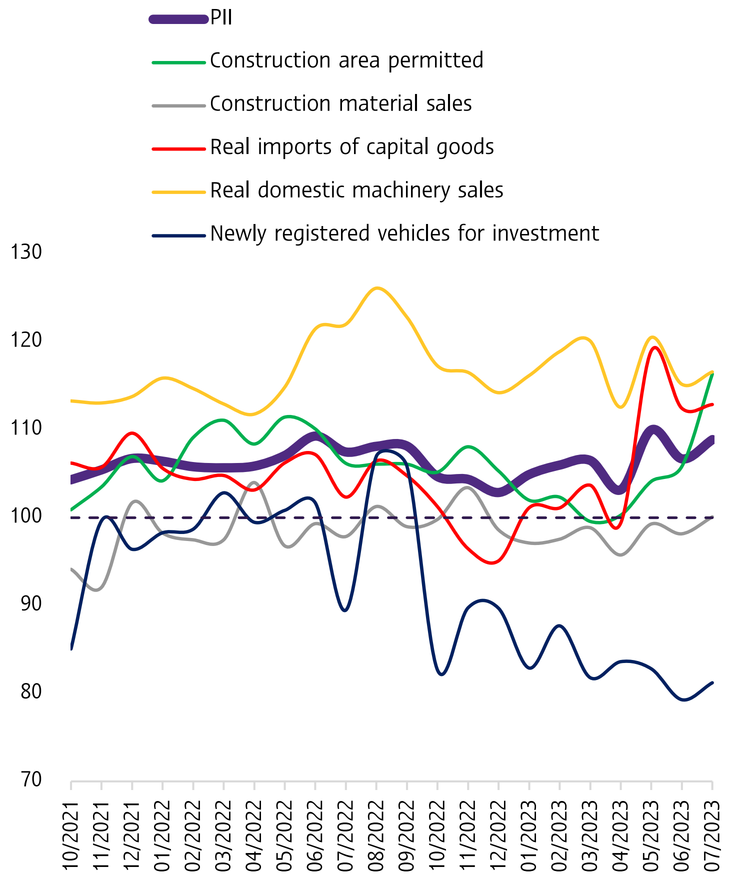
Source: SCB EIC analysis based on data from WTO, World Bank, IMF, Bloomberg, JP Morgan, and S&P Global.

The private investment index rebounded, and the business sentiment index picked up.

Yet, concerns remained over exports, business liquidity, production cost, and interest burden.

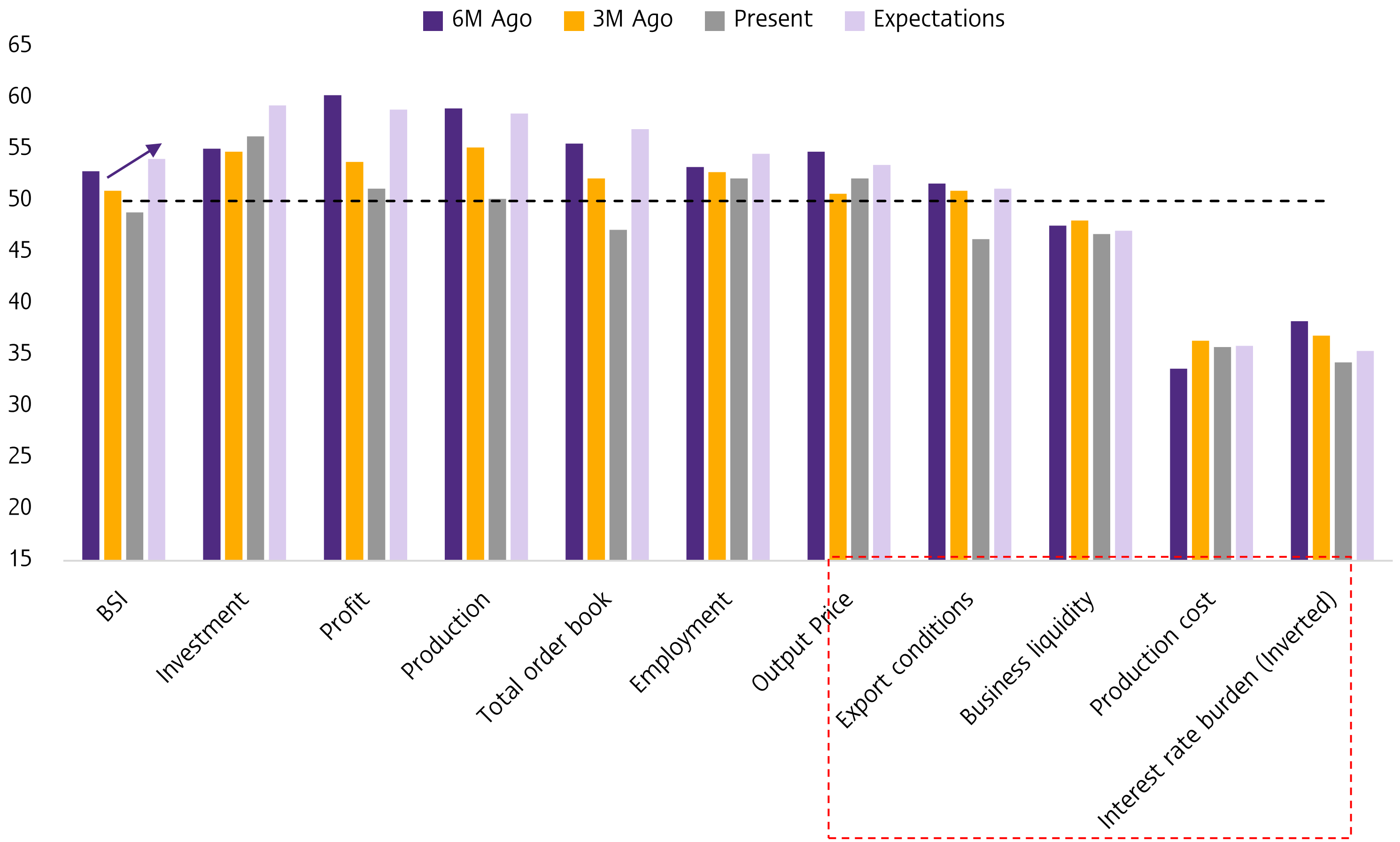
Private Investment Index

Unit: Index (2018Q1=100), Seasonally adjusted



Manufacturing PMI: Supplier's delivery times steadily declined.

Unit: Index, > 50 = Improving delivery times



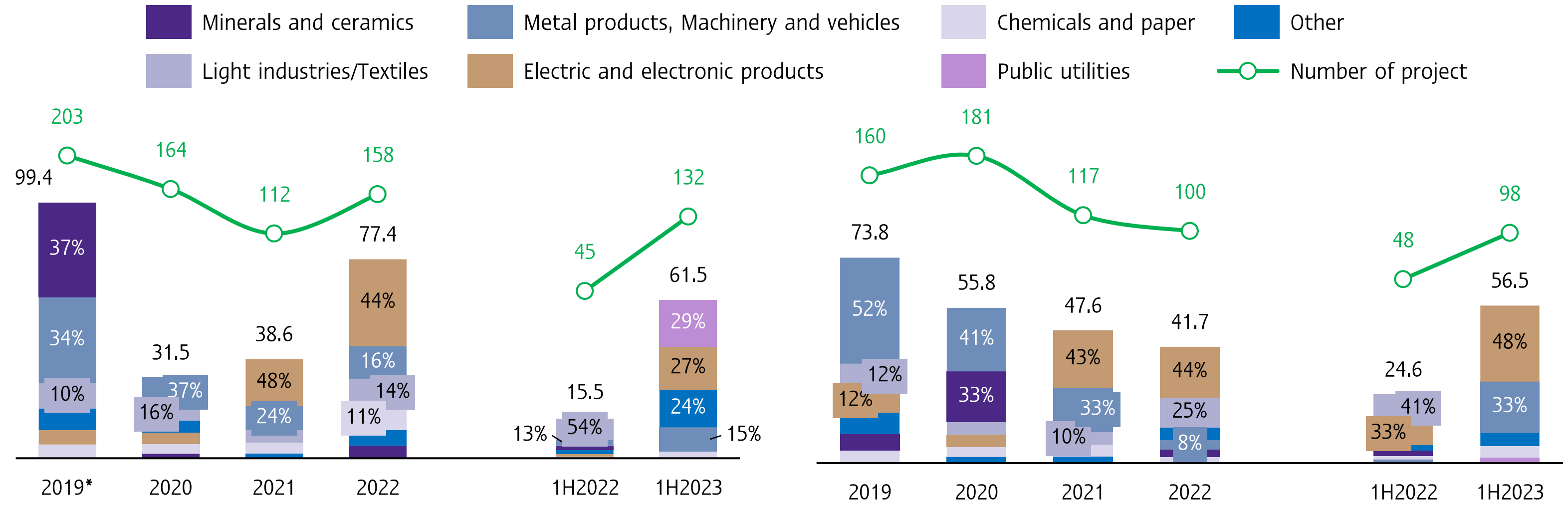
Source: SCB EIC analysis based on data from the Bank of Thailand and CEIC.

SCB EIC

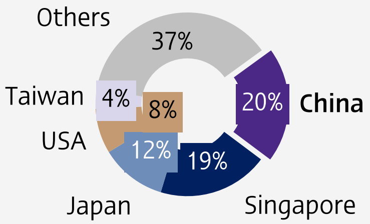
Likewise, private investment will witness a more robust recovery. Despite a weaker FDI from China, the manufacturing relocation to Thailand will continue in the medium term.

BOI Applications & Approvals: Chinese investment

Unit: THB billion, number of project



China ranked Top 1 in total value of BOI applications in 1H/23.



Major Chinese investment projects in 2022-2023

EV-related manufacturing, such as

- Battery: 4 projects, total investment of THB 5.6 billion
- EV (BYD, GAC AION, CHANGAN): total investment over THB 38 billion

Electrical-electronic products and PCB manufacturing

- Solar cell: 3 projects, total investment of THB 15 billion

Despite China's slowdown, inward FDI from China still showed a promising outlook in some segments. Major sectors with rosy prospects include:

- Sectors that seek to expand into the ASEAN market, such as EV manufacturing
- Sectors affected by geopolitical issues, such as E&E
- Sectors affected by China's ESG policy

Nevertheless, China's investment policy and initiatives to promote domestic industries will undermine potential FDI from China in some segments, particularly China's new economy sectors such as

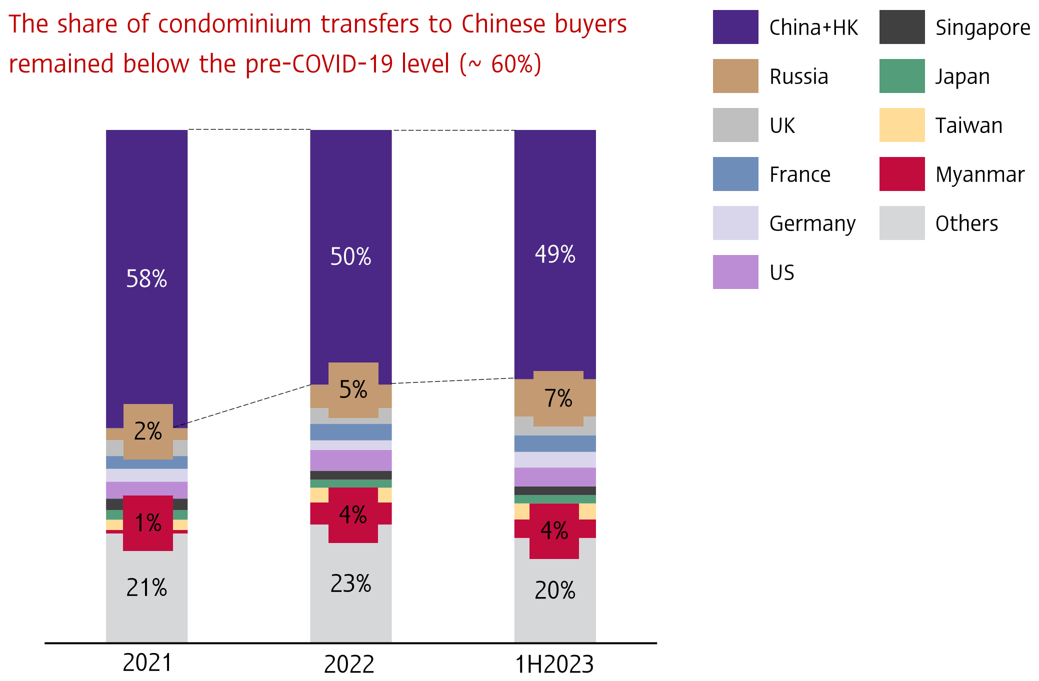
- Advanced manufacturing: Semiconductor & AI
- Pharmaceuticals and high tech medical devices

Note: *The value of BOI applications in 2019 excluded the 3-airport high-speed rail link (total investment THB 162 billion).
Source: SCB EIC analysis based on data from BOI and news agencies.

China's slowdown might also weaken Chinese buyers' demand in some segments of Thailand's property market, **particularly condominiums in Bangkok and major tourism provinces.**

Share of condominium ownership transfer by nationality

Unit: %



One million baht	2022	%YOY	1H23	%YOY
China + HK	29,439	+28%	17,116	+62%
Others	29,822	+85%	18,095	+54%
รวม	**59,261**	**+49%**	**35,211**	**+58%**

Thailand's property market at risk from China's slowdown

China's real estate crisis and rampant housing prices have subsided, thus resulting in more domestic housing options for Chinese investors.

Segments at risk from China's economic slowdown

1. **High to mid-priced condominiums** in Bangkok's inner city and central as well as tourism provinces
2. **Tourist-targeted condominiums for rent** in major tourism provinces

Share of Chinese tourists in 2019 (before COVID-19)

Bangkok 49%	Phuket 18%
Chonburi 15%	Chiang Mai 7%

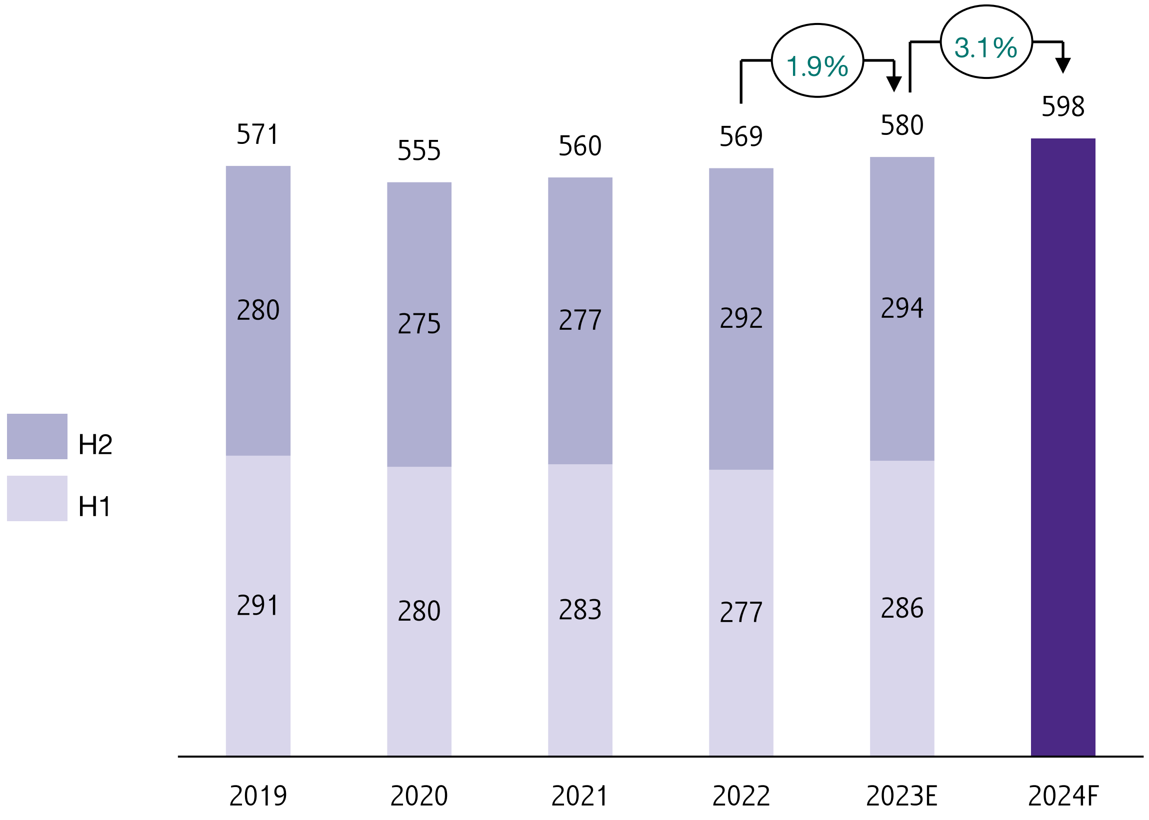
Worse: **Affected segments include 1) Properties in areas targeting Chinese buyers** such as Huay Khwang, Ratchada, Praram 9, and tourism provinces (Chiang Mai, Chonburi, Phuket), and **2) Horizontal properties in popular areas for Chinese buyers** such as Bang Na-Trat, Srinakarin, Pattaya, and Chonburi.

Source: SCB EIC analysis based on data from REIC.

Private construction activities will continue in 2024 with expanding footprints of construction permits—both residential and commercial real estate.

Private construction value

Unit: THB billion



Private construction in 2024 will record +3.1%YOY growth, albeit with challenges ahead.

Private construction value is on track for steady growth in 2024. The total footprints of residential construction permits gathered momentum in 2022, while those of commercial construction permits have shown solid growth since 2021-2022—particularly office buildings and industrial factories. Construction permits that have expanded ahead will bolster private construction activities.

Challenges facing private construction

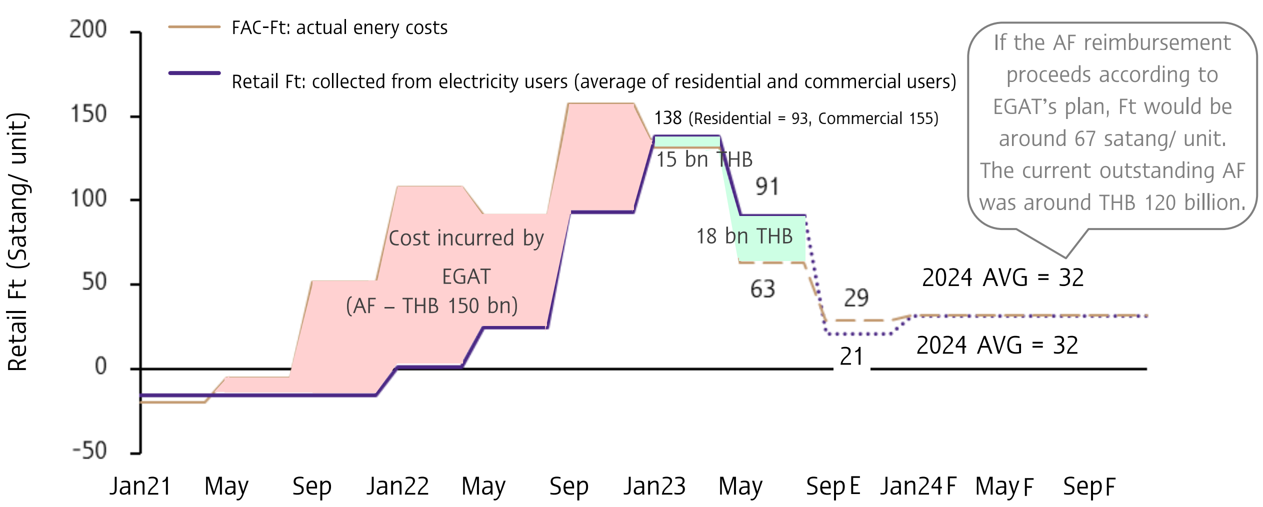
- Residential project developers remained heedful of new project launches—both horizontal property and condominium.
- Oversupply in the commercial property market could delay/ axe projects with low potential, particularly office building projects in some areas.

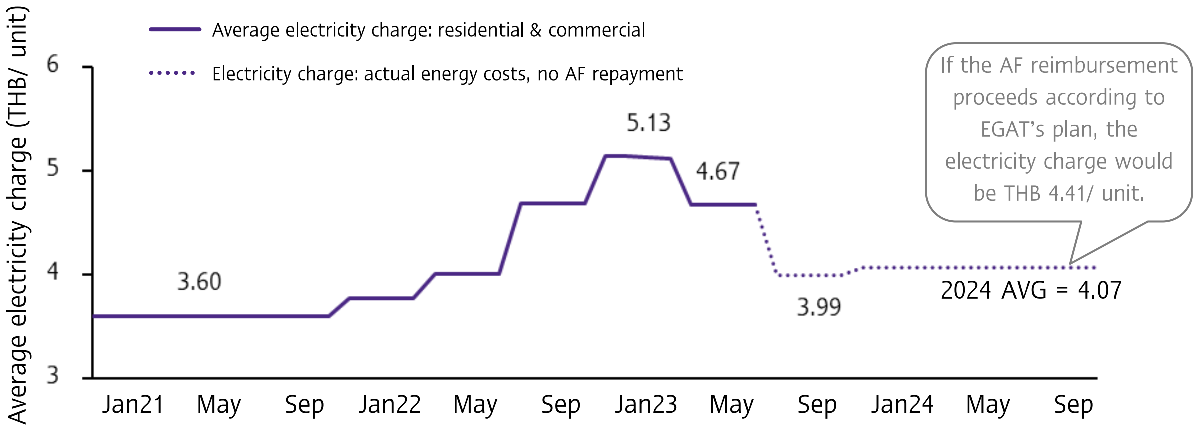
Source: SCB EIC analysis based on data from NESDC.

Annual average electricity charges in 2024 tended to plummet alongside lower energy costs, and could decline further **if the government opts for price intervention or extending the reimbursement to EGAT.**

Ft will ebb alongside energy costs despite a repayment of outstanding debt (AF) to EGAT.

Unit: satang/ unit





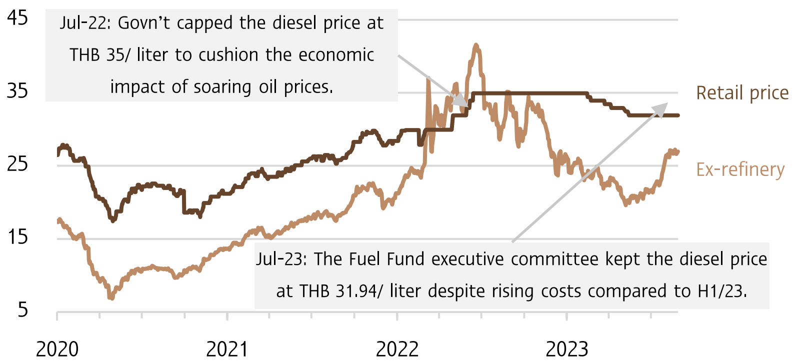
- **Thailand's electricity charges declined in the last four months of 2023 due to lower energy costs—notably gas prices—and government intervention.** The retail Ft in Sep-Dec 2023 was at 21 satang/ unit (average electricity charge = THB 3.99/ unit) according to the government's announcement on 18 Sep in efforts to cut electricity bills. The Ft was down from 67 satang/ unit previously announced by ERC and from 59 satang/ unit during May-Aug 2023.
- **Average annual electricity charges in 2024 will likely stay around the year-end 2023's level if the government still extends the reimbursement of electricity costs (AF)** incurred by EGAT during 2021-2022. Pressures on the pool gas price (one of the key components in Ft calculation) are expected to subside, given that the surge in global gas price would be less alarming than in 2022 (the cost might accelerate in early 2024 with escalating gas prices during winter). Also, the utilization ratio of gas from the Gulf of Thailand will likely increase in tandem with a higher production capacity of PTT's new oilfield.
- **We expect the government to defer the AF repayment until gas prices significantly recede (potentially in 2025) while seeking approaches to restructure the natural gas system and lower the pool gas price.** In particular, the government plans to include methane from gas separation plants into the pool gas price mechanism—by adding methane to the gulf gas portion—in efforts to lower the cost of gas in electricity generation as well as Ft surcharges (the proportion of gulf gas might increase by 5% and help lower Ft by 0.07 satang or reduce 2024's electricity charge to THB 4/ unit).
- By extending the AF reimbursement, the electricity charge might become lower, but such effects will be short-lived. In the medium term (2025-2026), this approach would face more hardships to curb electricity charges despite lower gas costs.

Source: SCB EIC analysis based on data from Bloomberg, ERC, EPPO, EGAT, Springnews and Topnews.

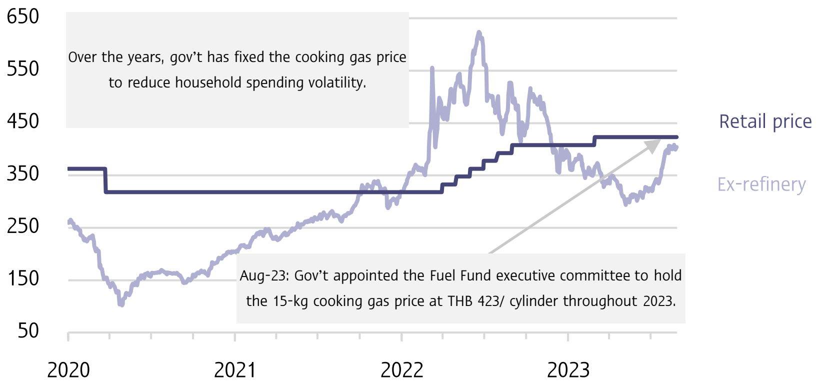
The Oil Fund returned to a vulnerable condition due to domestic oil price subsidies in 2022 and the new government’s cost-of-living supports by lowering energy bills.

Ex-refinery vs. retail price: Diesel and Cooking gas (15 kg)

Diesel price (THB/ liter)

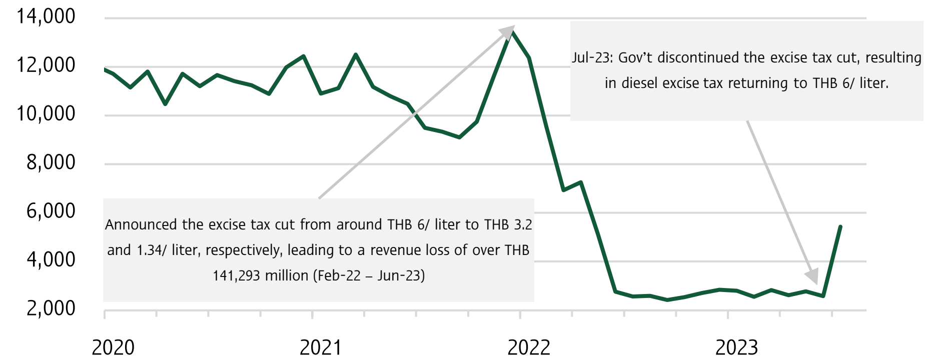


Cooking gas 15 kg cylinder (THB/ 15 kg)

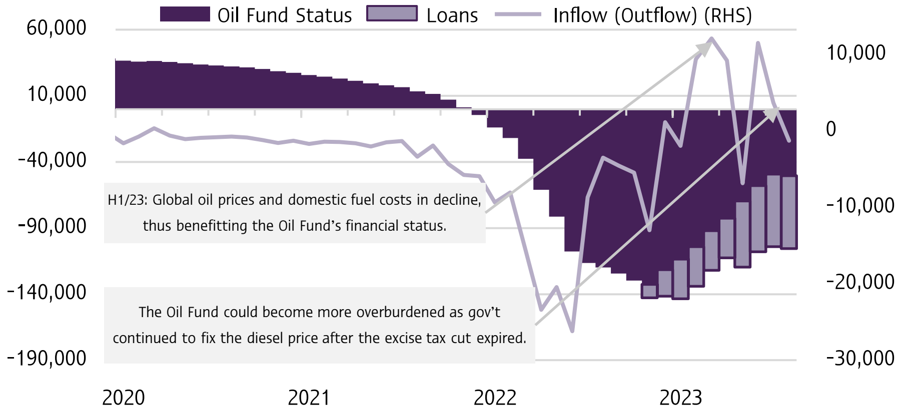


Excise tax from diesel & Status of Oil Fund

Excise tax revenue from diesel, monthly (THB million/ month)



Status of Oil Fund at month-end: Loans & Fund flows (THB million)



- **Subsidies in 2022 have expired, and the Oil Fund was left overburdened.** The Fuel Fund executive committee decided to keep the diesel price at 31.94 THB/liter, whereas global oil prices tended to escalate during Q4/23 and 2024. **Thus, the Oil Fund—which was currently in deficit—will need to incur higher losses.**
- **The Oil Fund’s liquidity remained fragile,** and this will affect decisions on **1) Marketing margins** earned by gas stations on average **and 2) Biofuel support** via price margins.
- **The new government has recently announced lowering the diesel price**, capped at 30 THB/liter, effective from 20 Sept 2023. The diesel's excise tax cut returns to help alleviate the Oil Fund's burden. Nevertheless, the domestic oil price situation continues to face cost pressure due to a looming increase in global oil prices.

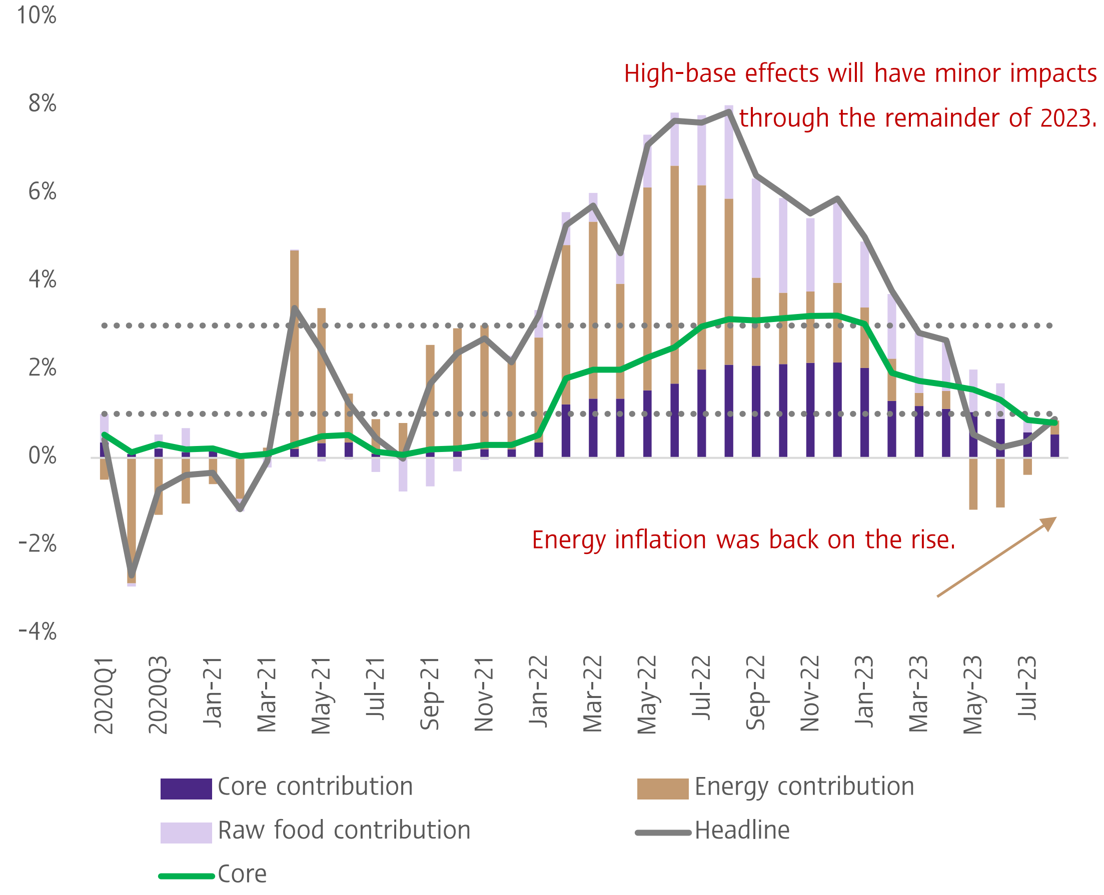
Note: Data and analysis based on the situation as of Aug 2023; The Oil Fuel Fund subsidizes fuel and cooking gas prices for households.
Source: SCB EIC analysis based on data from EPPO, CEIC, and news agencies.

The new government policies can be both upward and downward pressures on inflation.

SCB EIC estimated that the inflation will accelerate in Q4 alongside energy and food prices, but remain within the target range.

Headline Consumer Price Index (CPI)

Unit: %YOY



Pressures on inflation in 2023 and 2024

- **Drought impacts on farm crop prices (+)**
- **Escalating oil prices (+):** *Crude* oil prices ebbed during 2H/22-1H/23 due to global recession fears. With an upbeat global growth outlook in 2H/23-2024 and OPEC+ extending oil output cuts into next year, the global oil prices in 2024 should hover above 2023's readings.
- **Higher global rice prices during year-end 2023 (+)** due to India's rice export ban.
- **The new government policy (+ and -)**

Forecast (%YOY)	2023F	2024F
Headline Inflation	1.7	2.0
Core Inflation	1.4	1.5

Source: SCB EIC analysis based on data from the Ministry of Commerce.

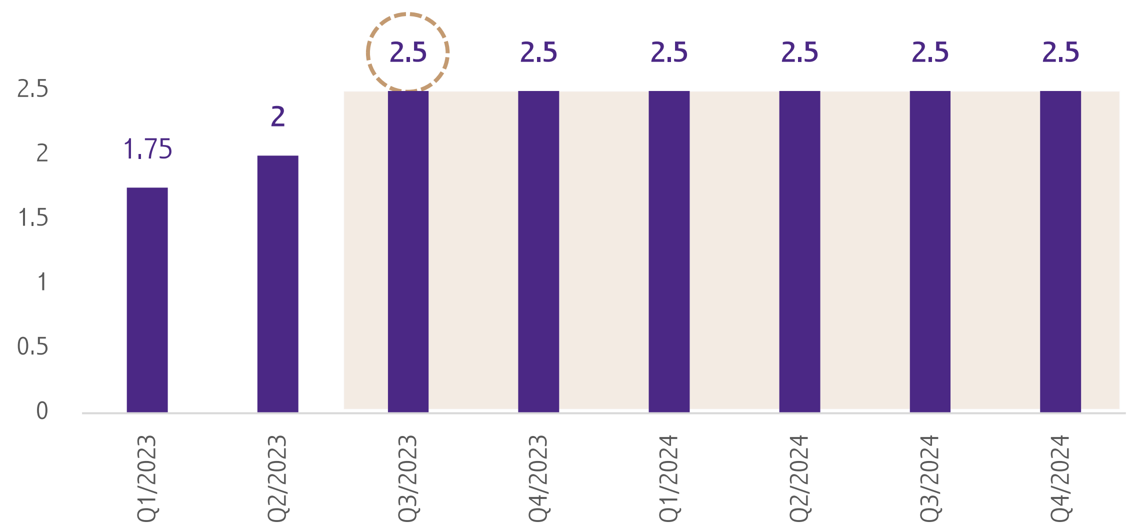
Thai financial market

MPC is on track for another rate hike to 2.5% and will hold the rate steady throughout 2024.

MPC seeks to align the monetary policy with a medium-term economic and inflation outlook. The real interest rate will likely turn positive and contribute to economic and financial stability in the long term.

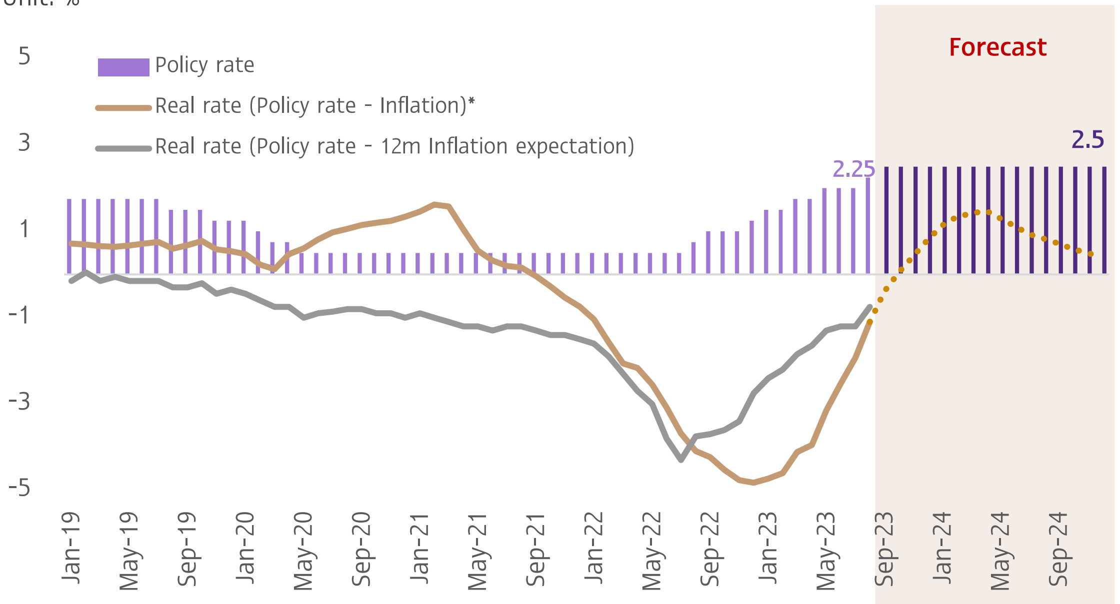
Thailand's policy rate forecast by SCB EIC

Unit: %



Thailand's real policy rate

Unit: %



SCB EIC expects the MPC to raise the policy rate by 0.25% at the September meeting to the neutral rate at 2.5% and keep the rate on hold throughout 2024 due to the following reasons:

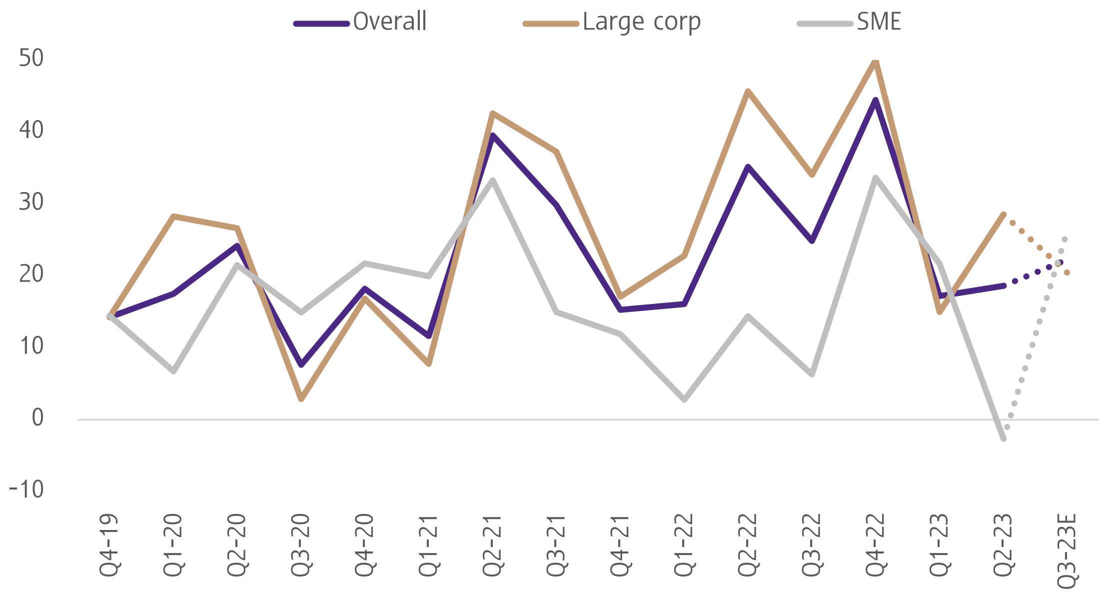
1. **Thai economy exhibited steady growth at its potential level (3-4%).** This calls for a monetary policy normalization to a level consistent with long-term economic and financial stability.
2. **Inflation tended to pick up in the remainder of 2023,** fueled by escalating energy and food prices in Q4. This will result in higher cost pass-through from producers to consumers by raising product prices.
3. **Real interest rate will turn positive and contribute to long-term economic and financial stability.** This should help alleviate the sources of fragility in Thailand's financial system—household debt and the underpricing of risks, owing to a low-for-long interest rate.

Source: SCB EIC analysis based on data from the Bank of Thailand and CEIC.

Business loan demand continued to rise in Q2 for all loan types especially in the services sector on the back of tourism recovery. However, consumer loan demand declined overall especially auto-leasing loans.

Business loan demand

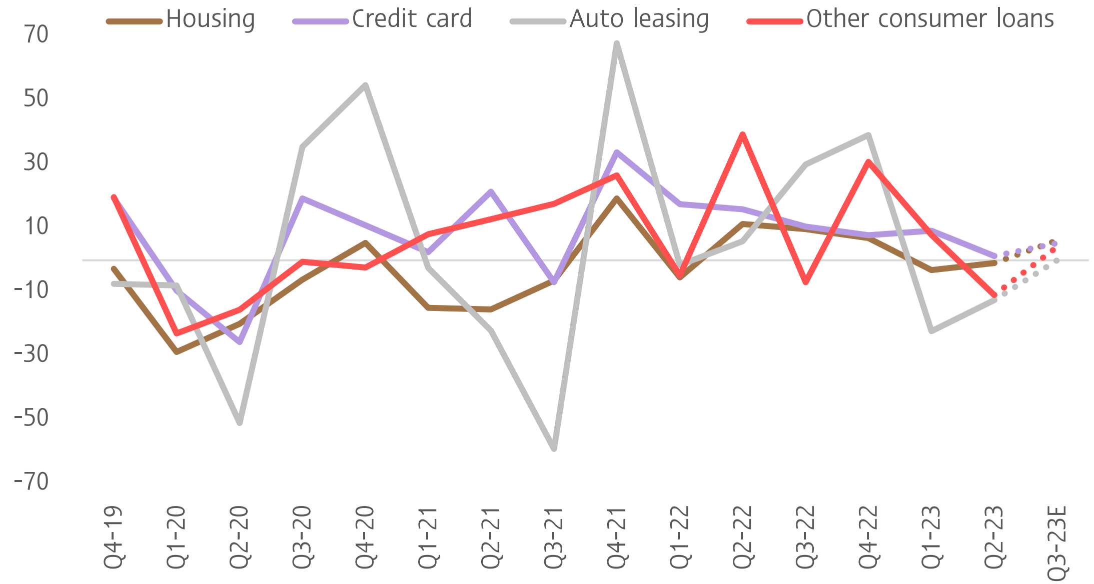
Unit: Index (+ = increase from the previous quarter)



- **Business loan demand increased in Q2 especially businesses in the services sector in line with tourism recovery.** Nevertheless, loan demand from SMEs declined slightly due to higher borrowing costs from policy rate normalization. However, SMEs still demanded loans for working capital.
- **In Q3, loan demand of large corporates and SMEs is expected to continue rising especially SMEs.** Large corporates would demand loans for project finance and fixed assets investment, while SMEs would demand loans for working capital.

Consumer loan demand

Unit: Index (+ = increase from the previous quarter)



- **Consumer loan demand declined in Q2 for almost all loan types due to higher borrowing costs,** except credit card loans which saw increased demand to support consumption given improved consumer confidence in line with the economy recovery.
- **In Q3, consumer loan demand is expected to rise slightly for almost all loan types,** except auto-leasing loans which would not increase as much as borrowers are still facing tighter lending conditions and higher borrowing costs.

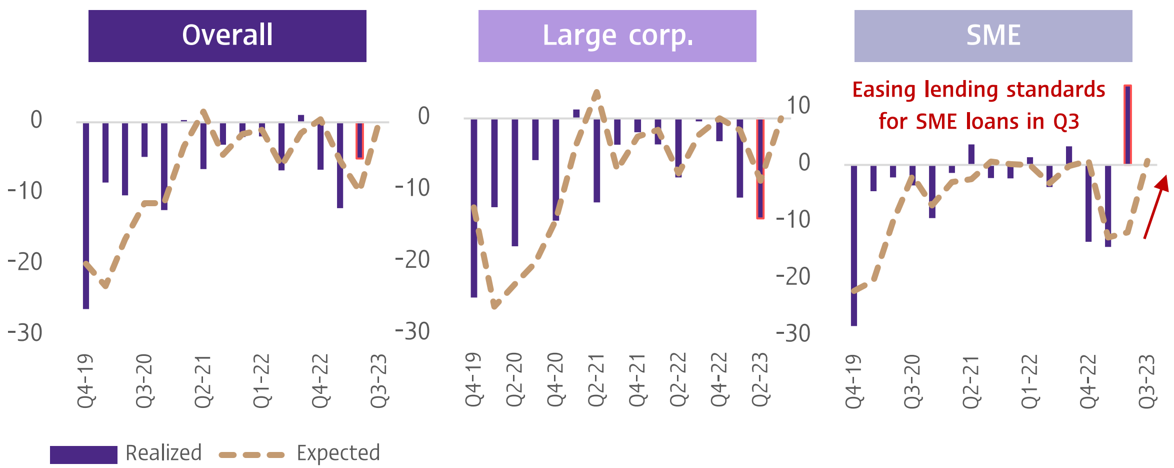
Source: SCB EIC analysis based on data from the Bank of Thailand.

SCB EIC

Lending standards for both business and consumer loans in Q2 remain tight, despite being eased for SME, housing, and credit card loans. Lending standards are expected to be eased driven by positive growth outlook and high liquidity in the financial system.

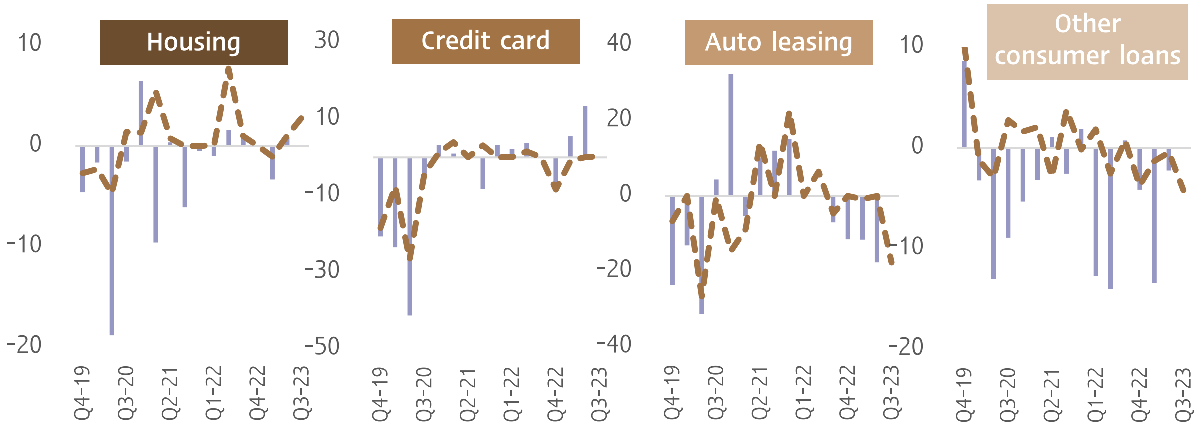
Lending standards for business loans

Unit: Index (- = tightened from the previous quarter)



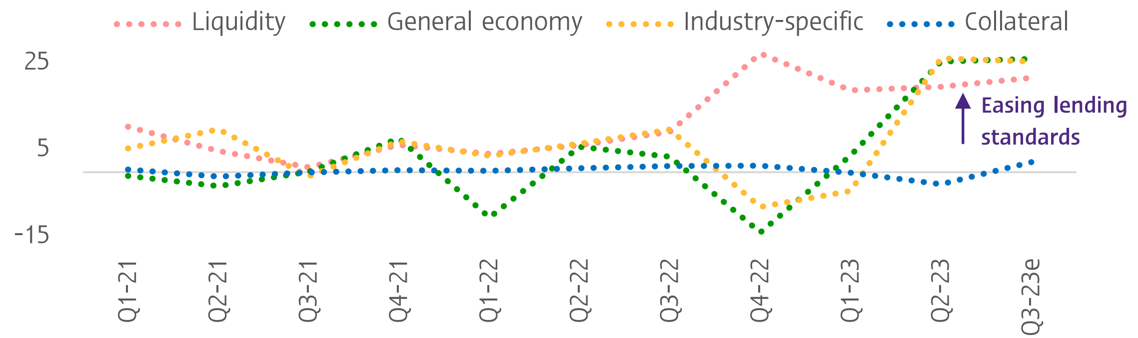
Lending standards for consumer loans

Unit: Index (- = tightened from the previous quarter)



Factors affecting lending standards for business loans

Unit: Index (- = tightened from the previous quarter)



- **Lending standard for business loans in Q2 became more tightened due to deteriorating credit quality** especially export-related businesses in the manufacturing sector. Nevertheless, lending standards for SMEs in Q2 were eased given positive growth outlook and would remain eased in Q3 although overall lending standards for business loans in Q3 would remain tight.
- **Lending standards for consumer loans remain tight in both Q2 and Q3 especially auto-leasing loans** due to risks of weakening borrowers' credit and collateral value. Meanwhile, lending standards of housing loans would be eased.

- **Positive growth and industry outlook as well as high liquidity in the financial system** would be supporting factors for lending standards to be eased further.

Note: Average of large corporate and SME loans.

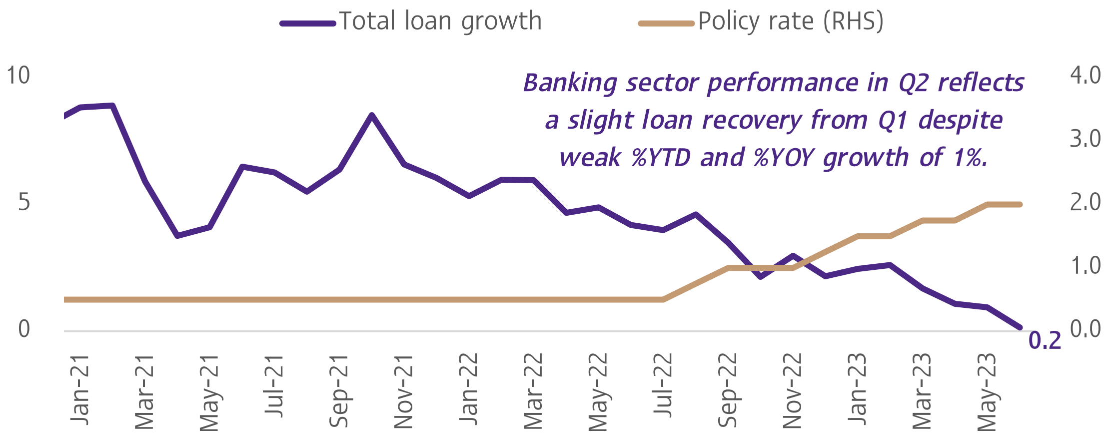
Source: SCB EIC analysis based on data from the Bank of Thailand.

SCB EIC

Higher interest rates led to a slowdown in funding activities of businesses in credit and corporate bond markets, while concerns on default risk of corporate bonds may increase rollover risk of high-yield bonds.

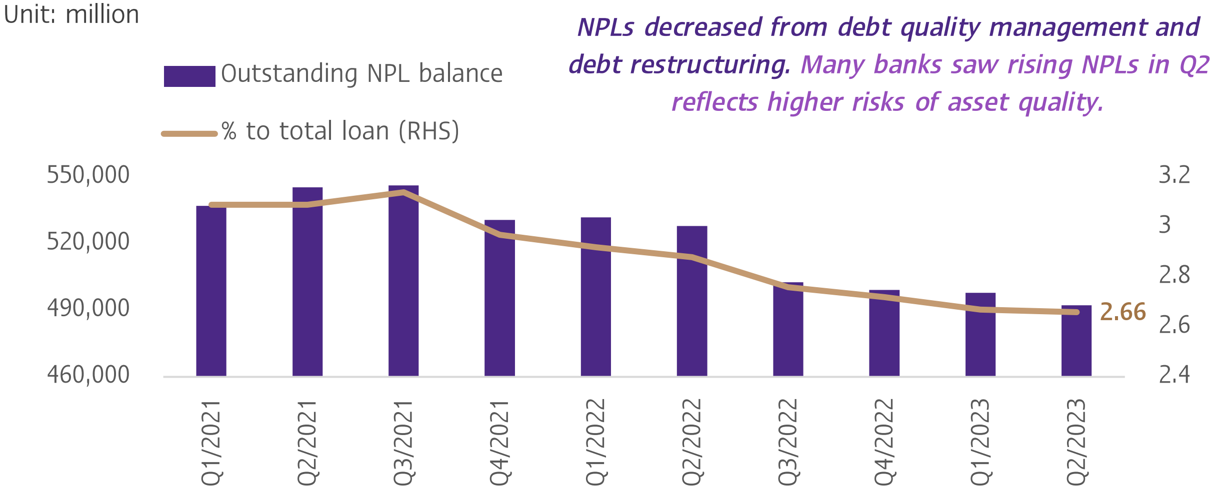
Commercial bank loan growth

Unit: %YOY



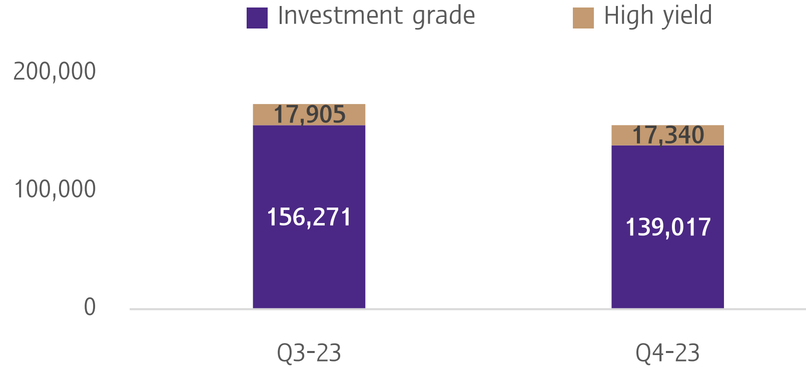
Outstanding balance of Gross NPLs in the commercial banking system

Unit: million



Value of long-term corporate bond maturing during H2/2023

Unit: million



By credit rating	
A- up	73%
BBB	17%
Below BBB-	4%
Non-rated	6%

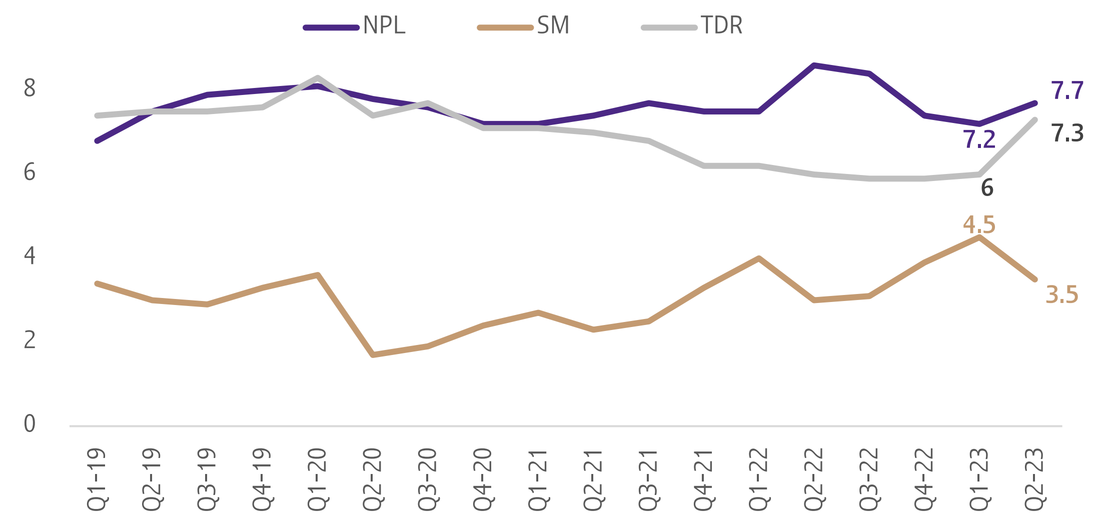
- **Loan growth remains weak** as financial institutions remain cautious in extending loans especially to households and SMEs which became riskier. Meanwhile, higher borrowing costs may lead to lower loan demand.
- **Funding activity in the corporate bond market is expected to slow down for the remainder of this year** as many businesses have already accelerated bond issuances to lock in low funding costs, while investor confidence has declined owing to rising credit risk of borrowers and default risk of businesses.
- **Default risk in the corporate bond market may increase rollover risk of non-rated/ high-yield bonds.** However, 90% of maturing bonds during H2/2023 are investment graded, which are expected to be unaffected.

Source: SCB EIC analysis based on data from the Bank of Thailand, InnovestX, ThaiBMA, and CEIC.

Thailand's household debt is expected to rise given fragile debt serviceability and pressures from higher living costs. However, risk of NPL cliff is still low.

Delinquency rate per total consumer loan

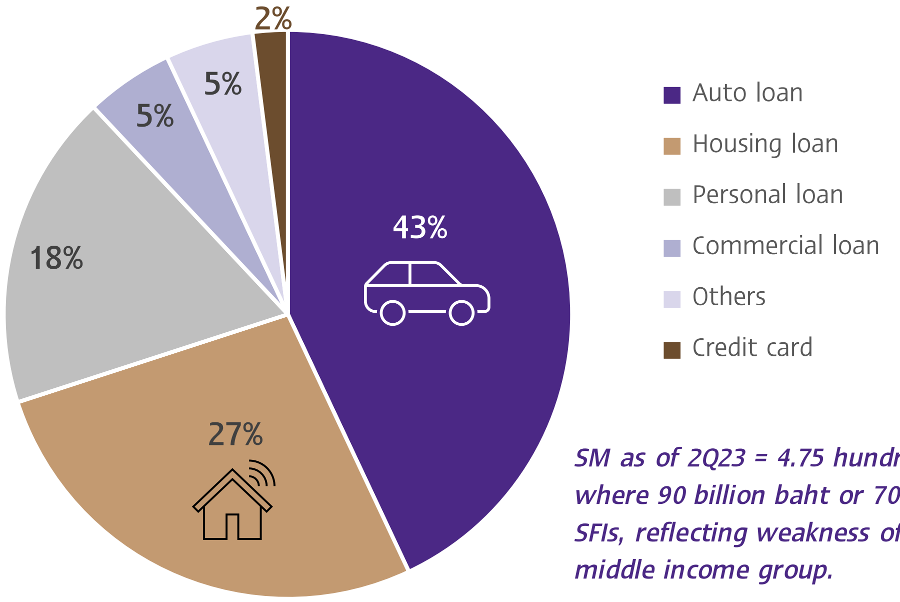
Unit: %



- **Non-performing loans are still at risk of rising** as household income has not fully recovered while the recovery is not yet broad-based. Rising living costs would also affect debt serviceability.
- **Banking sector performance in Q2 reflects a weaker-than-expected asset quality,** higher credit costs, and that many financial institutions have increased their loan loss provisions.
- **Nevertheless, migration rates from SM to NPL for auto-leasing and housing loans are still low,** resulting in limited risk of NPL cliff.

Special Mention Loan : SM (1-3 months overdue repayment, by loan type)

Unit: % by outstanding (as of 2Q23)



SM as of 2Q23 = 4.75 hundred billion, where 90 billion baht or 70% are debtors of SFIs, reflecting weakness of the low-to-middle income group.

Consumer loan: Migration rate from SM to NPL (as of 2Q23)

Auto loan	Housing	Credit card	Personal loan
12%	22%	57%	54%

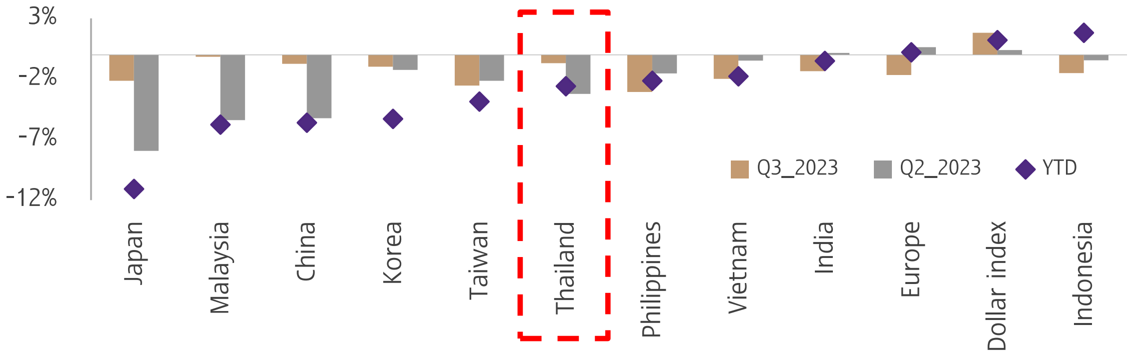
Source: SCB EIC analysis based on data from the Credit Bureau.

The baht has weakened rapidly in the recent period as a result of fast yuan depreciation given weak Chinese economy, dollar movements as market adjusted their views toward the Fed's normalization, and political factors affecting capital flows to Thailand.

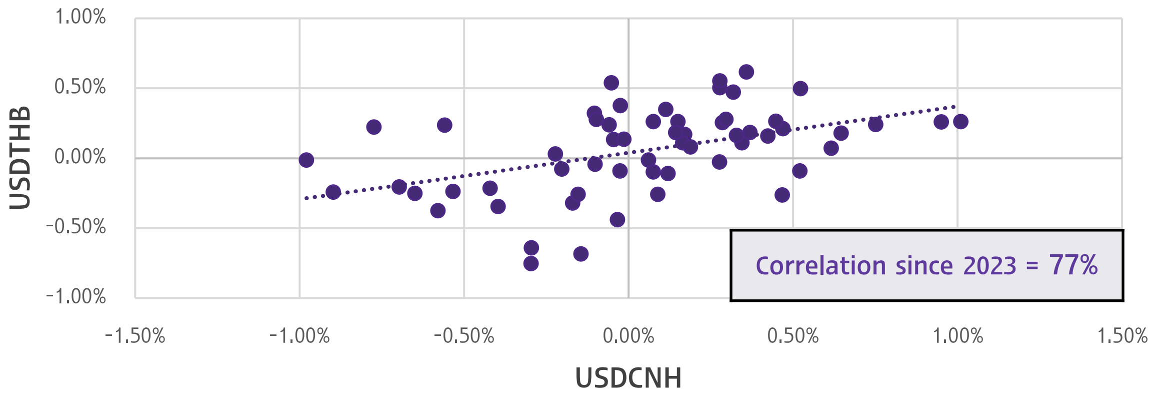
The baht has weakened rapidly during the previous month

Change in currency value against USD

Unit: % (data as of 6 September 2023)



Change in the baht against USD and the yuan, daily change



Factors resulting in baht weakening in the recent period

Yuan depreciation from persistently weaker-than-expected outturns including export contraction, continuously slower growth in manufacturing output and retail sales than expected, negative inflation, and high unemployment rate. In addition, problems in the real estate sector remain from a sharp fall in house prices, developers' default, and concerns on some Trusts that have missed payments.

USD strengthening due to risk-off sentiments following weaker-than-expected outturns and changes in market expectations toward the Fed's monetary policy action after the Fed expressed concerns on rising inflationary pressure which could cause policy rate to remain high for longer. US treasury yields thus increased rapidly in the recent period..

Thailand's weaker-than-expected economic outturns including lower Q2 GDP and exports than market expectation, while inflation remains low.

Issues to keep an eye on which could cause the baht to weaken in the short term (range of 35.20-35.70)

Thailand's economic outturns and global investor sentiments if outturns continue to be below the market expectation, while risk-off sentiments would keep confidence in EM assets low. The baht could continue to weaken.

China's economic outturns and government measures. SCB FM expects that in the short run, weak Chinese growth and limited stimulus could cause the yuan to continue depreciating.

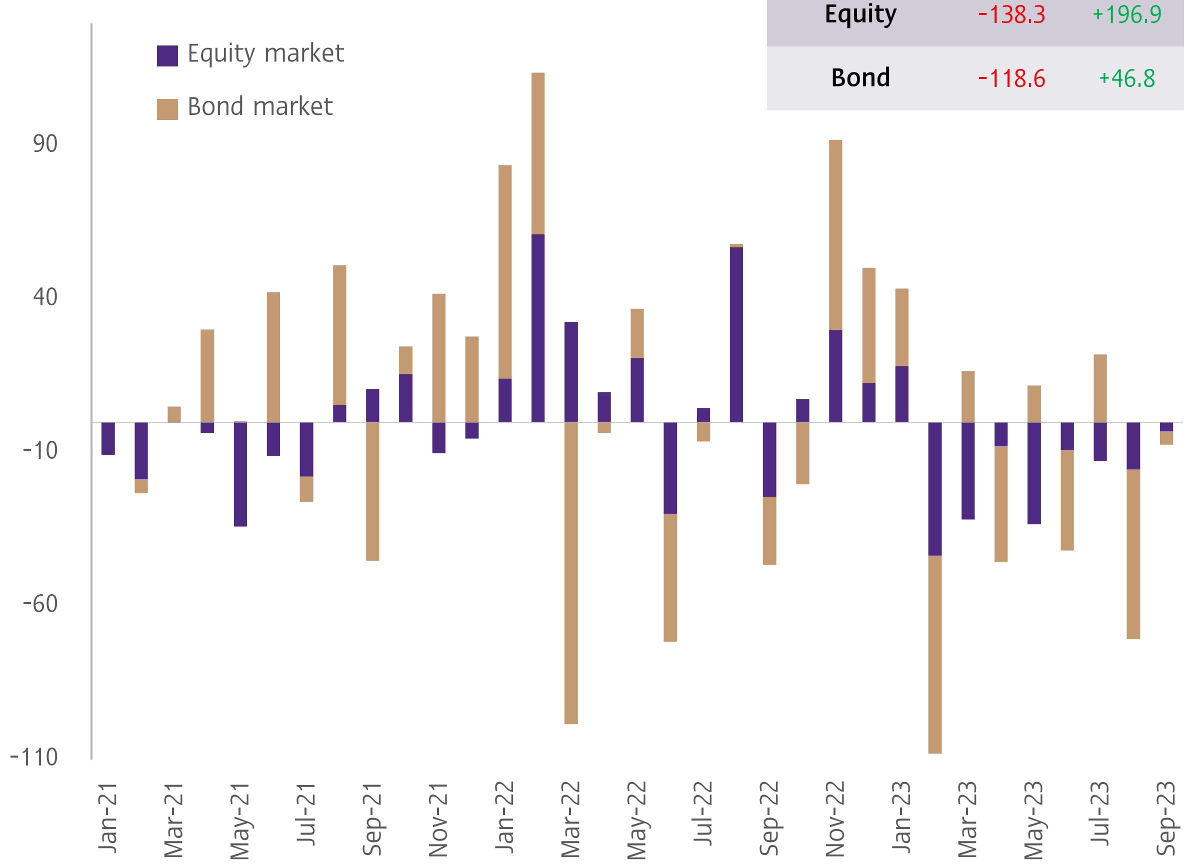
Source: SCB FM analysis based on data from Bloomberg.

In the long term, the baht will likely strengthen on the back of the Thai economic recovery and less tightened financial conditions. However, the baht may not strengthen much due to China's weaker-than-expected growth.

Capital flows to the Thai financial markets

Unit: THB billion (data as of 6 September 2023)

Bn THB	YTD	2022
Equity	-138.3	+196.9
Bond	-118.6	+46.8



Factors that could cause the baht to strengthen in the medium to long term

Thailand's economic recovery is expected to improve for the remainder of this year thanks to increasing number of foreign tourists (particular from China), continued growth of private consumption, and larger fiscal spending.

Current account is likely to improve despite the export contraction during H1/2023. It is expected to recover looking ahead, in line with rising services exports (tourism), and would register a surplus within H2/2023.

Capital flows would gradually return to the Thai financial markets given lower uncertainties and greater clarity on government policies, thereby improving investor sentiments. Also, US economic outturns may no longer be running hot and thus the Fed could signal a less hawkish stance going forward in line with data-dependent approach.

However, the baht may not strengthen as much as expected due to the followings.

Chinese economy could be weaker than expected where GDP could be below 5% and government stimulus could be limited, resulting in slow economic recovery.

Massive stimulus may result in larger government deficits. This could cause Thai government bond yields to rise in line with bond supply and inflation expectations, resulting in a weaker baht.

Expect the baht at the end of this year at 33.50-34.50 and to continue strengthening to 32.00-33.00 at the end of next year.

Source: SCB FM analysis based on data from Bloomberg, SETSMART, and ThaiBMA.

Thai Economy Amidst Drought Crisis

Key summary

Impact of the drought on the Thai economy in 2023 and 2024

1 **What is the latest situation on rainfall and dam water reserve levels?**

Drought occurring in many areas, with **relatively low** volume of usable water in dams nationwide

2 **How severe will the drought be?**

The **northern, central, and eastern** regions should see the most severe drought in 41 years, while the **northeastern and southern** regions should see conditions similar to 2019

3 **How much damage will the drought crisis cost the Thai economy?**

Base case **Direct damage at** THB 69,000 million (THB 20,000 million in 2023 and THB 49,000 million in 2024)

Impact on GDP -0.14 pp in 2023 and -0.36 pp in 2024

Impact on inflation +0.18 pp in 2023 and +0.45 pp in 2024 **versus no-drought scenario**

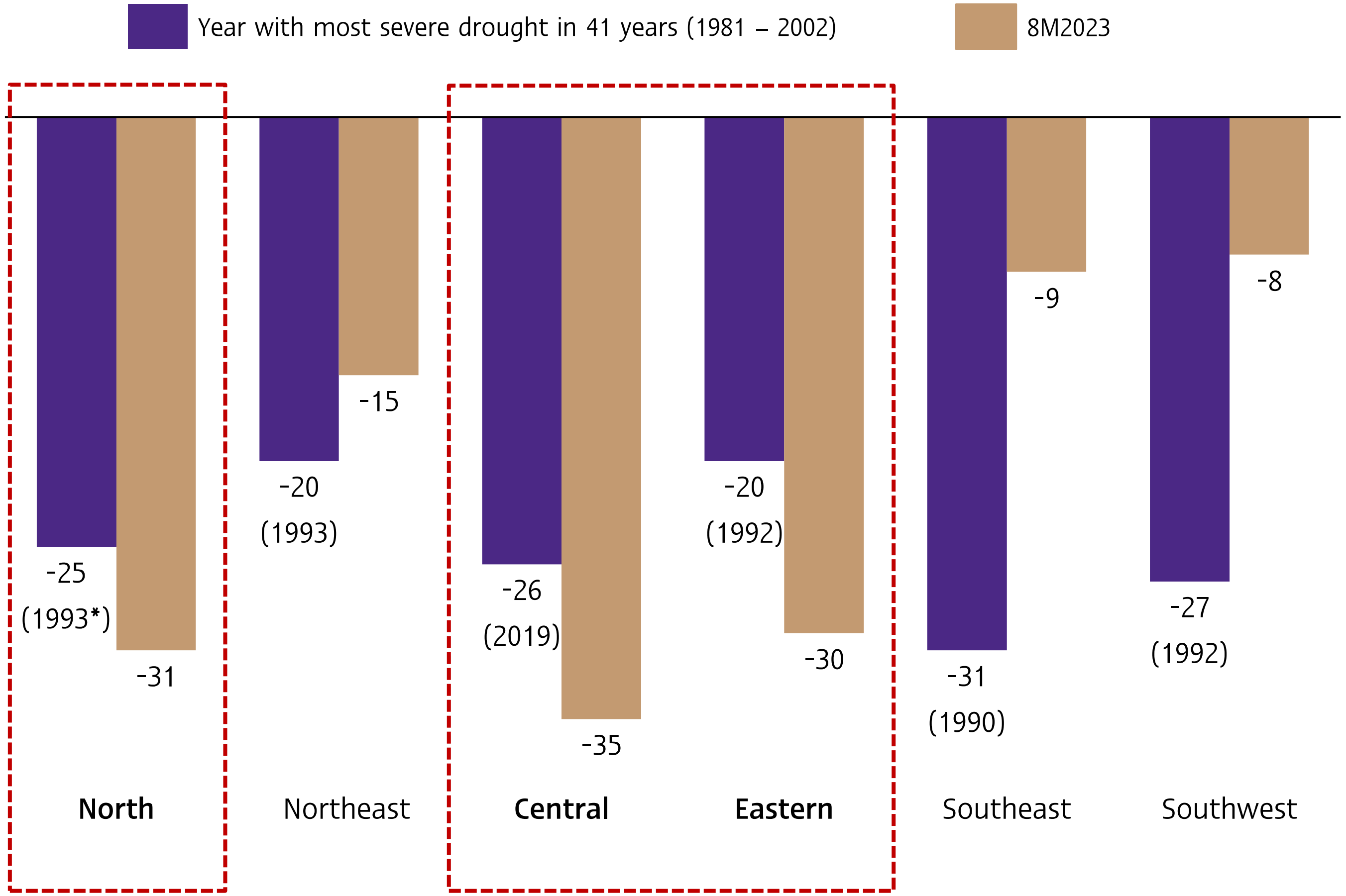
Source: SCB EIC analysis.

SCB EIC

The volume of rainfall in 8M2023 reached a 41 years low in many areas in Thailand. Meanwhile, the volume of usable water in dams nationwide was lower than the 10 years average.

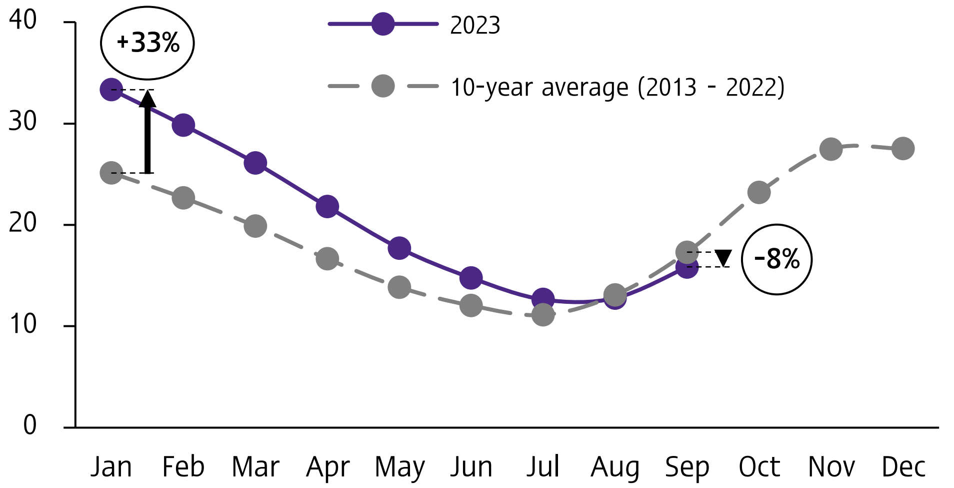
Rainfall difference from normal (30 years average).

Unit: %



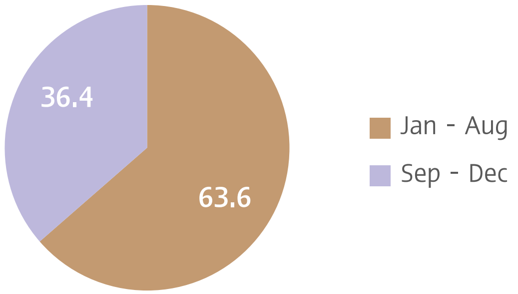
Volume of usable water in dams nationwide (as of the 1st of the month).

Unit: Million cubic meters



Proportion of rainfall to whole year (1991-2020 average).

Unit: %



Note: *Year with most severe drought.

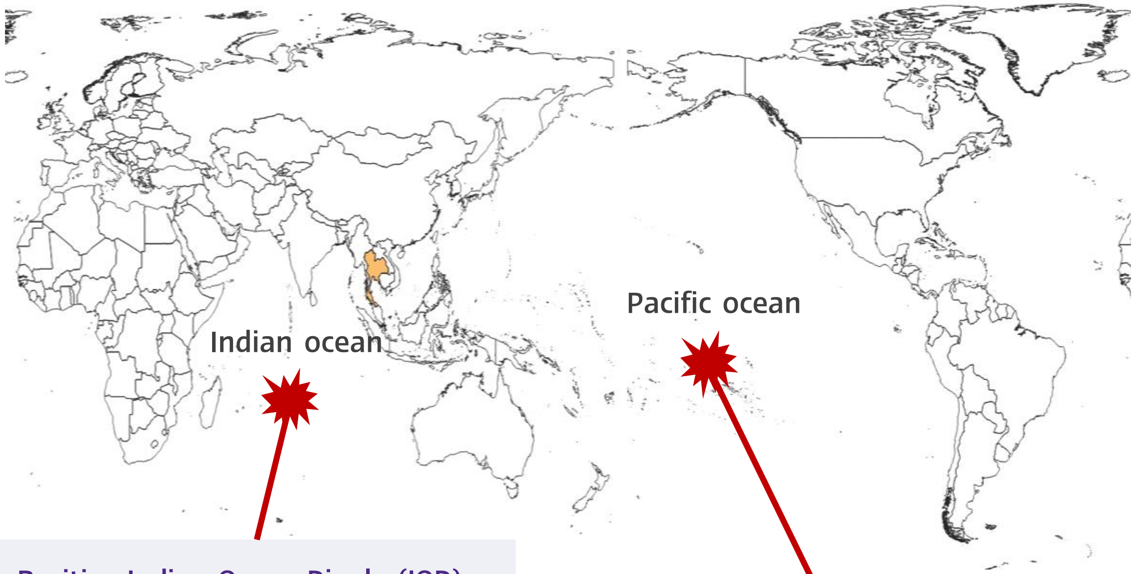
Source: SCB EIC analysis based on data from Thai Meteorological Department and National Hydroinformatics Data Center.

SCB EIC

Rainfall should be lower than normal during the remainder of 2023 following El Nino and positive IOD events.

Locations with changes in sea surface temperature that will impact Thailand

Unit: %

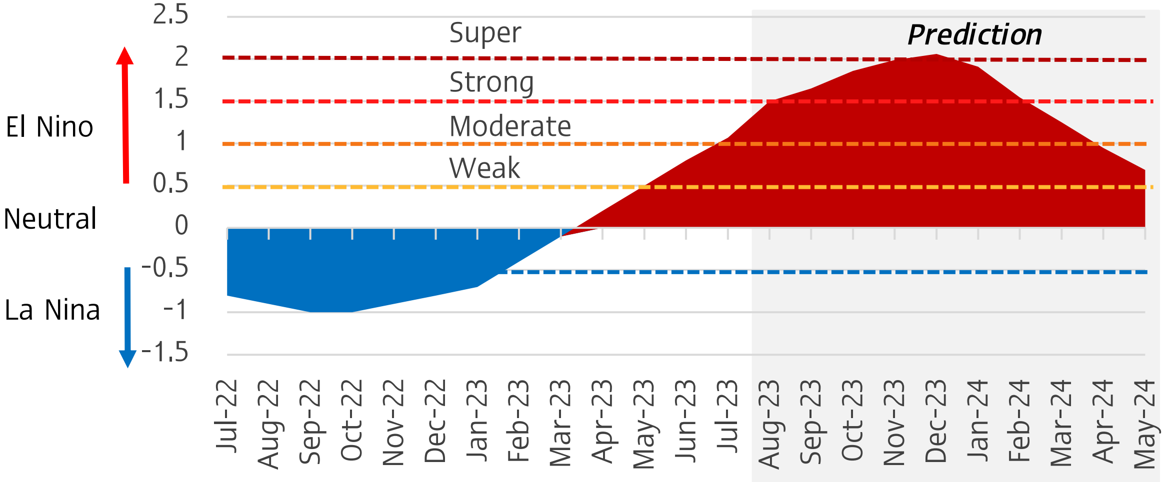


Positive Indian Ocean Dipole (IOD) : ***higher than average*** difference in sea surface temperature between the western and eastern Indian Ocean

El Nino: ***higher than average*** sea surface temperature near the equator (central and eastern Pacific Ocean)

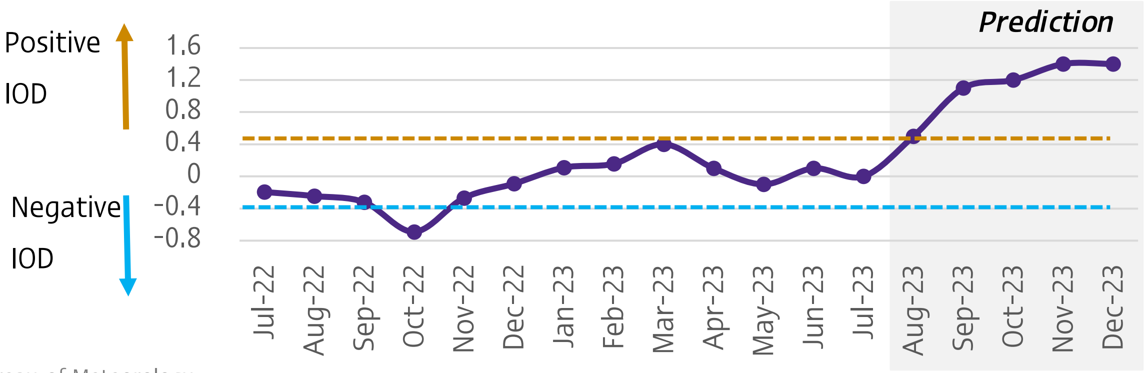
Sea surface temperature anomaly (Oceanic Nino Index, ONI)

Unit: Degrees Celsius



Sea surface temperature anomaly in Indian ocean

Unit: Degrees Celsius



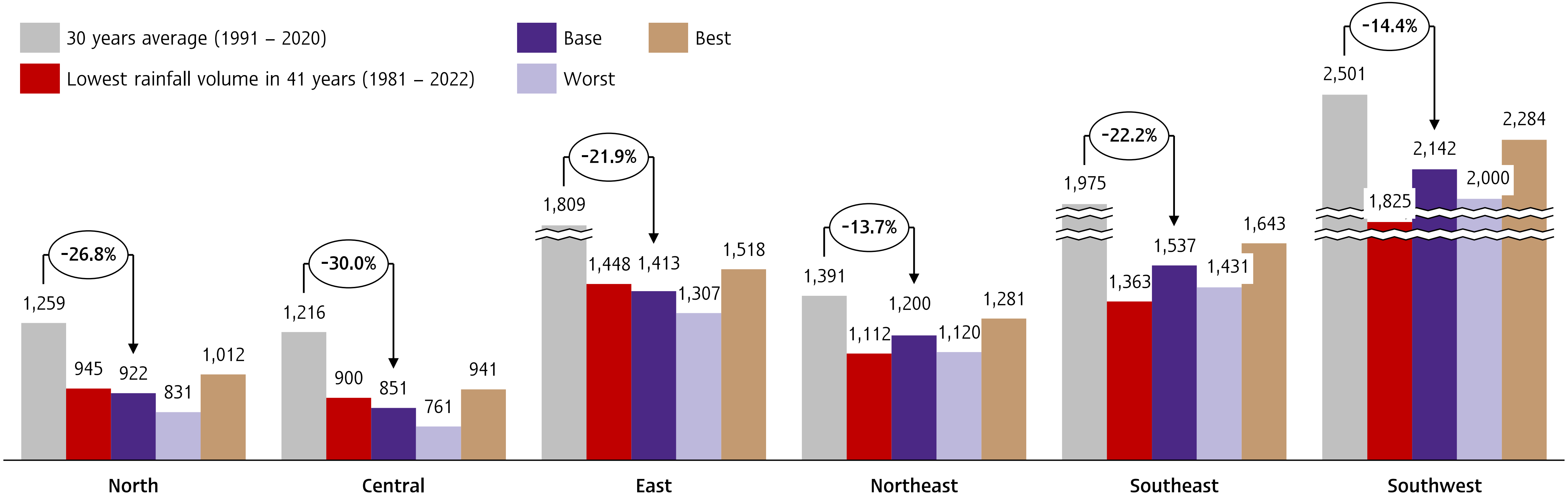
Source: SCB EIC analysis based on data from IRI (International Research Institute for Climate and Society) and Australia's Bureau of Meteorology.

SCB EIC

In the base case, the northern, central, and eastern regions may experience the most severe drought in 41 years.

Forecast of 2023 accumulated rainfall by region

Unit: mm.



Base case estimates the volume of rainfall that is below normal (drought) with the assumption that El Nino and Positive IOD events occur during Aug – Dec, with the same severity as predicted by IRI and Australia's Bureau of Meteorology in August. **Best case** assumes that rainfall that is below normal is lower than the base case according to the volatility of rainfall during El Nino (base case + standard deviation). **Worst case** assumes rainfall that is below normal is higher than the base case (base case + standard deviation).

Source: SCB EIC analysis based on data from IRI (International Research Institute for Climate and Society) and Australia's Bureau of Meteorology.

SCB EIC

The drought will directly hurt Thailand's economy via the agricultural sector, with indirect impacts from the connections between the agricultural sector and other sectors in the economy.

Drought impact channels on the Thai economy

Drought

Direct impact

Agricultural sector

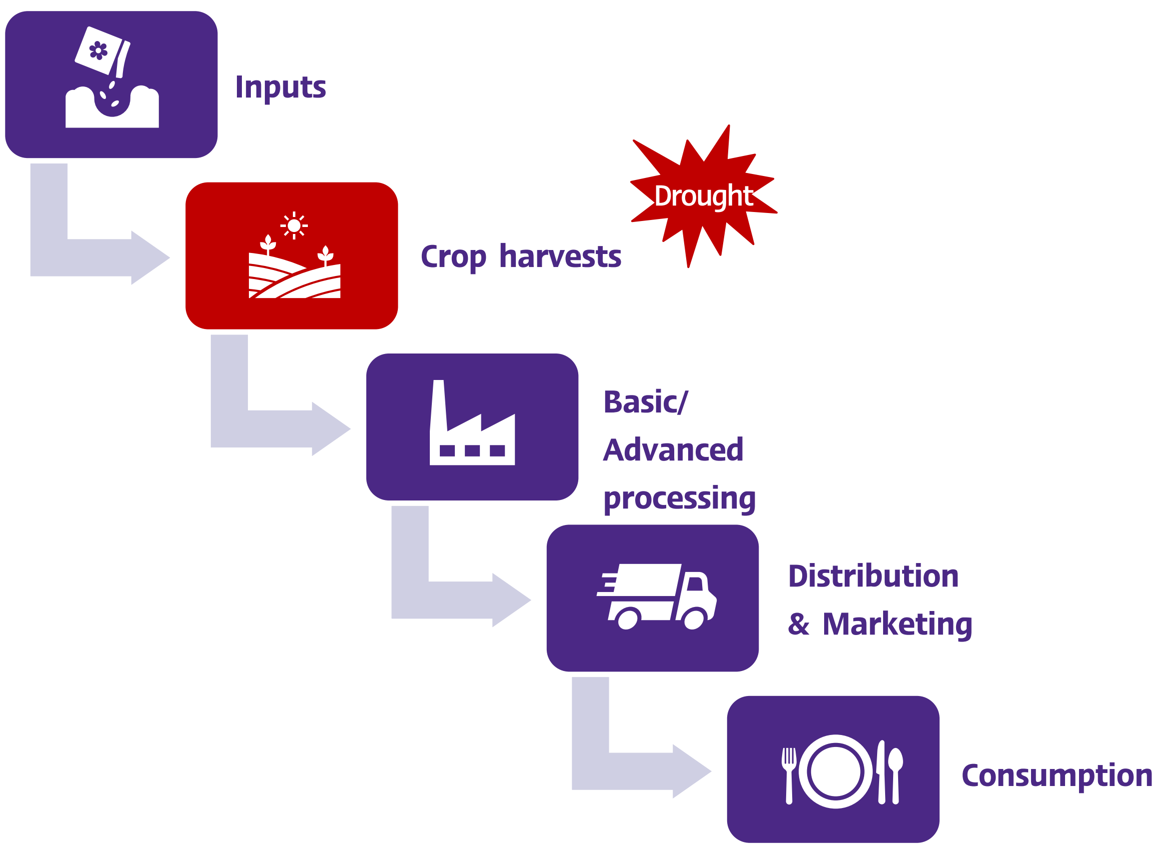
- Damage to agricultural output
- Agricultural product price increasing
- Farm income
- Consumer food expenditure increasing

Indirect impact

Other sectors in the economy

- **Sectors relying on agricultural raw materials** i.e. sugar factories and rice mills.
- **Inputs for agricultural production** i.e. chemical fertilizers and agricultural machinery hire service providers.
- **Manufacturing sectors that rely on farmer purchasing power** i.e. motorcycles and household goods.
- **Agricultural product exporters and input importers.**

Agricultural production value chain



Source: SCB EIC analysis.

SCB EIC

Lack of rainfall will hurt farm crops to be harvested from Q4/23 to 2024. The adverse impacts will be evident next year during the production period.

Crop calendar: Plantation, Fertilization, and Harvest seasons for each farm crop (darker yellow = larger harvested volume)

Unit: %

Drought in wet season

Off-season: Rely on water reservoirs

	2023												2024											
	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12
In-season rice							0.1	6.3	7.8	9.1	65.0	9.1	1.5	0.5	0.2	0.2	0.1							
Off-season rice														11.4	32.0	30.1	15.3	7.1	3.3	0.7	0.1	0.01		
Sugarcane												18.8	35.1	32.3	13.7	0.05								
Cassava									2.6	4.8	6.1	9.9	20.4	19.7	19.0	7.4	4.3	2.5	1.5	2.0	2.6			
Rubber													10.9	8.0	3.7	2.6	5.6	7.9	8.9	9.6	10.1	10.0	9.8	13.0
Oil palm													9.2	9.1	8.9	8.2	8.6	7.8	7.4	8.1	8.5	8.7	8.1	7.6

Period of plantation or fertilization, need ample water

Harvest season (numbers are the ratio of harvested volume to total crop yields)

Example: Rice production period that will be affected by rainfall variability

1 **3-35 days after sowing:** Rice tillering and growing stage

2 **60-90 days:** Rice reproductive and ripening stage

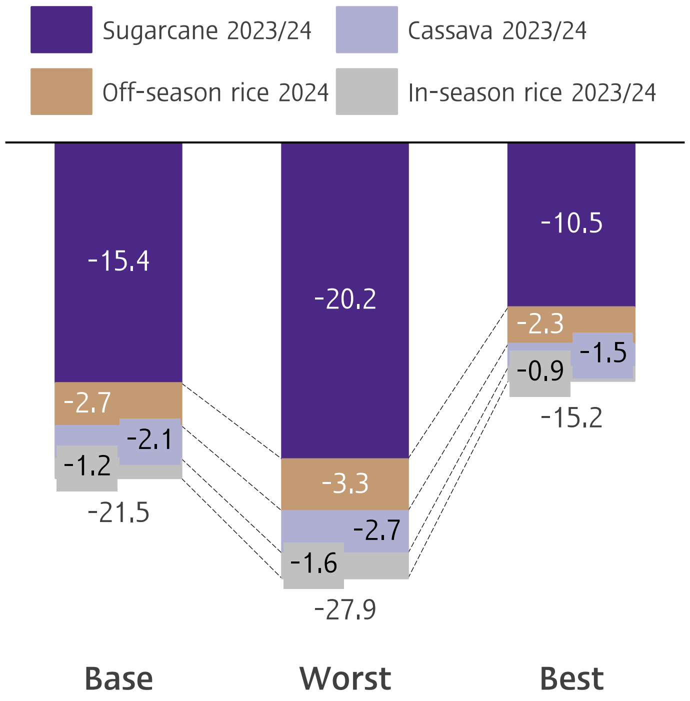
Source: SCB EIC analysis based on data from the Office of Agricultural Economics.

SCB EIC

In the base case, the drought will cost the Thai economy THB 69,000 million at minimum.

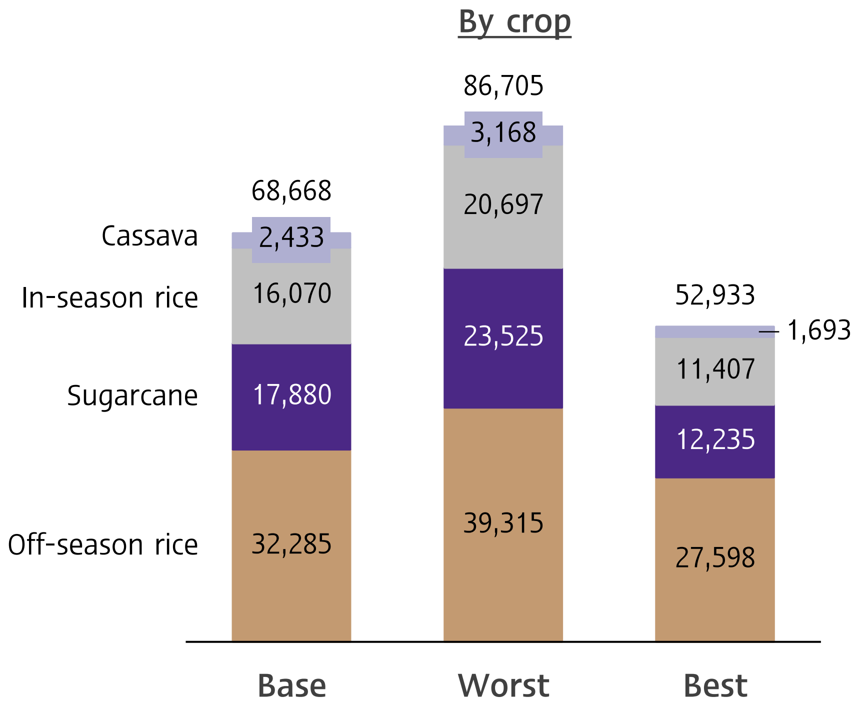
Lower agricultural output from the drought in 2023.

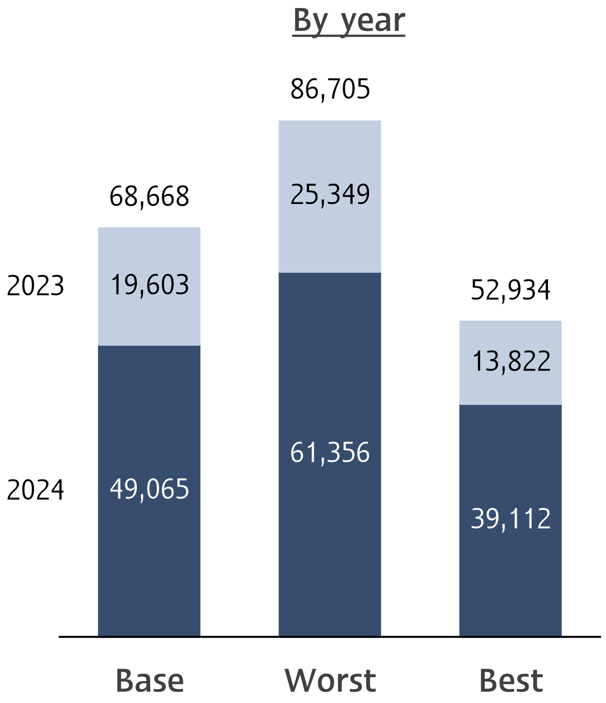
Unit: Million tons



Damages from the 2023 drought.

Unit: Million THB





Estimated output loss compared to output that should have been produced if rainfall is normal, with changing rainfall volumes in different scenarios, while all other variables remained constant.

Off-season rice estimated from the price of paddy rice in Aug 2023 (11,844 THB/ton), **In-season rice** estimated from the weighted average price of paddy rice in Aug 2023 (12,949 THB/ton), **Sugarcane** estimated from the latest sugarcane price (1,162 THB/ton), and **Cassava** estimated from the price in Aug 2023 (2,780 THB/ton)

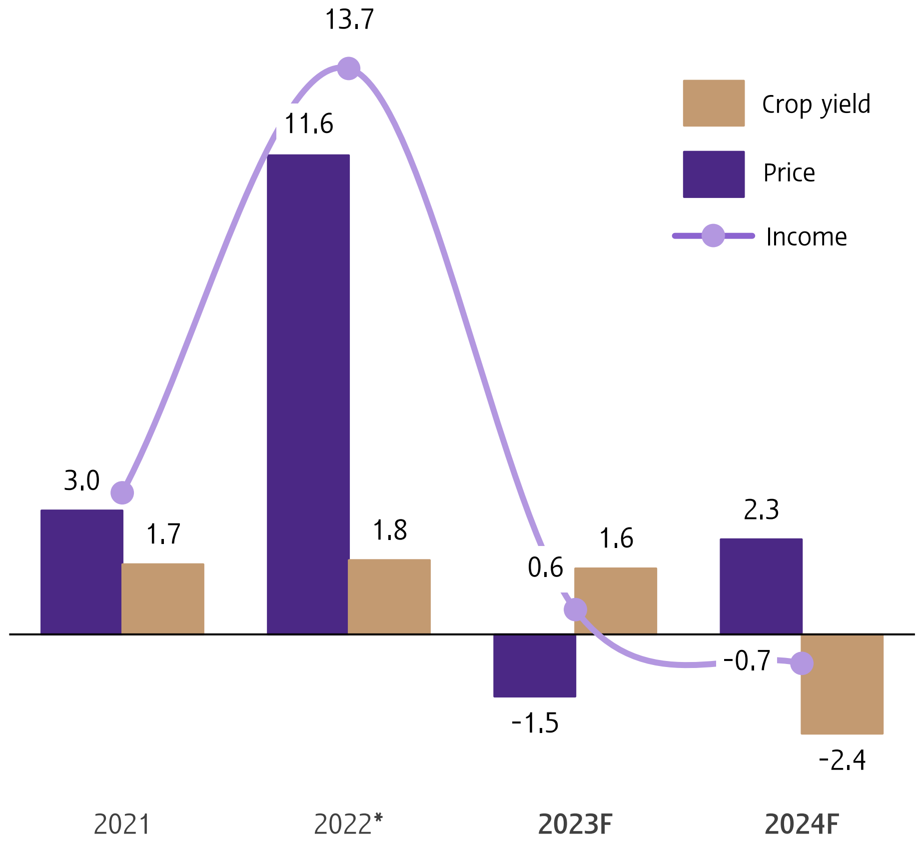
Source: SCB EIC analysis based on data from Office of Agricultural Economics.

SCB EIC

In the base case, farm income should remain stable in 2024 as increasing agricultural prices offset the impact of lower output. However, rice and sugarcane farmers' income should improve.

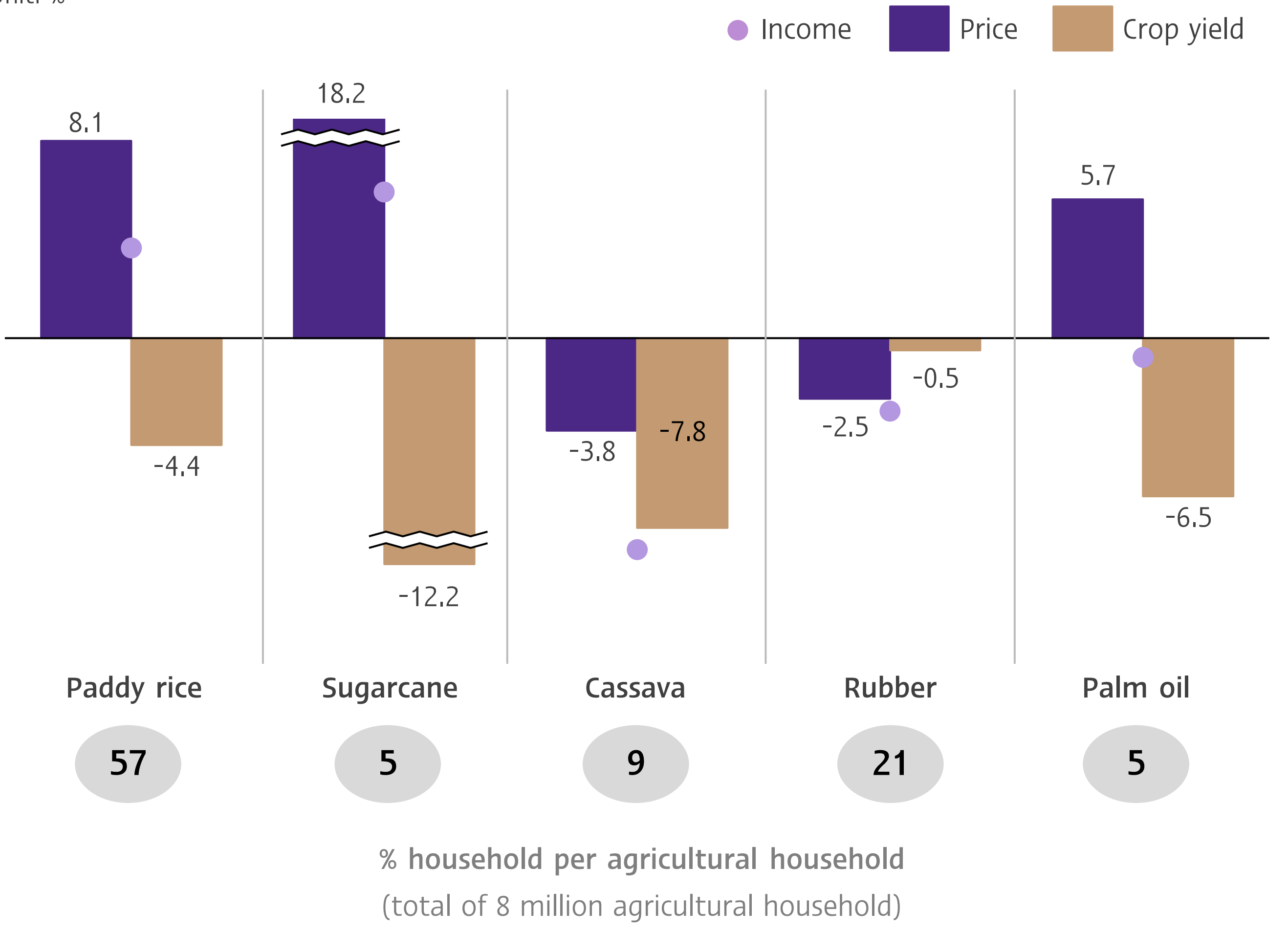
Income, price, and crop yield index.

Unit: %YOY



Forecasted income, price, and crop yield index growth in 2024.

Unit: %



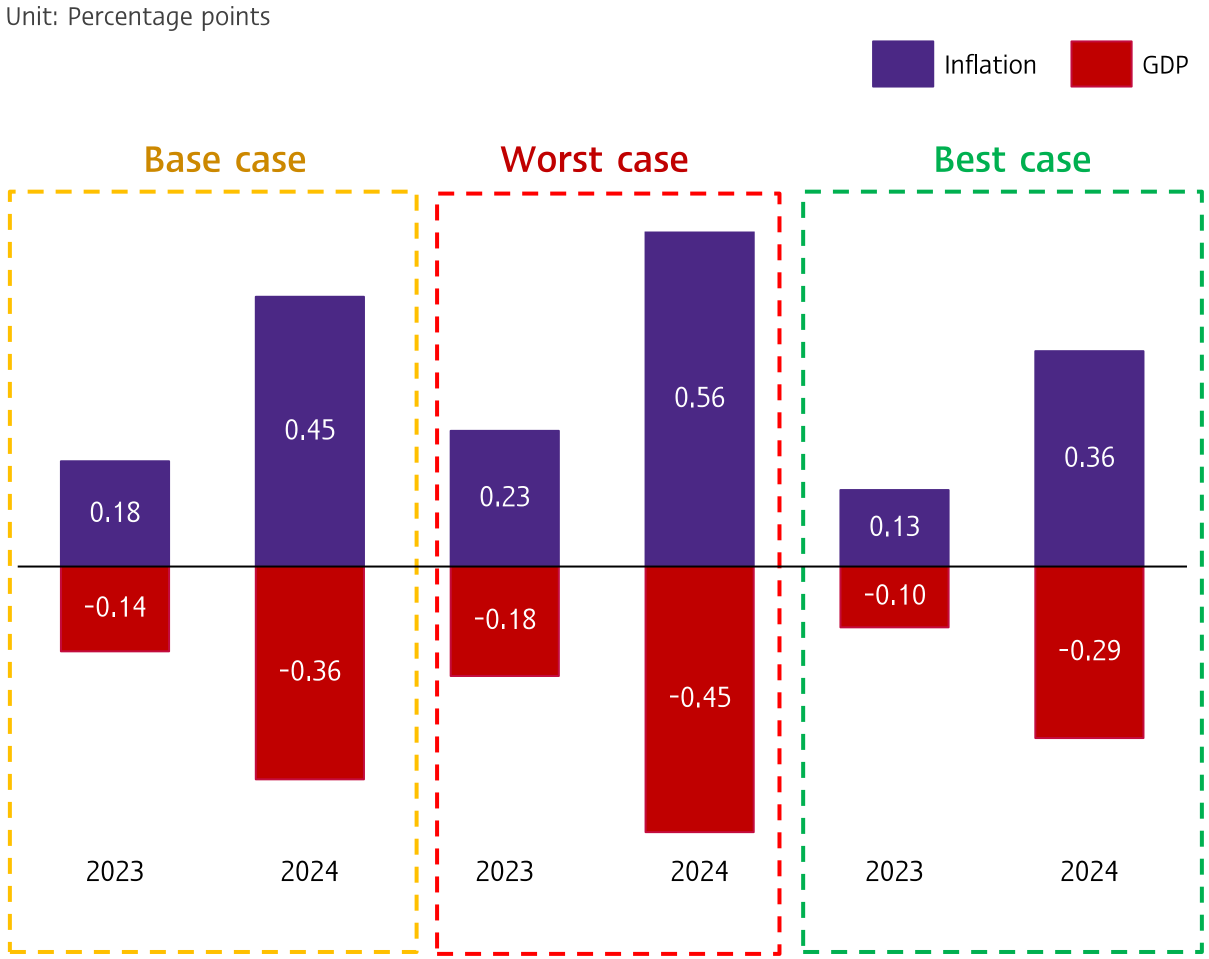
Note: *Preliminary information; data may change.

Source : SCB EIC analysis based on data from Office of Agricultural Economics, World Bank, IMF, ISO, USDA, and IRSG.

SCB EIC

SCB EIC views that in the base case, the drought will lower Thai GDP in 2023 and 2024 by -0.5pp and cause inflation to increase by +0.6pp in comparison to the no-drought case.

Assessment of drought impact on Thai economy in 3 scenarios.



- **The drought will significantly increase agricultural prices,** especially rice, sugarcane, and palm oil
- **Thai consumers spend on average 35% of total expenses on food,** rice alone accounts for 10% of food expenses (data as of 2022)
- **Hence, inflation is highly influenced by the drought** with an impact of +0.63 pp in base case in 2023 – 2024, and could worsen to +0.8 pp in worst case

- **The drought causes industries that rely on agricultural raw materials to have less to process, resulting in less export output**
  - Sugar factories, rice mills, tapioca flour factories, cassava chip factories, and palm oil extraction factories
  - Rice, sugar, cassava chip, and tapioca flour exporters
- **The drought will lower the usage of agricultural inputs**
  - Importer, producer, and distributor of chemical fertilizers and pesticides
  - Agricultural machinery hire service providers

Source: SCB EIC analysis based on data from Ministry of Commerce and National Statistical Office of Thailand.

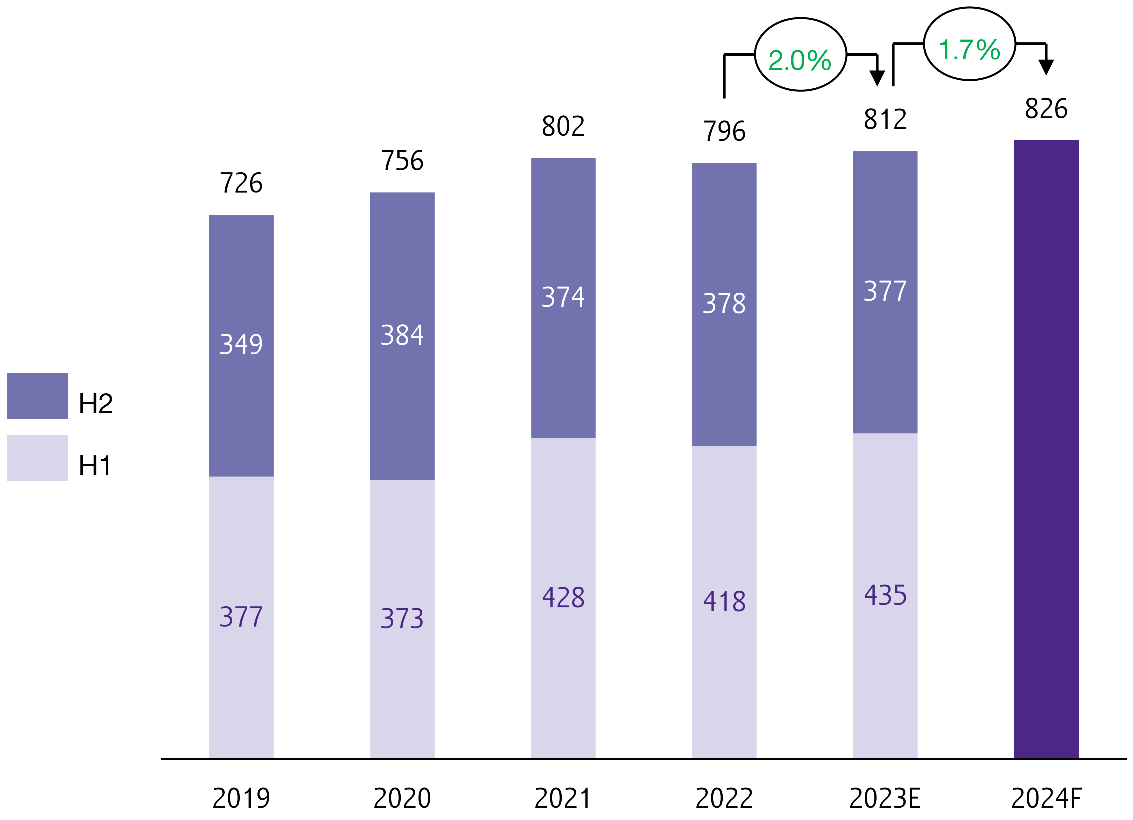
All eyes on the new government policy

SCB EIC

The new gov't is in place, yet the delay of the FY2024 Budget Act will **weigh down on public construction and result in subdued growth.**

Public construction value.

Unit: THB billion



Public construction will expand by +1.7%YOY in 2024.

The FY2024 budget announcement is expected to be delayed by up to 6 months.

- Q3/23
- Q4/23
- Q1/24
- Q2/24
- Q3/24
- Q4/24

Slow investment budget disbursement

Acceleration of investment budget disbursement

Preparation for the draft FY2025 budget to proceed on schedule

Investment budget in FY2024 could be cut down and allocated to support other initiatives, such as income-boosting and cost-cutting measures.

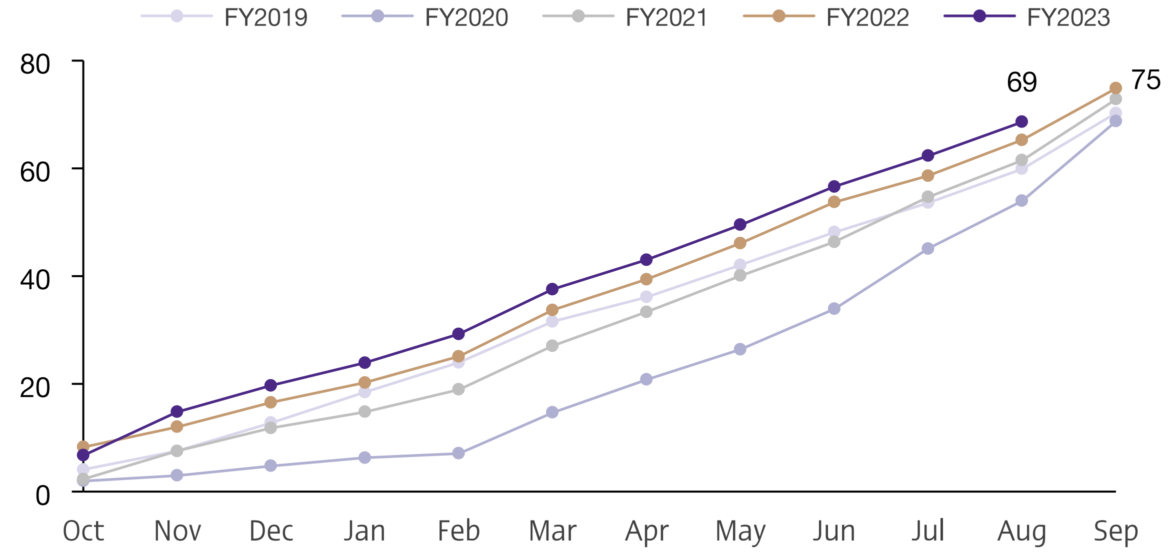
State agencies are preparing mega-project proposals for the new cabinet's approval.

Source: SCB EIC analysis based on data from NESDC.

The disbursement of FY2024 budget will likely accelerate in Q3/24, the last quarter of the fiscal year, while many mega projects are still pending for the new cabinet's approval.

Accumulated investment budget disbursement rate

Unit: %



Departments with high investment budget	End of Sep				End of Aug	
	2019	2020	2021	2022	2022	2023
Department of Highways	74%	77%	86%	90%	79%	88%
Department of Rural Roads	87%	82%	89%	91%	81%	82%
Royal Irrigation Department	81%	81%	82%	83%	72%	77%
Department of Public Works and Town & Country Planning	66%	65%	62%	47%	40%	35%

Source: SCB EIC analysis based on data from the Comptroller General's Department.

Annual fiscal budget

- The disbursement rate of the accumulated investment budget in FY2023 still hovered above recent years' trends.
- If the FY2024 Budget Act is delayed by six months, the investment budget disbursement will likely falter from Q4/23 to Q2/24 before picking up in Q3/24—a final stretch before the end of FY2024.

Mega project

State agencies are preparing mega-project proposals for the new cabinet's approval.

Some mega projects expected to be open for bidding in 2024	Value (THB billion)
Double-track Railway Phase 2 (Khon Kaen-Nong Khai section)	29.7
Motorway 9 West Bangkok Outer Ring Road (Bang Khun Tian-Bang Bua Thong section)	56.0
Suvarnabhumi airport passenger terminal expansion (East)	8.0
Suvarnabhumi airport passenger terminal expansion (West)	8.0
Laem Chabang Port Phase 3 (construction of building, berth, road, and infrastructure)	7.3

Short-term: New gov't economic stimulus will benefit businesses related to consumption, tourism, and agriculture. In contrast, such initiative might heighten costs for businesses with a large proportion of unskilled labor while hurting the energy sector's revenue.

- Benefit from stimulus
- Affected by stimulus

	Economic boost/ Cost-of-living supports	Tourism policy	Agricultural policy
	▪ Digital wallet ▪ Minimum wage/ salary for university graduates ▪ Lower energy bills* ▪ Bridge household income gap ▪ Farmer debt moratorium, Reduce SMEs' debt burden ▪ Welfare benefits for the elderly	▪ VISA-free entry for targeted tourists ▪ Fast-track VISA for MICE visitors ▪ Improve VISA application system ▪ Refurbish nationwide airports ▪ Crackdown on tourist scams ▪ Upgrade access for Thai passport holders	▪ Cannabis for medical and health purposes ▪ Uplift productivity and diversity ▪ Precision farming ▪ Sor Por Gor 4-01 land reform
Wholesale-Retail		Stores around tourism attractions	
Food & Beverage			
Restaurant		Restaurants around tourism attractions	
Healthcare			Alternative medicine centers
Tourism			
Transport			
Construction, Building material	Construction contractors		
Energy	Gas stations		
Power	IU, SPP&VSPP power plants		
Agriculture			

Note: *In case of lowering the Ft surcharge by deferring the repayment of electricity costs incurred by EGAT.

Source: SCB EIC analysis.

Medium-term: Initiatives to enhance competitiveness and environmental goals will benefit infrastructure-related businesses and next-generation industries, while sectors engaging with energy infrastructure and ESG trends must adapt to change.

- Benefit from stimulus
- Affected by stimulus

Sector	Enhance competitiveness		Environmental policy	
	▪ Restructure Thailand's energy use* ▪ Invest in transportation infrastructure ▪ Promote EEC and the 4-region economic corridors	▪ Foster industries/ services of the future ▪ Improve BOI incentives ▪ Expand trade opportunities through FTA ▪ Revitalize Thailand's fishery sector	▪ Continue the path towards Carbon neutrality ▪ Support renewable energy	▪ Restore biodiversity/ Tackle PM2.5 crisis ▪ Promote fair carbon credit trade
Construction, Building materials				
Real estate	Particularly in EEC and some areas in other provinces			
Industrial estate				
Electronics				
Tourism				
Transport			Businesses that mainly use combustion engine vehicles	
Power	Gas-fired IPP&SPP power plants	RE power plants with revenue relying on Ft surcharge	RE power plants, Solar PV	Coal-fired power plants
Fishery	SMEs that are affected by IUU Fishing			
Agriculture			Biomass/ Energy crops	Production that causes environmental impacts (Sugar, Animal feed)
Energy			Bio-based refineries and petrochemical products	Oil refineries, Petrochemical products

Note: *By incorporating more methane from the independent gas separation plants (GSPs) into the pool gas price mechanism, it should help reduce the cost of gas in electricity generation and also result in a lower Ft surcharge.

Source: SCB EIC analysis.

Policy impact analysis: New gov't short-term stimulus package.

Policy	Details and hypothesis	Beneficiary	Expected outcome vs. Base case
(1) Digital wallet	The government will offer THB-10,000 digital handouts to all Thai citizens age 16+ starting from Feb 2024. Recipients must redeem the digital money within six months at selected shops in close proximity to their registered address. The payouts cannot be used for online purchases or exchanged for cash (total budget THB 560 billion). **Hypothesis:** Policy scenario 1 and 2	56 million Thai people	Bolster household consumption **GDP +2-3pp**
(2) Energy policy	Reduce energy cost burden for Thai residents and restructure the energy system **Hypothesis: 1) Cut Ft surcharge by THB 3.99/ unit either** by utilizing around THB 20-30 billion of the fiscal budget if the government opts for repaying the electricity cost incurred by EGAT (from the electricity subsidies during 2021-2022), or by reducing/ extending the repayment of electricity cost (AF) covered by EGAT—amounting THB 120-130 billion (but with risks of higher AF if gas costs rise higher than ERC expected). **2) Lower diesel price to THB 30/ liter, subsidized by the Oil Fuel Fund;** in this case, the debt burden will increase by THB 4.2 billion/ month—adding up to the current outstanding debt of around THB 100 billion.	Every Thai resident	Lower living costs and energy costs **Inflation -0.3pp in 2023**
(3) Tourism policy	Offer VISA-free entry for targeted tourist/ Improve VISA application process/ Provide fast-track VISA for MICE (Meetings, incentives, conferences and exhibitions) participants/ Cooperate with the private sector to organize world-class expo or festivals/ Refurbish airports across Thailand/ Tackle tourism scams/ Upgrade Thai passport access. **Hypothesis:** VISA-free entry starting from Q4/23 for targeted tourists such as visitors from China and India.	Inbound foreign tourists up by +3.7% in Q4 compared to the baseline	Increased tourism receipts **GDP +0.1pp**
(4) Minimum wage	Raise the minimum wage to THB 600/ day by 2027 **Hypothesis:** Gradually increase the minimum wage at the same CAGR during 2024-2027 (approximately 15-16% per annum), resulting in an overall increase of labor wage by 8-9% per year.	7.7 million workers living on minimum wage and near-minimum-wage workers	**Overall inflation +1.5pp**

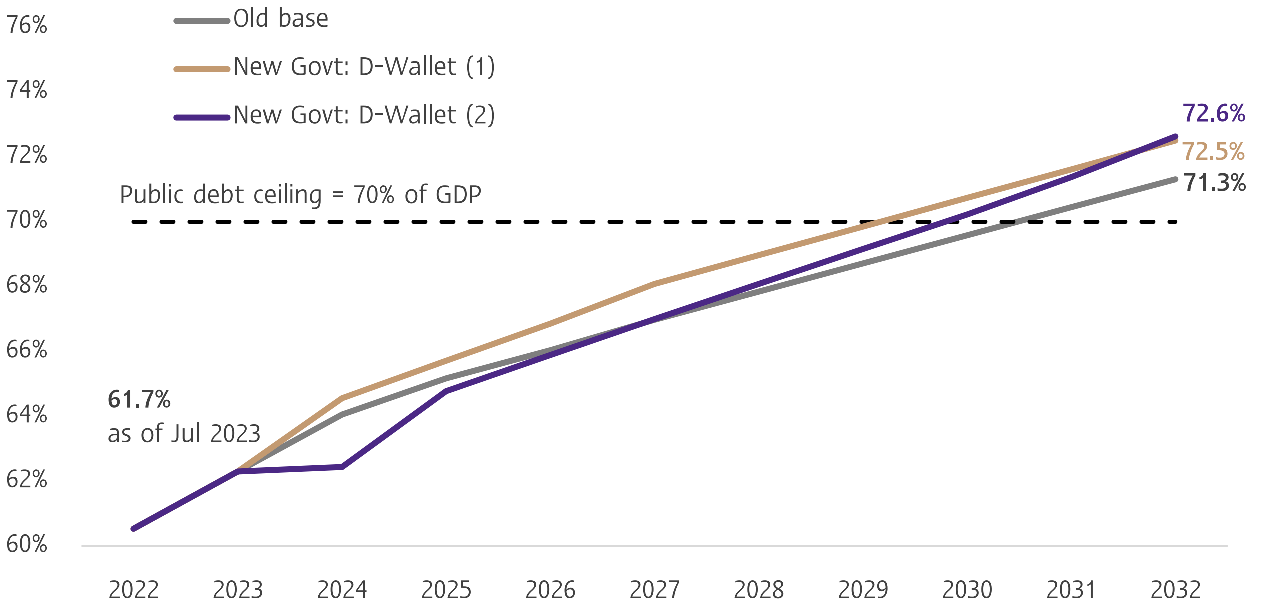
Source: SCB EIC analysis based on data from Pheu Thai Party, Government House, Election Commission of Thailand, National Statistical Office, and news agencies.

There are long-term fiscal risks due to aging population support and climate-related spending.

Also, the massive stimulus package will expedite the public debt to hit the ceiling and must be traded off with other potential investments in the future.

Massive stimulus will expedite public debt to hit the ceiling earlier than expected (as of Sep 23).

Unit: %GDP, fiscal year

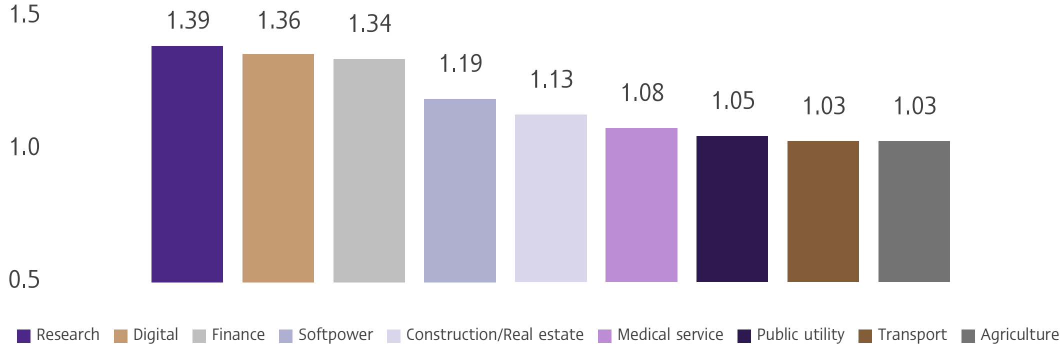


Old Base (before election)	Unable to narrow fiscal deficits to GDP & no tax reform
New Govt: D-Wallet 1	Higher spending from the digital wallet scheme/ utilizing tax revenue and allocated FY2024 budget
New Govt: D-Wallet 2	Higher spending from the digital wallet scheme/ setting a budget plan for repayment within ten years

Thailand's Fiscal Multiplier from various studies.

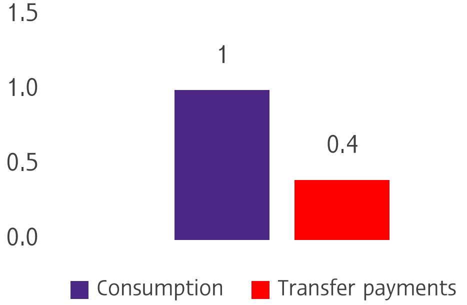
Unit: Multiplier effect

Public investment spending: Physical and Non-Physical infrastructure

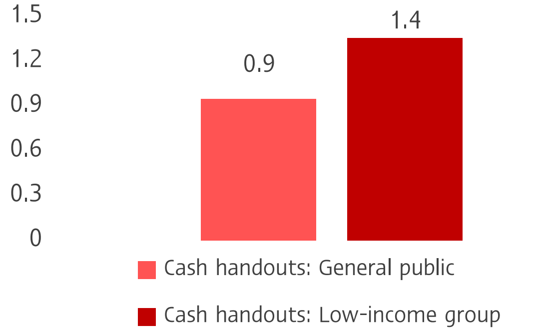


FPO (2023)

Public consumption spending



BOT (2007)



Parliamentary Budget Office (2018)

Source: SCB EIC analysis based on data from NESDC, Bank of Thailand, Ministry of Finance, Budget Bureau, Parliamentary Budget Office, Election Commission of Thailand, Pheu Thai Party, Bhumjaithai Party, Palang Pracharath Party, Ruam Thai Sang Chart Party, World Bank, and news agencies.

Medium-term economic policy recommendation by SCB EIC.

Medium-term initiatives	1. Regulatory guillotine	2. Enhance competitiveness	3. Join OECD	4. Tax policy restructuring
Objective	Strengthen national competitiveness and broaden economic opportunities	Improve the effectiveness of the Trade Competition Act	Thai businesses will benefit from broader export markets for products and services, while strengthening their footing in the global supply chain	Reduce inequality by avoiding tax policies that could distort business or household decision-making
Details	Eliminate/ simplify laws and regulations that are (1) Redundant (2) Lack of clear objective (3) Ineffective Target: Axing the number of inefficient laws by 25% within a year (continuous efforts from the previous government)	Reform institutional structures (legislation, organizational structure) to enable effective enforcement of the Trade Competition Act	Support Thailand in joining the OECD and other FTAs • Promote businesses that enhance product/ service and marketing campaign qualities • Subsidize manufacturers/ service providers that invest in value-addition • Promote exports of high value-added products/ services	Increase the ratio of property tax and reduce the ratio of income tax while maintaining the current tax revenue level
Expected outcomes	**Thailand to rank among the world's top 15** in the Ease of Doing Business Index (Business Ready: B-READY)	**At least 1 case of the Trade Competitive Act enforcement** within three years	**Enhance GVC participation** in the GVC network with higher strategic significance	**By raising the ratio of property tax by 1% and reducing that of income tax by 1%,** the long-term economic growth will improve by 0.43% (Abdon et al, 2014)

Source: SCB EIC analysis and Abdon et al (2014) "Fiscal Policy and Growth in Developing Asia".

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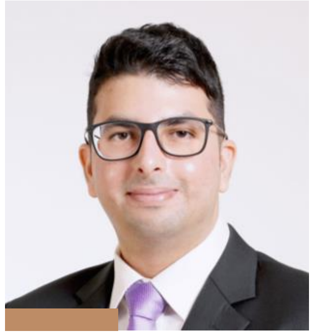

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