Macro Note

Thailand: US reciprocal tariffs likely to have an impact on the Thai economy

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- On 2 Apr, US President Trump announced reciprocal tariffs on all trading partners following his conclusion of the "America First" Trade Policy Review. Thailand has been subject to a tariff rate of 36% on all exports to the US. The US remains Thailand's largest export market, accounting for 18.3% of total exports in 2024.

- Based on our preliminary assessment, Thailand is among the top 10 countries most impacted by the tariff policy. It is particularly exposed to the broader consequences of slower global trade and subdued global growth, given its significant dependence on international trade. As a result, we have revised our GDP growth forecast for 2025 down to 2.0%, from our previous projection of 2.9%. We now expect growth to rebound to 2.6% in 2026, partly driven by a low base effect, which is also revised down from our earlier projection of 3.0%. This adjustment reflects the cumulative and multiple adverse effects transmitted through various channels, particularly the decline in external demand, which are expected to significantly impact the Thai economy, further compounded by the effects of the recent earthquake in late Mar that may likely hit Thailand's tourism sector and hence its services exports.

- We now view that the central bank may potentially respond with further easing of the policy rate further to support growth, given the immediate and significant downside risks on growth. Given the uncertainties surrounding the tariff negotiations, weaker near-term outlook, exacerbated by the recent earthquake and low credit growth. We therefore expect two additional 25bps rate cuts to be delivered each in Apr and Jun, lowering the policy rate to 1.50% by the 2Q 25. Additional cuts may follow if the growth outlook continues to deteriorate.

Preliminary assessment of how the US's reciprocal tariffs could impact the Thai Economy

On 2 Apr, the US administration introduced reciprocal tariffs on all its trading partners, including Thailand. According to the United States Trade Representative (USTR), the tariff rate for Thailand is set at 72%, which encompasses both currency manipulation and trade barriers. However, the effective tariff rate imposed on imports from Thailand is adjusted to 36% (Presidential Actions: Link to Annex I). While the introduction of these tariffs was anticipated, the announced tariff rate for Thailand exceeded market expectations. In comparison, Thailand imposes an average tariff rate of 4.80% on imports from the US, while the US's average tariff on imports from Thailand stands at 1.70% (Reciprocal Tariff Calculations: Link).

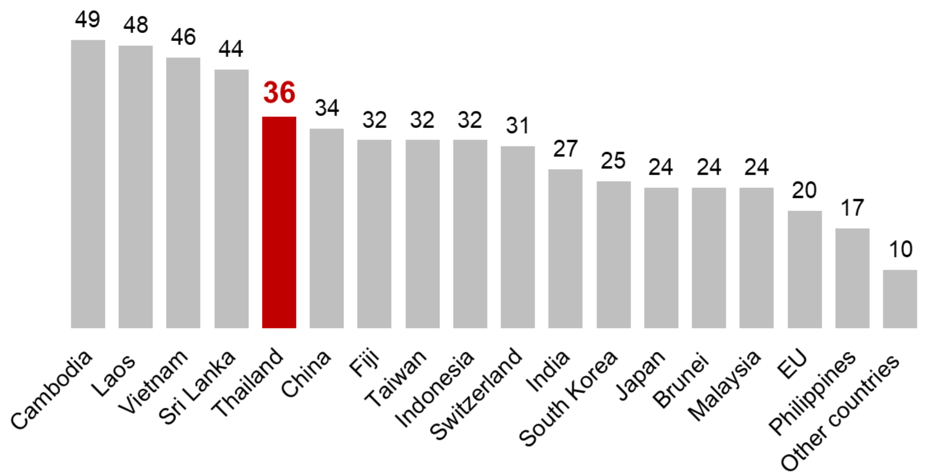
Thailand is included among the "dirty 15" countries with the highest trade surpluses with the US, which are vulnerable to retaliation measures. Since the onset of the US-China trade conflict (Trade War 1.0), Thailand's trade surplus with the US has grown significantly, reaching USD 45.6 billion, according to consensus US data for 2024.

Right By You

As of 2024, the US remains Thailand's largest export market, accounting for 18.3% of total merchandise exports. Thai exports to the US are concentrated in several key sectors, including: (1) electrical machinery & equipment (32.0%), (2) machinery (24.7%), (3) rubber products (9.2%), (4) vehicles (4.3%), (5) jewelry (3.6%), and other products (26.3%).

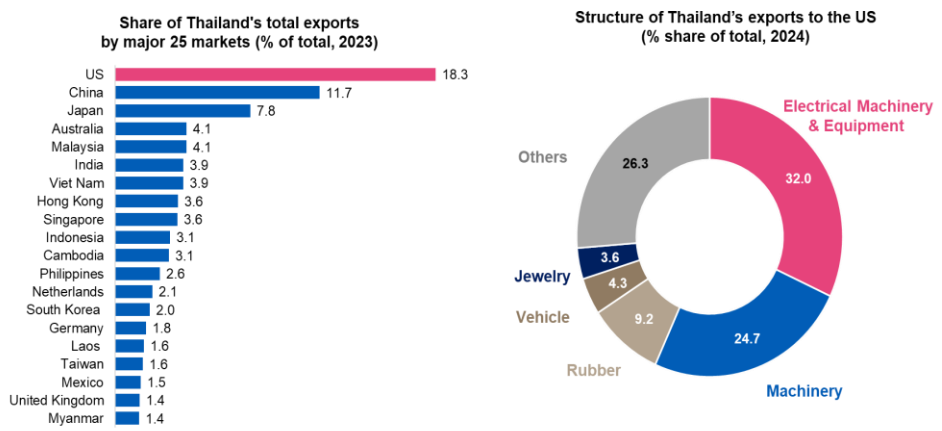
US's Reciprocal Tariffs Rate Imposed on Some Selected Countries (%)

Source: The White House, UOB Global Economics & Markets Research



Structure of Thailand's merchandise exports

Source: Trade Map, UOB Global Economics & Markets Research



Based on our preliminary assessment of the tariff impact—calculated by multiplying the 36% reciprocal tariff rate by the value of US imports from Thailand, then dividing by Thailand's GDP in 2024 in US dollar terms (excluding the effects of trade redirection, tax incidence, and price changes)—the initial impact of the tariff is 4.3% of GDP. This would position Thailand among the top 10 countries most affected by the US's recent tariff measures. Our analysis suggests that other heavily impacted countries include Cambodia, Vietnam, Mexico, Taiwan, and Canada.

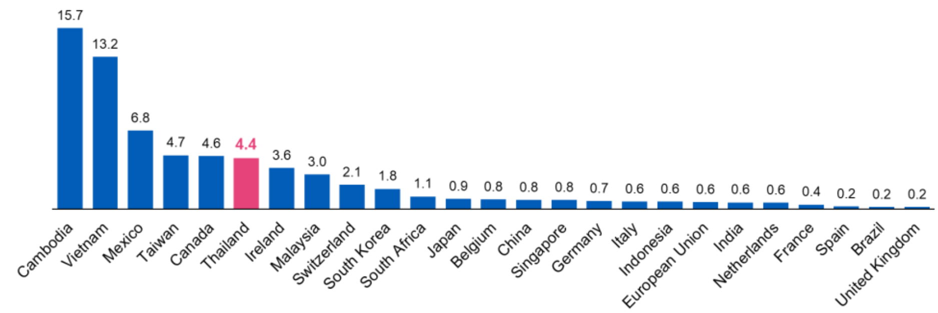
Beyond the direct effects of the tariffs, Thailand and its ASEAN neighbors are also exposed to the broader consequences of slower global trade and subdued global growth, given their significant dependence on international trade. In 2023, Thailand's ratio of goods trade to GDP was 111.5%, one of the highest in Southeast

Asia, suggesting that the negative impacts of a decelerating global economy could significantly weigh on the country's near-term growth prospects.

In terms of specific sectors, Thailand's exports are expected to be heavily affected by the higher tariff rates on electrical machinery & equipment, machinery, rubber products, vehicles, and jewelry. These categories together account for approximately 74% of Thailand's total merchandise exports to the US in 2024.

Direct impact of US Tariffs (for an additional reciprocal tariff rates (% of GDP*) for selected countries

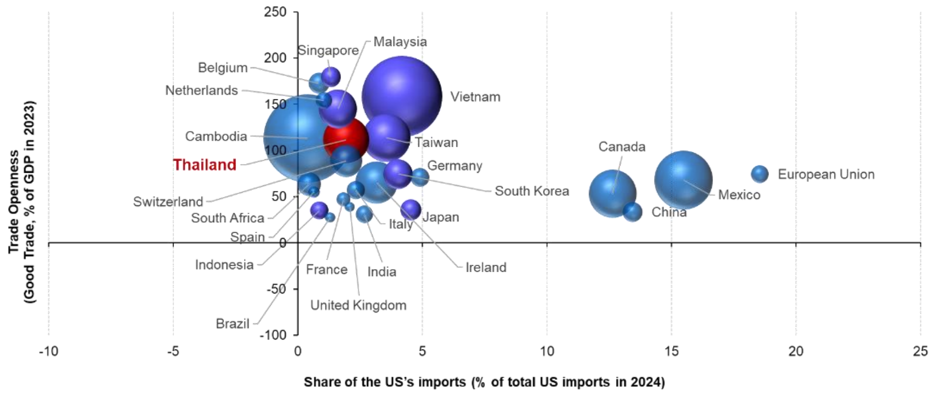
Source: Macrobond, the White House, RBA, UOB Global Economics & Markets Research



Note: Calculated by multiplying percent of reciprocal tariff rates with the value of 2024 US's imports divided by GDP, calculated in US dollars, does not account for trade redirection, tax incidence or price changes.

The top 25 countries most impacted by the US's reciprocal tariffs

Size the bubble represents the direct impact of the US's reciprocal tariffs, please refer to note below.
Source: Macrobond, the White House, UOB Global Economics & Markets Research



Note: Calculated by multiplying percent of reciprocal tariff rates with the value of 2024 US's imports divided by GDP, calculated in US dollars, does not account for trade redirection, tax incidence or price changes.

The US's reciprocal tariffs are expected to meaningfully impact the Thai economy through different channels and multiple rounds of adverse effects

Due to the cumulative adverse effects transmitted through various channels, particularly the decline in external demand, which are expected to significantly impact the Thai economy—further compounded by the effects of the recent earthquake in late March—we have revised our GDP growth forecast for 2025 down to 2.0%, from a previous projection of 2.9%. Additionally, we now expect growth to rebound to 2.6% in 2026, partly driven by a low base effect, revised down from our earlier projection of 3.0%.

Conceptually, the ongoing trade tensions, the recent US reciprocal tariffs, and potential retaliatory measures from other countries are expected to exert significant pressure on global trade and the broader global economy. This is anticipated to affect the Thai economy through several channels: (1) reduced external demand and disruptions in cross-border capital flows, (2) an increased influx of Chinese imports, intensifying competition in markets outside the US, and (3) a deterioration in global sentiment, compounded by weakening global economic prospects.

Subsequently, the Thai economy is expected to be impacted through:

- **Lower Growth of Merchandise Exports:** The higher-than-expected reciprocal tariff rates imposed on Thailand and other economies, coupled with the anticipated intensification of trade tensions, are expected to significantly impact Thailand's exports, both directly and indirectly, in 2025 and beyond. This impact is primarily driven by the concentration of export markets and product categories. Thailand depends heavily on a few major export markets, including: (1) the US (18.3%), (2) China (11.7%), (3) the EU-27 (8.1%), (4) Japan (7.8%), and ASEAN (23.4%), which together account for nearly 70% of Thailand's total exports in 2024. While competition in alternative markets, aside from the US, is expected to intensify, we also anticipate slower economic growth in the US (Our report: Link) and other regions, which will likely dampen demand for Thai exports. Additionally, the government's efforts to diversify export markets and expand market access through free trade agreements (FTAs) will likely take time to produce tangible results. As a result, we have revised our projection for merchandise export growth downward, now expecting a significant softening to a range of 0.5%–1.0% in 2025, compared to our previous estimate of 2.0%–3.0%.

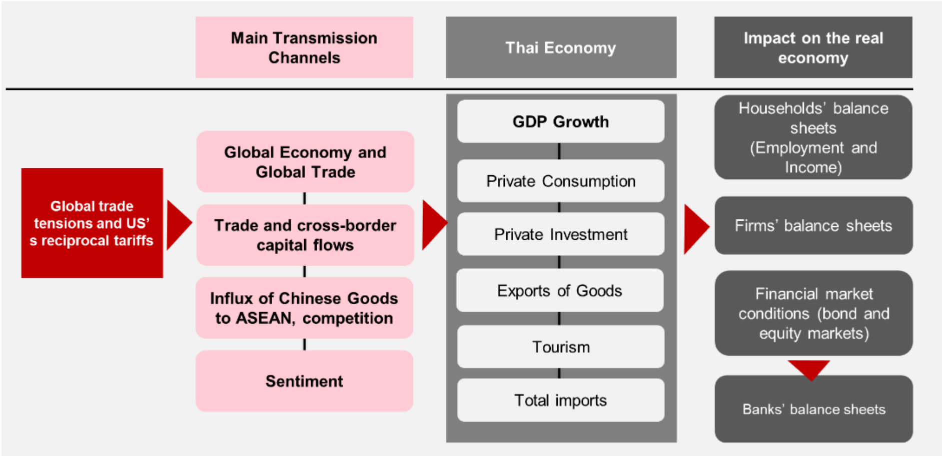
- **Lower Exports of Services:** While the tourism sector has been normalizing, the direct and indirect impact of the reciprocal tariffs on the broader global economy is further dampening the ongoing rebound. This is compounded by negative sentiment resulting from the recent earthquake and security concerns. To sustain the momentum of recovery, we support the government's efforts to address fundamental issues, including improving security for tourists, upgrading both soft and hard infrastructure, and promoting higher-value local tourism activities, in addition to ongoing marketing campaigns. In light of these challenges, we have revised our forecast for tourist arrivals down to 37.0 million, from the previous projection of 37.5 million.

- **Lower Private Investment:** While we maintain the view that private investment in 2025 will be supported by a record-high public investment budget and the historically high value of approved FDI applications, the impact of reciprocal tariffs, uncertainties surrounding trade negotiations, subdued global growth prospects, and shifting sentiment are expected to weigh significantly on private investment activity in 2025. The actual realization of FDI projects may decline substantially as a result. Consequently, we have revised our forecast for private investment growth down to 2.0%, from the previous projection of 2.9%.

- **Lower Private Consumption:** While the broader, slower, and uneven economic recovery, compounded by persistently subdued activity in manufacturing, is expected to weigh on the rebound in household income, the direct and indirect impacts of the reciprocal tariffs will likely exert additional pressure on private consumption. This is due to worsened balance sheets in 2025, alongside ongoing cyclical and structural challenges, including a decline in commercial bank lending to households, deteriorating wealth effects from a slump in the equity market, and elevated household debt levels. As a result, we expect private consumption to soften further, with growth revised down to 2.4% in 2025, from our previous forecast of 3.0%.

Main transmission channels of the adverse impact of the US's reciprocal tariffs on the Thai economy

Source: UOB Global Economics & Markets Research



The multiple rounds of adverse impacts from reciprocal tariffs and intensifying trade tensions are expected to dampen the uneven economic recovery of the Thai economy on the supply side, which has already been weighed down by existing cyclical and structural challenges.

We anticipate that the repercussions of the US's reciprocal tariffs, along with their subsequent adverse effects, will further exacerbate the K-shaped cyclical economic recovery. The service sector, which has been a key driver of Thailand's economic rebound, is expected to soften, primarily due to the slower-than-expected normalization of foreign tourist arrivals. Additionally, softer global growth and weakening activity in key trading partners will place further strain on the manufacturing sector. With the escalating trade tensions, the influx of Chinese imports is also expected to increase. As a result, the uneven economic recovery is likely to persist in the medium term.

Moreover, under the current global environment of heightened uncertainty and escalating tensions, there could be significant implications for FDI inflows into Thailand and the growth and development of supply chains of new S-curve industries.

In terms of policy support, on the fiscal front, the Thai government has outlined its strategies to engage in negotiations with the US to reduce the reciprocal tariff rate (Bangkok Post, 3 Apr), and this will be monitored closely. We also support the government's efforts to accelerate structural reforms and increase investment to enhance both the country's soft and hard infrastructure. However, it is essential to note that the government's ability to stimulate the economy through short-term measures is becoming increasingly constrained, as the country approaches its public debt ceiling limit of 70% of GDP.

On the **monetary policy front**, we believe there is still room for the central bank to further ease the policy rate to support growth and the broader economy, given the BOT's recent policy stance, which prioritizes growth. Despite uncertainties surrounding the negotiations to lower the reciprocal tariff rate and the precise impact on growth, the near-term growth outlook is deteriorating, compounded by the recent earthquake and the negative feedback loop of low credit growth and weakening real activity. As a result, we expect the BOT's next moves to include two 25bps cuts in April and June, lowering the policy rate from the current 2.0% to 1.50%. However, additional rate cuts at subsequent meetings in 2025 cannot be ruled out should the growth outlook continue to worsen.

In terms of external stability, we expect heightened uncertainty to continue driving cross-border capital flows in emerging markets, including Thailand, with a particular focus on outflows from equity markets. This is likely to put downward pressure on the THB in the near term. However, Thailand's strong economic fundamentals should help cushion the country's overall macroeconomic stability.

That said, this is a preliminary assessment of the impact of the US's reciprocal tariffs on the Thai economy. Given the uncertainties and the evolving nature of the situation, we will closely monitor incoming data and developments to reassess the effects as they unfold.

Our forecast

%	4 Apr	2Q25	3Q25	3Q25	1Q26
BOT 1-D Repo Rate	2.00%	1.50%	1.50%	1.50%	1.50%

Source: Global Economics & Markets Research (as of 4 April 2025)

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