Macro Note

Thailand: Sluggish Pace Likely To Continue In Early 2024 Before A Stronger Recovery In 2H

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- Thailand's sluggish economic recovery should continue in early 2024. In 2024, real GDP is expected to expand by 3.6% from our projection of 2.3% in 2023, driven by external demand, in particular from a sustained recovery of the tourism sector, on the back of resilient household consumption and fiscal expansion.

- The total number of foreign tourists in 2023 more than doubled, reaching 28 million, or 70.2% of the pre-COVID level, achieving the government's target, amid a slower-than-expected return of Chinese tourists. The government tentatively aims to attract 35 million foreign visitors (or 88% of the pre-pandemic level) in 2024 driven by the visa-exemption policy, on the back of some remaining pent-up demand, and the expected normalization of air connectivity in the region.

- The total exports of merchandise grew by 3.9% y/y in Nov from 7.0% y/y in Oct, the fourth consecutive month of expansion driven by export growth in all major categories[1]. The latest outturn confirms our view that the export cycle already bottomed out in 1H23. Household consumption remained resilient reflected by the continued expansion of the Private Consumption Index (PCI). Despite some signs of recovery in Nov 23, private investment remained weak. Looking ahead, against the backdrop of the pickup in exports, investment activity should gradually improve throughout 2024. The actual government' s expenditure recorded a sharp slump of 22.6% y/y (FY) in Nov from -4.6% y/y (FY) in Oct owing mainly to the delay in the FY2024 budget process.

- The overall macroeconomic stability remained sound thanks to easing inflation pressures and a resilient external position. All in all, we forecast growth to be stronger this year despite a slow start to the year amid rising uncertainty. After registering a 2.5% growth in 2022 and likely a more subdued 2.3% in 2023, we forecast Thai GDP growth to accelerate to 3.6% this year before consolidating to 3.1% next year. Inflation is also likely to pickup in the latter half of this year, partly due to low base effects, and we forecast it to average slightly higher at 1.6% in 2024 viz. 1.3% in 2023, before accelerating to slightly more than 2% in 2025.

Tourism And Merchandise Exports Will Drive Growth In 2024

The economic recovery should continue at a sluggish pace in early 2024. Full-year real GDP is expected to expand by 3.6% in 2024 from our projection of 2.3% in 2023. External demand, particularly the ongoing recovery in the tourism sector, is expected to be a key growth driver on the back of a relatively resilient household consumption and the expansionary fiscal policy. Macroeconomic stability remains sound due to muted inflation pressures and a resilient external position. However,

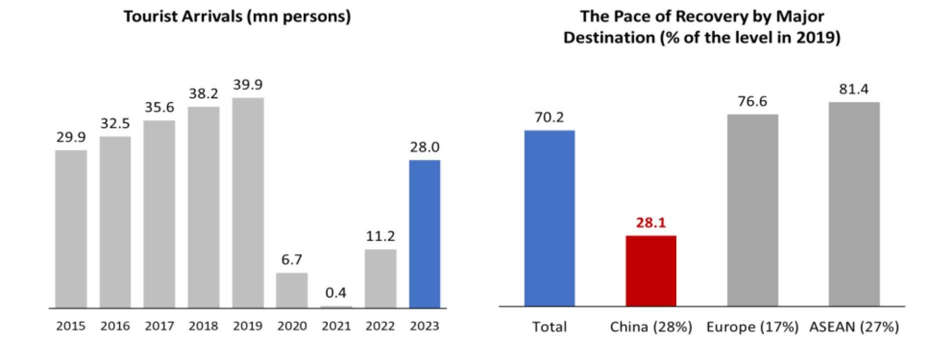
[1] BOP basis, based on the data from the Bank of Thailand

despite some upside risks from stronger-than-expected household consumption and fiscal measures, risks to the short-term outlook are skewed toward the downside. Key downside risks are (1) sharper-than-expected slowdown of the global economy, (2) China's uncertain economic recovery, and (3) worse-than-anticipated geopolitical fragmentation.

In Dec 2023, **the number of foreign visitors** recorded 3.2 million from 2.6 million in Nov. As a result, the full-year number of foreign tourists in 2023 more than doubled, reaching 28 million, or 70.2% of the pre-COVID level in 2019, achieving the target set by the government (11.2 million in 2022). Based on a preliminary data, the top-5 inbound markets in 2023 were **Malaysia** (16.2%), **China** (12.6%), **South Korea** (5.9%), **India** (5.8%), and **Russia** (5.3%), while the return of Chinese tourists remained sluggish, with the total arrivals reaching only 32% of the pre-pandemic level. In 2024, we continue to expect a soft pace of Chinese tourist arrivals due to economic difficulties at home compounded by security concerns when traveling in Thailand. Despite a soft global economic outlook and ongoing geopolitical tensions, the government tentatively aims to attract 35 million foreign visitors (or about 88% of the pre-pandemic level) in 2024 driven by the visa-exemption policy on the back of some remaining pent-up demand and the normalization of air connectivity in the region. Overall, tourism will continue to be the key growth driver for Thailand in 2024 and the number of tourist arrivals is likely to reach 33 million (or 83% of the pre-pandemic level).

Thailand's number of foreign visitors recorded 28 million in 2023

Source: CEIC, Ministry of Tourism and Sports, UOB Global Economics & Markets Research

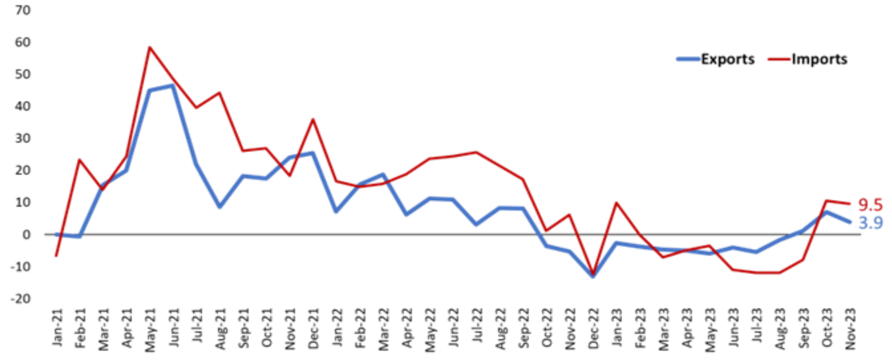


Thailand's total exports of merchandise grew at a slower pace of 3.9% y/y in Nov from 7.0% y/y in Oct, the fourth consecutive month of expansion, driven by export growth in all major categories. In the first eleven months of 2023, total exports contracted by 2.0%. The latest outturn may confirm our view that Thailand's export cycle already bottomed out in 1H23, and we expect total exports to expand by 1.0% for 2023. On **imports**, the figure increased by 9.5% y/y in Nov from 10.5% y/y in Oct, and in the first eleven months, total imports fell by 2.6%, and we expect total imports to contract by 2.0% in 2023. Looking ahead, the anticipated pickup in the world merchandise trade should benefit Thailand's merchandise exports.

In Nov 23, the private consumption index (PCI) continued to record a strong expansion of 7.4% y/y from 7.3% y/y in Oct, driven by the consumption of services and non-durable goods thanks to the improvement in income and labor market conditions, particularly in the services sector. Despite some degree of resilience, household consumption is expected to soften in 2024 as it is going to be weighed by tighter financial conditions and slower credit growth. Signs of softening private consumption have been noticeable for the consumption of semi-durable and durable goods.

Export and import growth, % y/y (BOP basis, data as of Dec 23)

Source: CEIC, UOB Global Economics & Markets Research

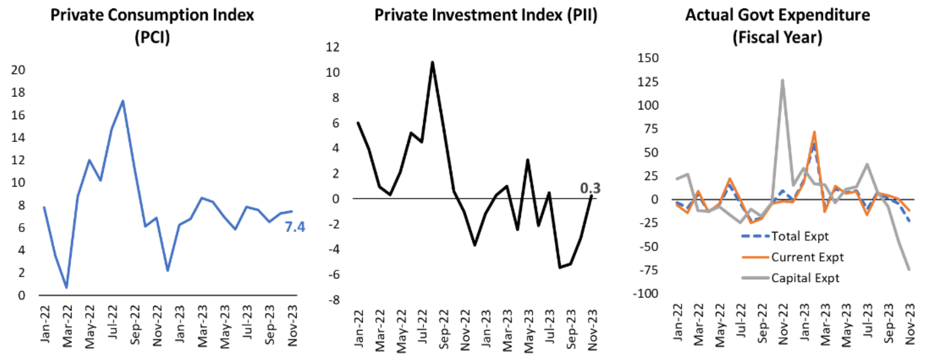


On investment, **the private investment index (PII)** recorded a small expansion of 0.3% y/y in Nov from -3.1% y/y in Oct, boosted primarily by imports of capital goods. Overall, despite some signs of recovery, private investment activity remained weak. Looking ahead, against the backdrop of the pickup in exports, private investment should gradually recover through the rest of 2024 on the back of clearer policy directions, greater political stability, and the overall economic recovery. In addition, Thailand is expected to benefit from FDI inflows amid the ongoing supply-chain diversification triggered by the lingering geopolitical fragmentation and this was in part reflected by an increase in the number of applications submitted to the Board of Investment (BOI). However, the pace of private investment recovery could be somewhat derailed by rising costs of borrowing and the uncertain global environment.

The **actual government' s expenditure** recorded a sharp slump of -22.6% y/y (FY) in Nov from -4.6% y/y in Oct. Owing to the delay in the FY2024 budget process, government spending is expected to remain weak in 1H24. Against this backdrop, we expect the government to rely on short-term measures, supply-side interventions, and subsidies to stimulate the economy. Despite a sizeable fiscal deficit of 3.6% of GDP, the FY2024 budget is expected to be disbursed in late 2Q24, while the implementation of sizeable stimulus packages, including the digital wallet scheme, is expected to face legal hurdles and other challenges, adding uncertainty to financial markets. As a result, the fiscal impulse will relatively remain weak in 1H24.

Demand-side Economic Indicators (% y/y) (data as of Dec 23)

Source: CEIC, UOB Global Economics & Markets Research



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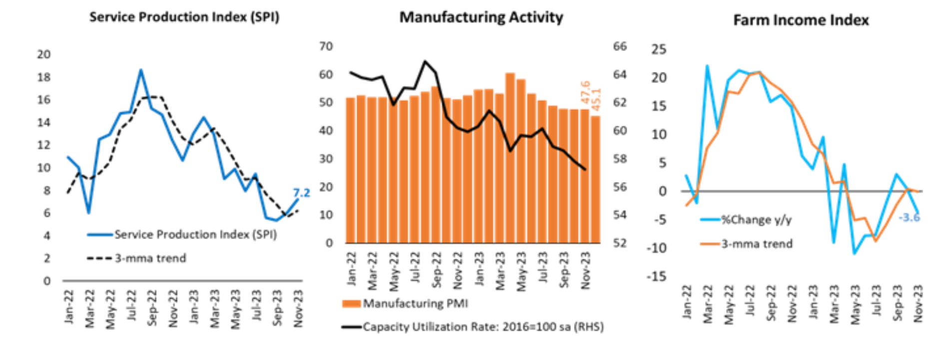
On the supply side, the sustained recovery of the tourism sector continued to support economic activity in the services sector, reflected by a healthy pace of expansion of the Service Production Index (SPI) in Nov 23 which rose by 7.2% y/y from 6.0% y/y in Oct. Activity in the manufacturing sector continued to soften as the manufacturing PMI in Dec slumped further to 45.1 from 47.6 in Nov, consistent with the lower rate of capacity utilization which recorded a 57.3% in Nov from 57.8% in Oct. On the agricultural sector, the Farm Income Index slipped into the negative territory in Nov with a contraction of 3.6% y/y from +0.4% y/y in Oct.

Supply-side Economic Indicators (% y/y) (data as of Dec 23)

Source: CEIC, UOB Global Economics & Markets Research



Macroeconomic Stability Continues To Remain Sound

In Dec 23, the **headline CPI** continued to fall by 0.83% y/y from -0.44% y/y in Nov, the third consecutive month of negative inflation rate and the lowest rate in almost 3 years. Amid subdued economic growth and easing global oil prices, the rapid disinflation process has been primarily driven by the government's subsidies for energy and electricity prices on the back of favorable supply conditions. In 2023, headline inflation rose 1.23% (+6.08% in 2022), slightly below our estimate of 1.3%. **Core inflation** remained unchanged from Nov at 0.58% y/y, and annual core inflation rose by 1.27% y/y in 2023 (+2.51% in 2022).

With the third consecutive month of negative inflation rate, Thailand has entered into a period of technical deflation. However, we view that risks of a structural deflation remain low given the ongoing economic recovery driven by resilient domestic demand. Additionally, with well-anchored inflation expectations and limited impact from the minimum wage hike, the inflation trend is expected to normalize once the government's subsidies and other short-term measures expire in Apr 24.

Summary of Key Items of the CPI Inflation (% y/y) (data as of Dec 23)

Source: CEIC, UOB Global Economics & Markets Research

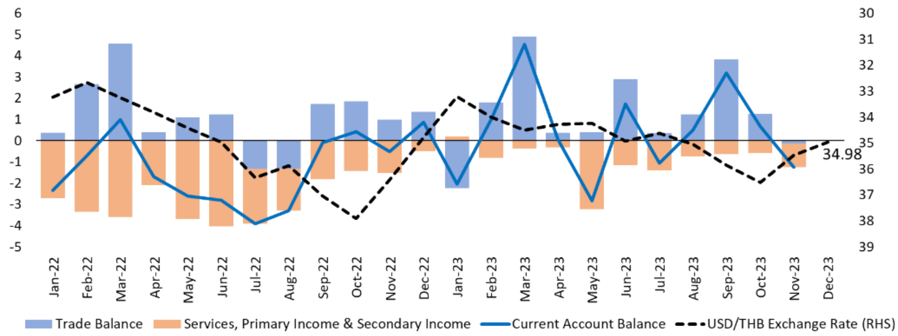
Items	Weight	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Headline Inflation	**100.0**	5.02	3.79	2.83	2.67	0.53	0.23	0.38	0.88	0.30	-0.31	**-0.44**	**-0.83**
Core Inflation	**67.1**	3.04	1.93	1.75	1.66	1.55	1.32	0.86	0.79	0.63	0.66	**0.58**	**0.58**
Non-Core Inflation	**32.9**	8.80	7.38	4.89	4.60	-1.32	-1.68	-0.49	1.05	-0.30	-2.09	**-2.28**	**-3.42**
Raw Food	**20.6**	7.32	7.14	6.66	5.50	4.70	3.92	1.37	0.00	-1.30	-2.45	**-0.76**	**-2.30**
Energy	**12.4**	11.08	7.75	2.42	3.30	-9.55	-9.11	-3.12	2.58	1.21	-1.55	**-4.52**	**-5.12**
Food and Non Alcoholic Beverages	**40.4**	7.70	5.74	5.22	4.53	3.99	3.37	1.49	0.74	-0.10	-0.65	**0.20**	**-0.63**
Non Food & Beverages	**59.7**	3.18	2.47	1.22	1.39	-1.83	-1.88	-0.38	0.98	0.59	-0.09	**-0.87**	**-1.00**
Housing and Furnishing	**23.2**	3.11	3.08	3.16	3.03	-0.70	2.04	1.91	1.84	-0.68	-0.68	**-0.76**	**-0.73**
Transport and Communication	**22.7**	4.26	2.45	-0.70	-0.09	-4.58	-6.91	-3.25	0.26	1.68	-0.04	**-1.84**	**-2.20**
Medical and Personal Care	**5.7**	1.94	2.00	2.03	1.79	1.92	1.80	1.80	1.41	1.17	1.27	**0.88**	**0.88**
Recreation, Education and Religion	**4.5**	1.41	1.39	1.46	1.48	1.49	0.70	0.61	0.60	0.61	0.56	**0.62**	**0.66**
Apparel & Footwears	**2.2**	0.22	0.28	0.26	0.27	0.47	0.45	0.28	0.25	0.27	0.09	**0.03**	**0.00**
Tobacco & Alcoholic Beverages	**1.4**	0.98	1.13	0.69	0.67	0.69	0.65	0.56	0.46	0.62	1.07	**1.01**	**1.00**

In Nov, the current account balance recorded a negative of USD1.2bn following a small surplus of USD0.7bn in Oct. The deficit was due to a small trade deficit of USD0.2bn and the services, primary, and secondary income deficits of USD -1.1 bn. At the end of Dec 23, the USD/THB exchange rate was at 35.0 (35.5 in Nov)[2]. Overall, we view that idiosyncratic factors such as an improved growth outlook, current account surplus, stable interest rate profile, and a sustained tourism recovery will support the currency in 2024 and our USD/THB forecasts are 34.8 in 1Q24, 34.3 in 2Q24, 33.8 in 3Q24 and 33.3 in 4Q24.

In conclusion, we reckon that the overall macroeconomic stability remained sound thanks to easing inflation pressures and a resilient external position. We forecast growth to be stronger this year despite slow start of the year amid external uncertainty. After registering a 2.5% growth in 2022 and likely a more subdued 2.3% in 2023, we forecast Thai GDP growth to accelerate to 3.6% this year before consolidating to 3.1% next year. Inflation is also likely to pick up in the latter half of this year, partly due to low base effects, and we forecast it to average slightly higher at 1.6% in 2024 viz. 1.3% in 2023, before accelerating to slightly more than 2% in 2025.

Thailand's Current Account Balance (USD bn, data as of Dec 23)

Source: CEIC, UOB Global Economics & Markets Research



Our Forecast

%	As of 10 Jan	1Q24	2Q24	3Q24	4Q24
BOT 1-D Repo Rate	2.50%	2.50%	2.50%	2.50%	2.50%

Source: Global Economics & Markets Research (as of 10 Jan 2024)

2 BOT's Weighted Average Interbank Exchange Rate

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