

Macro Note

Thailand: Growth accelerated in 2024

Tuesday, 18 February 2025

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- The Thai economy recorded weaker-than-expected growth of 3.2% y/y and 0.5% q/q sa in 4Q24, (vs. Reuters Poll: +3.9% y/y, +0.7% q/q sa, BOT est: +4.0% and UOB est: +3.9% y/y), leading to a full-year growth of 2.5% in 2024, (vs. +2.0% in 2023). The main growth drivers included tourism, goods exports, government spending, and private consumption.
- Based on the outturn, we remain cautiously optimistic about the near-term growth outlook and maintain our growth projection of 2.9% in 2025 with downside risks to the outlook. Key growth drivers are external demand (tourism and merchandise exports), government spending, particularly public investment, and, to some extent, private consumption.
- We also maintain our call for a 25bps rate cut at the BOT's MPC meeting on 26 Feb 2025. This move would help ease financial conditions, support domestic demand, and provide a near-term growth cushion against escalating external risks. At the same time, we acknowledge that sufficient policy space and policy effectiveness remain concerns of the central bank.

Economic upturn continues but at a weaker-than-expected pace

Thailand's economic upturn continued in 4Q24 but at a weaker-than-expected pace. GDP growth expanded by +3.2% y/y and 0.5% q/q sa, slower than expected by the market participants (vs. BOT est: +4.0 y/y, Reuters Polls: +3.9% y/y, +0.7% q/q sa, and UOB est: +3.9% y/y) from +3.0% y/y and 1.2% q/q sa in the previous quarter, according to the Office of the National Economic and Social Development Council (NESDC), on 17 Feb 2025.

The economy grew by 2.5% in 2024, up from 2.0% in 2023. The authorities projected a growth rate of 2.8% in 2025.

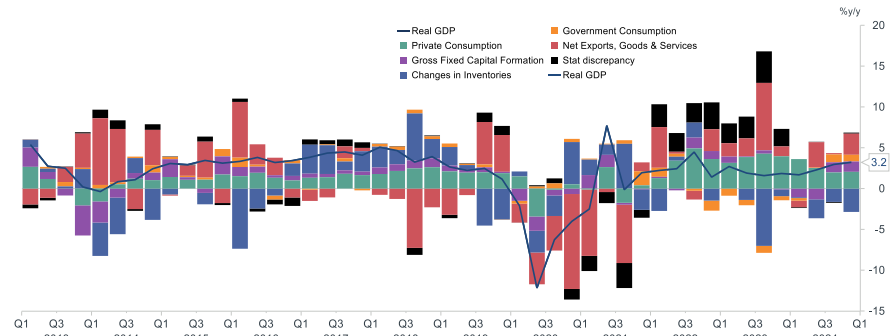
On **the expenditure side**, tourism, merchandise exports, and government spending were key growth drivers, with relatively robust private consumption. Private investment remained subdued, persistently dragged mainly by a contraction in the automotive industry and machinery investment.

- **External demand** continued to be a primary driver of the cyclical upturn of the Thai economy in 2024. In 4Q 24, **total exports** expanded by +11.5% y/y from +9.9% y/y in 3Q 24. This was attributable to the expansion of merchandise exports of 8.9% y/y (vs. +7.5% y/y in 3Q 24) and service exports of 22.9% y/y (+22.3% y/y in 3Q 24). In 2024, **merchandise exports** rose meaningfully by 7.8% from +2.4% in 2023, thanks to increases in exports of primary products, the upturn of the global electronic cycle, and the front-loading imports by trading partners, while **total imports** grew by +6.3% in 2024 from -2.5% in 2023. In 2024, **service exports** continued to normalize and recorded a robust expansion of 25.5% (from +38.2% in 2023), supported mainly by a surge in foreign tourists and tourism revenues,

supported government measures to attract foreign visitors, particularly a tourist-visa exemption. In 2024, the total number of foreign visitors reached 35.5 million (88.8% of the pre-pandemic level), up from 28.2 million in 2023.

Figure 1: Contributions to Thailand's real GDP growth

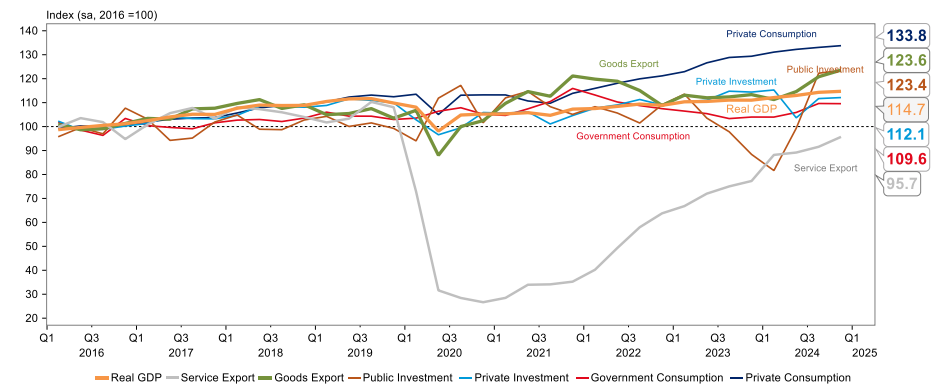
Source: Macrobond, UOB Global Economics & Markets Research



- **Government expenditures** accelerated in 1QFY2025, particularly public investment. Government consumption expenditure rose by +5.4% y/y in 4Q24 (1QFY2025), slightly moderating from +6.1% y/y in the previous quarter. In 2024, public consumption expenditure increased by +2.5% from a contraction of 4.7% in 2023. Public investment rose meaningfully by +39.4% y/y in 4Q24 (1QFY2025) from +25.2% y/y in the previous quarter. In 2024, public investment rose by +4.8% from +4.2% in 2023.
- **Private consumption** softened as expected, weighed on cyclical and structural challenges, growing by +3.4% y/y in 4Q24 from +3.3% y/y in 3Q24, despite the THB10,000 cash handout scheme. On a subsequential basis, private consumption softened further, expanding by +0.5% q/q sa in 4Q24 from +0.62% q/q sa in the previous quarter. In 2024, private consumption slowed to 4.4% from 6.2% in 2023. The figure continued to be weighed particularly by the consumption of durable goods in the context of slowing growth of household loans, tightened lending standards, and household debt overhang.
- **Private investment** continued to drag growth in 2024, recording a contraction of 1.6% (vs. +3.1% in 2023). In 4Q 24, private investment fell by 2.1% y/y, rebounding from a contraction of 2.5% in the previous quarter, weighed by machinery and equipment investment.

Figure 2: Thailand's demand-side economic upturn

Source: Macrobond, UOB Global Economics & Markets Research

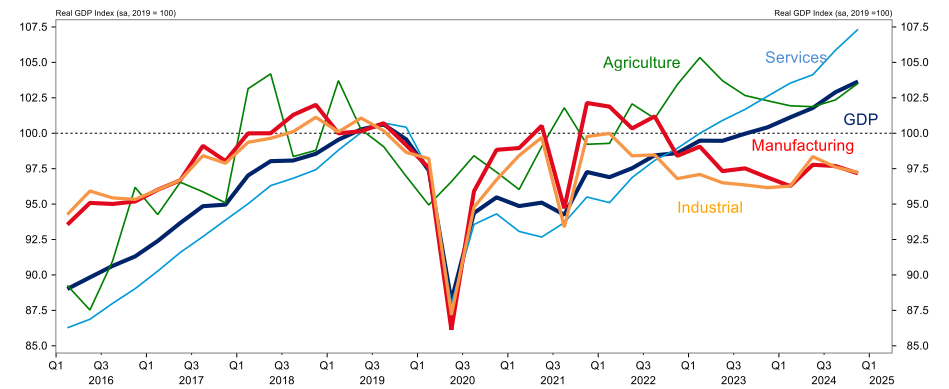


On the production side, growth was driven primarily by the service sector, particularly tourism-related activities. Despite a meaningful upturn in merchandise exports, the manufacturing sector continued subdued.

- The **services sector** remained resilient and continued to be boosted by tourism-related activities in line with a surge in foreign tourist arrivals. The sector grew by +4.7% y/y in 4Q24, from +4.1% y/y in 3Q24. The growth rate was attributable to some key sectors, including (1) accommodation and food service activities (4Q24: +10.2% y/y, 3Q24: +8.4% y/y), transportation and storage (4Q24: +9.0% y/y, 3Q24: +9.2% y/y), and wholesale and retail trade (4Q24: +3.9% y/y, 3Q24: 3.6% y/y). Due to increased public investment spending, **the construction sector was boosted**, growing +18.3% y/y in 4Q24 from 15.2% y/y in the previous quarter. In 2024, the service sector expanded by +3.9%, slowing +4.2% in 2023. However, the industry remained a primary growth driver on the supply side.
- **The manufacturing sector** remained subdued, with a slight growth of 0.2% y/y in 4Q24, marginally down from 0.3% y/y in 3Q24, driven primarily by the production of computers and parts. This performance aligned with the average capacity utilization rate. In 4Q24, the average capacity utilization rate was 57.3%, lower than 58.3% in the previous quarter and lower than 57.4% in the same quarter of the last year. In 2024, the manufacturing sector contracted by 0.5% compared with a 2.7% decline in 2023. However, while there are risks and headwinds, the expected global electronic cycle upturn is likely to support a recovery in the sector.
- The **agriculture sector's activity remained subdued in 2024**. In 4Q24, the activity sector recorded growth of +1.2% y/y from a contraction of 1.0% y/y in 3Q24, driven by increased production and higher prices. In 2024, the sector fell by 1.0%, compared to the expansion of 2.0% in 2023. The annual outturn highlights that the sector's performance is highly exposed to climate risks and extreme weather conditions.

Figure 3: Thailand's production-side economic upturn

Source: Macrobond, UOB Global Economics & Markets Research



In Feb 25, the NESDC shared its economic projections as follows:

1. **The growth projection remained unchanged.** In 2025, the economy was forecast to expand between 2.3% and 3.3%, with a midpoint of 2.8%.
2. **Key drivers for growth in 2025:** (1) the increase in government expenditure, particularly investment spending; (2) the continued expansion of private consumption and the recovery of private investment; (3) the sustained recovery of the tourism sector and related services; and (4) the continual growth of merchandise exports.
3. **Macroeconomic stability was expected to remain sound.** Headline inflation was estimated to be in the range of 0.5% - 1.5% (vs. 0.4% in 2024), and the current account was projected to record a surplus of 2.5% of GDP in 2025 (vs. 2.3% in 2024)
4. Looking ahead, the authorities highlighted that the economic management for the year 2025 should be prioritized in:
 - preparing for cushioning the impact of trade policy changes by key trading partners
 - accelerating private investment to regain growth by strengthening foreign investors' confidence in attracting FDI and expediting the implementation of investment projects approved during 2022-24.
 - accelerating budget disbursement is essential to ensuring the continued support of public expenditure for the economy.
 - raising awareness of ongoing government assistance measures to address household and business debt problems is essential to ensure that debtors, particularly small-scale debtors and SMEs, receive adequate support for debt restructuring.
 - ensuring the continued expansion of the tourism sector, for example, by implementing immediate measures required to address the air pollution problem (PM2.5) to prevent adverse impact on tourist confidence.

A bumpy path of cyclical economic upturn, with mounting downside risks and headwinds ahead

Based on the outturn, we have some observations as follows:

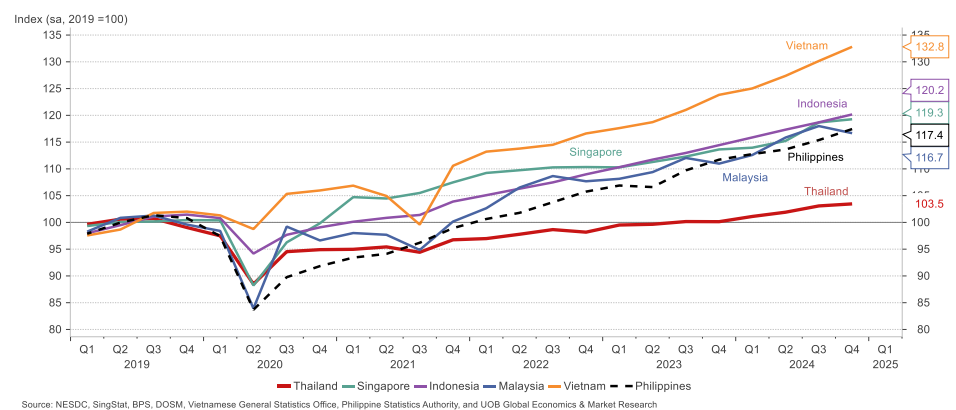
- **The K-shaped and uneven economic upturn has been lingering at a sluggish pace.** This has been observable, particularly on the supply side. To some degree, the service sector and the agriculture sector have been the main drivers of the cyclical upturn. In contrast, industrial activity has remained subdued, primarily due to challenges in the manufacturing sector. This situation is consistent with the persistently low-capacity

utilization rate across all major sectors, mostly below 50%. Under the current trade war, this condition risks being entrenched. On the demand side, growth has been attributed to normalizing tourism, private consumption, goods exports, and government spending, while private investment activity remains subdued.

- **The Thai economy has recorded slower growth compared to its regional peers.** Compared to regional peers such as Indonesia, Malaysia, the Philippines, Singapore, and Vietnam, Thailand has experienced the slowest growth rebound following the pandemic and consistently recorded the lowest growth rate since the outbreak.

Figure 4: Thailand's growth path compared to its regional peers

Source: Macrobond, UOB Global Economics & Markets Research

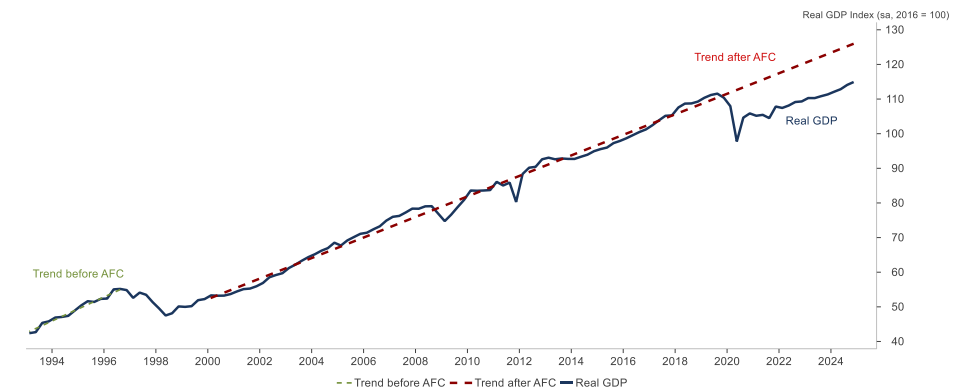


Source: NESDC, SingStat, BPS, DOSM, Vietnamese General Statistics Office, Philippine Statistics Authority, and UOB Global Economics & Market Research

- **The average annual growth rate has been meaningfully below around 3.0%, the BOT's estimated potential growth rate** (vs. the World Bank's estimate of 2.7%, [Link](#)). During 2022-2024, the annual growth rate averages 2.4%, indicating a lower potential growth path in the post-pandemic period. The recent outturn shows that the pandemic adversely affected Thailand's economy, resulting in a lower growth trajectory.

Figure 5: Thailand's potential growth path

Source: Macrobond, UOB Global Economics & Markets Research



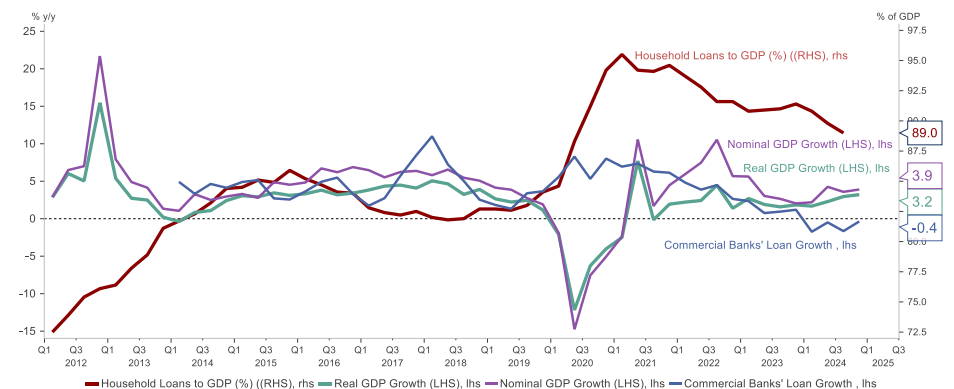
- **Private consumption has been moderating and has shifted towards services.** Since the pandemic, private consumption has surged, outpacing

GDP growth. However, it is expected to slow down in the medium term due to cyclical and structural factors. Following the pandemic, household spending has increasingly focused on service activities, especially tourism, while the consumption of durable and semi-durable manufactured goods has declined. This trend highlights a disconnect between private consumption and domestic manufacturing activity. For instance, many consumers have postponed buying new vehicles, which aligns with the downward trend in domestic vehicle production.

- Private investment has remained subdued.** The figure has slumped since 2Q 24, albeit at a moderate pace. With a low level of capacity utilization rate, firms' investment in machinery and equipment is expected to remain subdued. In addition to other structural factors, Thailand's lower potential growth is attributable to a continuous low level of private investment over the past 20 years since the Asian Financial Crisis.

Figure 6: Household debt ratio, GDP growth rates, and growth of commercial banks' loans

Source: Macrobond, UOB Global Economics & Markets Research



- Low nominal GDP growth could prolong a sustained high level of household debt.** In 4Q 24, nominal GDP increased by 3.9% y/y and 3.5% for 2024, while real GDP growth in 2024 expanded only by 2.5%. The growth of the GDP deflator is almost flat, recording +0.67% y/y in 4Q 24, from 0.61% y/y in the previous quarter. This nominal growth rate is below the average of 5.0% recorded from 2015 to 2019. As a result, a macroeconomic environment characterized by low growth and low inflation could lead to a household debt ratio (as a percentage of GDP) remaining above 80% for a more extended period than previously anticipated.

Despite a weaker-than-expected growth outturn in 4Q 24, for now, we remain cautiously optimistic about the near-term growth outlook and maintain our growth projection of 2.9% in 2025. Given the uncertainties surrounding its implementation, this figure does not include the anticipated adverse impact of the US's tariff measures and their second-round impact.

Key growth drivers are tourism, merchandise exports, government spending, particularly public investment, and, to some extent, private consumption. We expect the number of foreign visitors to reach 37.5 million in 2025, up from 35.5 million last year but below the official estimate of about 40 million, owing to the slower return of Chinese tourists. Growth of goods exports is expected to continue in 1H2025

before moderating in the second half of the year, thanks to a frontloading effect to minimize the impact of US tariffs and uncertainties. Government spending is expected to be a key factor in supporting the economy this year, as the fiscal budget deficit reaches a decade-high of 4.5% of GDP. The public investment budget has exceeded THB 908 billion, marking the highest amount on record. The ongoing economic upturn and the sustained recovery of the tourism sector should support private consumption despite cyclical and structural headwinds, including a slow income rebound, declining commercial banks' loans to households, and the elevated debt level.

However, **the near-term growth outlook is weighed by downside risks**. Key concerns include (1) the adverse impact of the US trade protectionism measures, (2) weaker-than-expected domestic demand, (3) intensified China's overcapacity and its slower-than-expected economic recovery, (4) domestic political uncertainty, (5) weaker-than-expected tailwinds from global trade recovery, and (6) the escalation of geopolitical tensions.

Weaker-than-expected growth momentum warrants further monetary easing

With weaker-than-expected growth momentum in Q4 2024 and full-year 2024, pressure is mounting on the BOT to ease monetary policy. The central bank initially projected 4.0% y/y growth in 4Q24 and 2.7% for the entire year, but the outturn has fallen short of its expectations. For 2025, the central bank forecasts GDP growth of 2.9%, though this projection does not account for the potential adverse impact of US tariff measures and their second-round effects. Should trade tensions escalate, Thailand's growth trajectory could be further derailed.

A sluggish and uneven economic recovery continues to pose financial stability risks as household and business balance sheets remain impaired, resulting in elevated NPLs. Financial conditions remain tight, as evidenced by the continued contraction of commercial bank loan growth, which, despite moderating, remained negative at -0.4% y/y in 4Q 24 (vs. -1.7% y/y in 3Q 24). Given Thailand's bank-dependent financial system, where banks provide about 70% of total business financing and about 50% of household credit, prolonged credit contraction threatens to weaken private domestic demand and dampen the cyclical economic upturn.

In the near term, the risks of a negative feedback loop between weak credit growth and subdued real economic activity remain a pressing concern. Additional monetary easing is necessary to mitigate financial stability risks, ease financial conditions, and support domestic demand—particularly amid external headwinds stemming from potential US trade protectionism.

Additionally, we reiterate that the persistent household debt overhang is unlikely to be resolved in a low-growth, low-inflation environment. Without a more substantial economic upturn, deleveraging efforts could further strain domestic demand.

Post-pandemic, Thailand's potential growth rate may be structurally lower than the BOT's estimated 3.0%. The average quarterly GDP growth from 2022 to 2024 has been approximately 2.4%, suggesting that the neutral policy rate may need further downward adjustment to align with the economy's lower potential growth.

That said, we maintain our call for a 25bps rate cut at the BOT's upcoming MPC meeting on 26 Feb 2025. While sufficient policy space and policy effectiveness remain concerns of the central bank, this move would help ease financial conditions, support domestic demand, and provide a near-term growth cushion against escalating external risks.

Please click on the links to access:

- Press release by the NESDC on 17 Feb 2025 ([Link](#)).

Our forecast

<u>%</u>	<u>As of 18 Feb</u>	<u>1Q25</u>	<u>2Q25</u>	<u>3Q25</u>	<u>4Q25</u>
BOT 1-D Repo Rate	2.25%	2.0%	2.0%	2.0%	2.0%

Source: Global Economics & Markets Research (as of 18 Feb 2025)

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