Q1/2023

Outlook

Economic outlook 2023
as of Q1/2023

In 2023, Thai economy continues to recover at 3.9%, driven mainly by tourism and service sectors, which will strengthen consumption and the labor market.

SCB
Economic Intelligence Center

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Outlook Q1/2023

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Executive Summary

Global economic growth is expected to outperformed the previous forecast, based on strengthening economic indicators and China's earlier reopening. **SCB EIC revised up global economic growth to 2.3% in 2023** (from 1.8%). Risks of liquidity shortage in some US banks to escalate into financial crisis like in 2008 remain unlikely but should be closely monitored. **Headline inflation is slowing down, while core inflation tends to decline at a slower pace,** forcing Central Banks to raise policy rates higher for longer period than anticipated. The economic direction of major economies improve accordingly. **US economy** is expected to slow down further but able to avoid recession. **EU economy** also likely escapes recession due to a significant progress in reducing dependency on Russian energy. **Japanese economy** tends to decelerate due to a slowdown in manufacturing and export sectors following declining global demand, but tourism sector and higher wages will partially support consumption amid rising inflation. **Chinese economy** is expected to expand rapidly after Zero-Covid Policy ended with private consumption as the key driver.

In 2023, Thai economy will continue to growth at 3.9%, supported by a rebound in tourism and service sectors that improve consumption and the labor market. Foreign tourists will likely hit 30 million, with Chinese visitors should bounce back to 4.8 million after the Zero-COVID Policy ended earlier. Thai exports is projected to expand 1.2%, following better-then-expected global economic growth and a recovery in Chinese demand. On the domestic front, private investment regain its growth momentum, in line with improving business sentiment and increasing number of applications and certificates of investment promotional privileges. **Headline inflation is projected to stay within target range at 2.7%** from declining global energy prices and ongoing energy subsidy program from the government. Core inflation will decelerate to 2.4%, yet remain in the high range, reflecting higher cost burden from producers to consumers on the back of stronger economic growth momentum and demand-full inflationary pressure.

SCB EIC expects Bank of Thailand to continue policy rate hikes to 2% in the fist half of the year as the economy is recovering and the inflation is not declining as fast. Amid rising policy rate direction, the gradual ending of financial aids will further tighten Thai financial conditions. **The Baht is expected to depreciate in the first half of the year but regain steam to 32-33 against US dollar at year-end,** backed by Thailand's stronger economic fundamentals. Meanwhile, US dollar is weakening notably after the Fed ends its rate hikes.

Thai economic outlook for 2023

SCB EIC revises up the Thai economic growth forecast in 2023 to 3.9% from the back of tourism and private consumption recovery. Meanwhile, inflation should return to the target range following high yet declining energy prices in tandem with subsidies from the government.

Key forecasts

( ) Previous forecast — No change ▲ Revised upward from previous forecast ▼ Revised downward from previous

GDP
(%YOY)

2022	2023F
2.6	3.9 ▲ (3.4)

In 2023, Thailand's economic drivers will mainly stem from robust tourism and service recovery, which will continually boost labor market and consumption activities. Exports will continue to improve by 1.2% following better-than-anticipated global economic growth in tandem with recovering Chinese demand. Private investment should improve according to better business confidence. Meanwhile, headline inflation should return to the target range and stand at 2.7% following declining global energy prices. However, high household debt may continue to undermine consumption in the periods ahead. The general election in 2023 needs to be closely monitored as the playouts could impact government spending.

Policy rate (year-end)
(%)

2022	2023F
1.25	2.0 — (2.0)

The Monetary Policy Committee could hike the policy rate by 25 BPS per time for 2 times during the meeting in March and May, thus increasing Thailand's policy rate to the 2% range this year.

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

2022	2023F
34.6	32-33 ▲ (34.5-35.5)

Given robust Thai economic recovery, better investor sentiment, and the US Dollar depreciation after the Fed stopped hiking interests, the baht should appreciate in 2023, in which the baht should stand within the range of 32-33 THB/USD by 2023 year-end.

Source: SCB EIC analysis based on data from Office of the National Economics and Social Development Council, Office of Agricultural Economics, Fiscal Policy Office, Bank of Thailand, Ministry of Commerce, Tourism Authority of Thailand, CEIC, and Bloomberg

Thai economic outcook for 2023

Positive factors

- Chinese economic recovery faster and stronger than previously anticipated
- Private consumption continually recovering
- Lower global recession risks
- Thailand benefiting from the implementation of export control/ restriction measures in many countries
- The number of international arrivals visiting Thailand should hit 30 million
- Better labor market conditions following tourism and service recovery

Negative factors

- Merchandise exports should slow considerably following global economic and trade conditions
- Lower economic stimulus from the government during the new government formation period

Risk factors

- **Elevated geopolitical tensions,** including the Russia-Ukraine war, the China-Taiwan dispute, and the US-China economic decoupling with implications on the global supply chain and Thai exports
- Inflation increasing once again, with an impact on the cost of living and business costs
- The election and new government formation may affect government disbursement
- High household debt to GDP ratio and informal debt pressuring private consumption

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

Global economic outlook for 2023

SCB EIC revises up the global economic growth forecast in 2023 to 2.3% (from 1.8%). However, risks regarding stringent liquidity positions in some banks in US and European Union as well as US-China decoupling warrant monitoring.

Economic growth

- The global economy in 2023 should grow by 2.3%, better than previously estimated at 1.8%, following better-than-anticipated economic data and China's reopening. Thus, such growth will allow the global economy to avert entering a recession. However, the growth in 2023 should be lower compared to the growth in 2022 at 3.0%.
- Nevertheless, various risks warrant close monitoring, including liquidity positions in some banks in the US and the European Union that could trigger risks in the global financial system and the US-China decoupling that may impair global economic and trade recovery.

Inflation rate

- Global inflation should continue to hover above the central banks' target range throughout 2023. Headline inflation should slow following lower energy prices, though core inflation should continue to remain high with a slow decline following strong employment conditions.
- Central banks' should continue to increase interests for a prolonged period. However, the hike will be considerably lower than in 2022, causing financial conditions to not tighten by much.

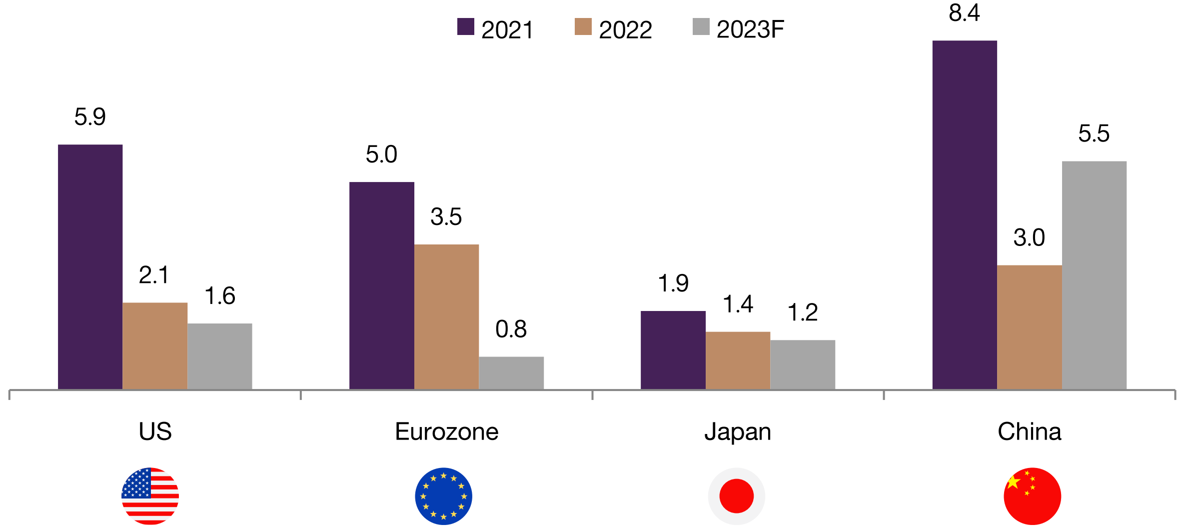
Monetary policy direction

- Fed – will likely raise Fed fund rate once in May, thus increasing the terminal rate to the 5.0-5.25% range.
- ECB – will likely make 2 rate hikes of 0.25% per time in May and June. Thus, the terminal rate should stand at 3.5%.
- PBoC – likely to continue its accommodative stance in 2023 to stimulate the economy and the sluggish real estate sector amidst inflation that remains at target level.
- BOJ – may make further adjustments to the YCC policy after the inauguration of the new governor in April, with more control over short-term yields anticipated.

Source: SCB EIC analysis.

Global economic growth in 2021 2022 and 2023

Unit: %YOY



Supporting factors

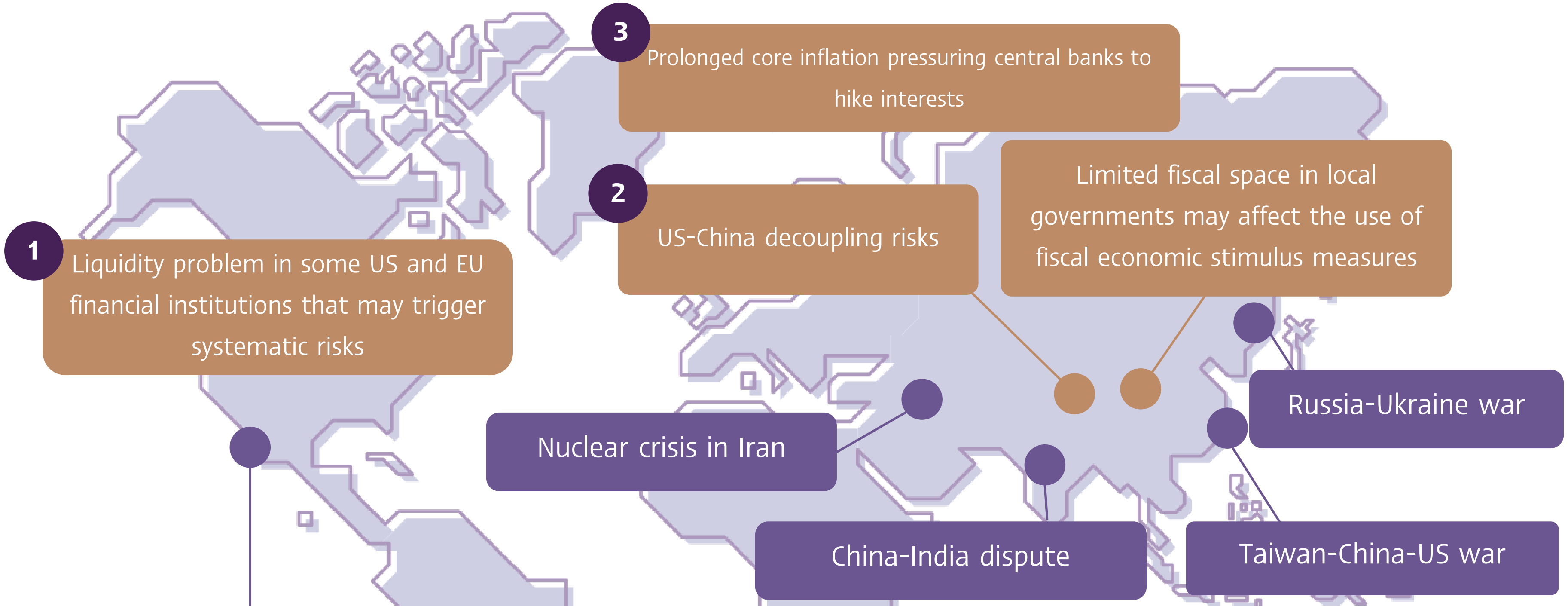
- Better-than-anticipated global economic activities
- Lower recession risks in major economies
- China reopening faster-than-anticipated
- Headline inflation should soften according to energy and food prices

Risk factors

- liquidity problem in some US and EU financial institutions may trigger systematic risk
- US-China decoupling risks
- Prolonged core inflation pressuring central banks to continue to raise interests
- Global trade should slow

Source: SCB EIC analysis.

Global economic risk map for 2023



2023 Global economic risk categories

- Politics & Geopolitics
- Economy & Finance
- War & Military
- Societal

Note

1 2 3 are 3 major risks to the world's economy with high probability and high impact within 2023

US-China tensions likely continues over technology and capital market races, and possibly expands to national security issues

Worsening food supply crisis from climate change and drought

The development of Central Bank Digital Currencies in many countries might distort global financial stability

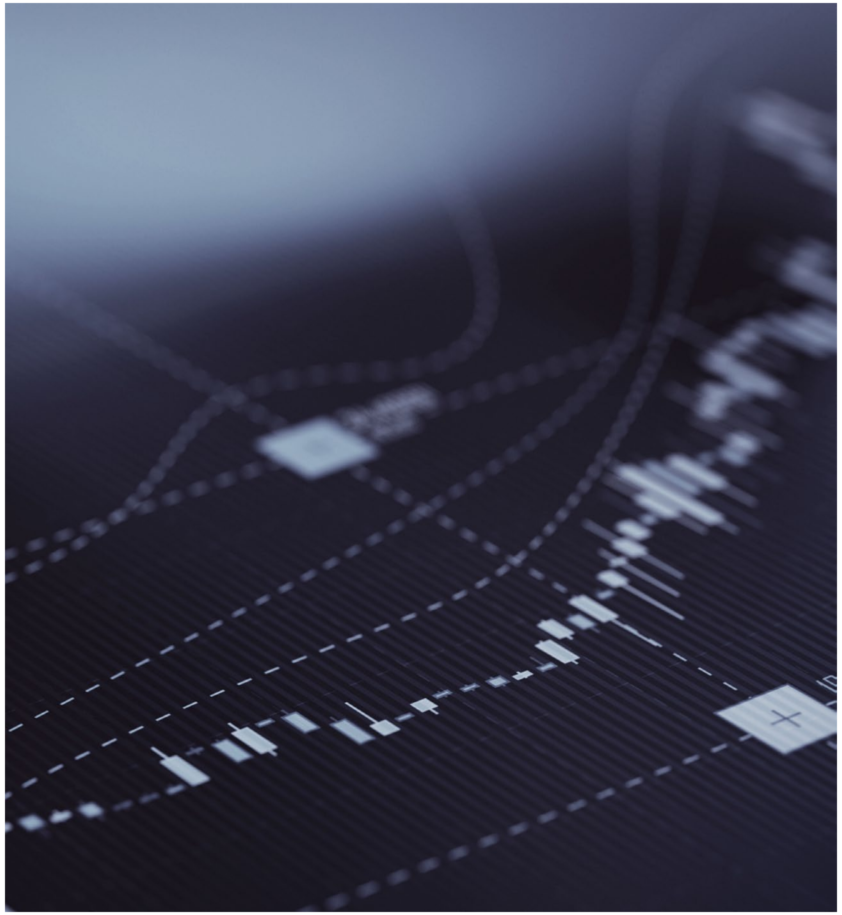
Non-tariff barriers increased considerably since 2020, impeding future cross-border trade and global supply chains

Source: SCB EIC analysis.

Major events for the Global economy in 2023

Watch list

Apr 9	The official appointment of new BOJ Governor	Official inauguration of the new governor of the Bank of Japan
Apr 27-18	BOJ meeting with Outlook Report	Bank of Japan (BOJ) holds a monetary policy meeting and releases Japanese economic growth forecast
May 4	ECB meeting with Macroeconomic projections	European Central Bank (ECB) holds a monetary policy meeting and releases Eurozone economic growth forecast
May 11	BOE meeting with Monetary Policy Report	Bank of England (BOE) holds a monetary policy meeting with the release of England's monetary policy report
Jun	BIS Quarterly Review	The Bank of International Settlements (BIS) issues performance reviews of the global banking system and financial markets
Jun 13-14	FOMC meeting with Macroeconomic projections	US Federal Reserve (Fed) holds a monetary policy meeting and releases US economic growth forecast



Source: Data from Federal Reserve Bank (Fed), European Central Bank (ECB), Bank of Japan (BOJ), and Bank of International Settlements (BIS).

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Major events for the Global economy in 2023

Watch list

Jun 15	**BOE meeting with Monetary Policy Report**	Bank of England (BOE) holds a monetary policy meeting with the release of England's monetary policy report
Jul 27	**ECB meeting with Macroeconomic projections**	European Central Bank (ECB) holds a monetary policy meeting and releases Eurozone economic growth forecast
27-28	**BOJ meeting with Outlook Report**	Bank of Japan (BOJ) holds a monetary policy meeting and releases Japanese economic growth forecast
Aug 3	**BOE meeting with Monetary Policy Report**	Bank of England (BOE) holds a monetary policy meeting with the release of England's monetary policy report
Sep	**BIS Quarterly Review**	The Bank of International Settlements (BIS) issues performance reviews of the global banking system and financial markets
Sep 14	**ECB meeting with Macroeconomic projections**	European Central Bank (ECB) holds a monetary policy meeting and releases Eurozone economic growth forecast

Source: Data from Federal Reserve Bank (Fed), European Central Bank (ECB), Bank of Japan (BOJ), and Bank of International Settlements (BIS).

Major events for the Global economy in 2023

Watch list

Sep 19-20	FOMC meeting with Macroeconomic projections	US Federal Reserve (Fed) holds a monetary policy meeting and releases US economic growth forecast
Oct 26	ECB meeting with Macroeconomic projections	European Central Bank (ECB) holds a monetary policy meeting and releases Eurozone economic growth forecast
Oct 30-31	BOJ meeting with Outlook Report	Bank of Japan (BOJ) holds a monetary policy meeting and releases Japanese economic growth forecast
Nov 2	BOE meeting with Monetary Policy Report	Bank of England (BOE) holds a monetary policy meeting with the release of England's monetary policy report
Dec	BIS Quarterly Review	The Bank of International Settlements (BIS) issues performance reviews of the global banking system and financial markets
Dec 12-13	FOMC meeting with Macroeconomic projections	US Federal Reserve (Fed) holds a monetary policy meeting and releases US economic growth forecast

Source: Data from Federal Reserve Bank (Fed), European Central Bank (ECB), Bank of Japan (BOJ), and Bank of International Settlements (BIS).

Major events for the Global economy in 2023

Watch list

Dec 14	ECB meeting with Macroeconomic projections	European Central Bank (ECB) holds a monetary policy meeting and releases Eurozone economic growth forecast

Key theme for Global economy in 2023

Less gloomy outlook	Higher for longer	Upside from China reopening	Emerging financial risks	US-China decoupling

Source: Data from Federal Reserve Bank (Fed), European Central Bank (ECB), Bank of Japan (BOJ), and Bank of International Settlements (BIS).

Global economic outlook 2023

3 Themes for global economy in 2023

Less gloomy outlook

2023 Global economy is expected to grow stronger than previously expected with lower risks of recession. Risks to be monitored including US-China Decoupling with potential impacts to a recovery in global economy, trade and supply chain, and Financial turmoil in the US and EU, which can escalate to be risk to global financial system.

Higher for longer

Central Banks likely raise policy rates higher for longer period. Although headline inflation is expected to slow down due to falling energy and food prices, core inflation remains elevated and stays longer than expected due to strong employment. However, the size of policy rate hikes will be much smaller than last year, causing global financial conditions tightening only slightly.

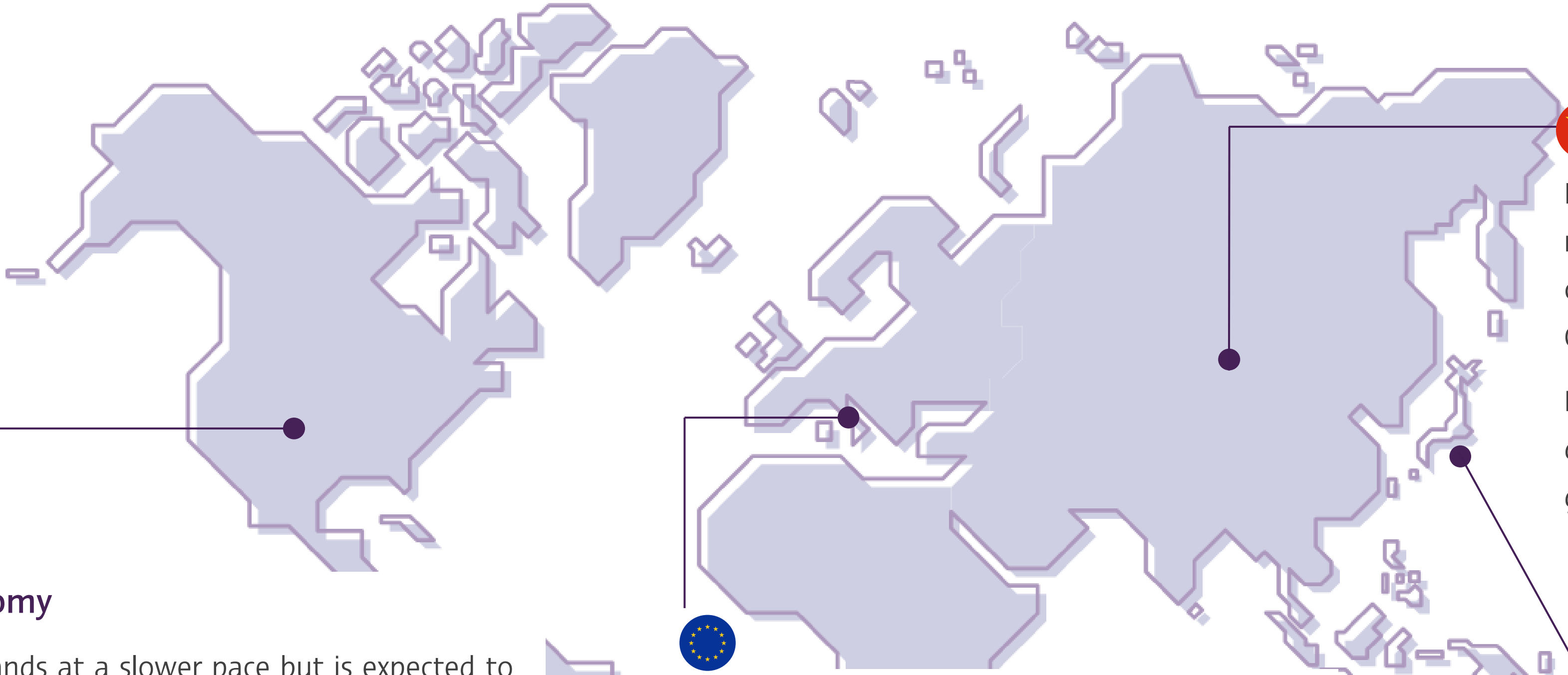
The impact of China reopening

China's earlier reopening is expected to have significant impacts on the global economy through 3 channels: (1) an increase in the number of Chinese tourists, (2) a boost in global trade as a result of demand recovery in China, and (3) a longer period of high global inflation due to rising demand from China.

Less gloomy outlook

The global economy in 2023 is expected to grow stronger than previously expected with lower risk of recession. Risks to be monitored including US-China Decoupling, as well as liquidity problem of some banks in the US and EU amid rising interest rate direction.

Less Gloomy, More Tightening, with Upside from China Reopening



Chinese economy

Is expected to expand 5.5%, driven mainly by a rebound in private consumption after the end of Zero-COVID Policy.

However, export sector is slowing down and fiscal space of local governments is limited.

US economy

Likely expands at a slower pace but is expected to avoid recession. However, the risk of financial crisis stemming from liquidity in some banks is still low but needs to be closely monitored.

Inflation is still persistently high and decreasing slowly, leading to a higher-than-expected Fed's terminal rate.

EU economy

Tend to escape recession due to a significant progress in reducing dependency on Russian energy.

Core inflation tend to be sticky than previously anticipated. ECB is expected to raise policy rates until June to a higher level than previously forecasted.

Japanese economy

Is expected to expand at a slower rate from last year due to a slowdown in manufacturing and export sectors, wages will somewhat help support private consumption.

BOJ is expected to adjust YCC further after the new governor takes the office.

SCB EIC revised up global economic growth forecast in 2023 better-than-anticipated economic activities and China's earlier reopening, but risks remain tilted to the downside from US and EU financial turmoil and US-China Decoupling.

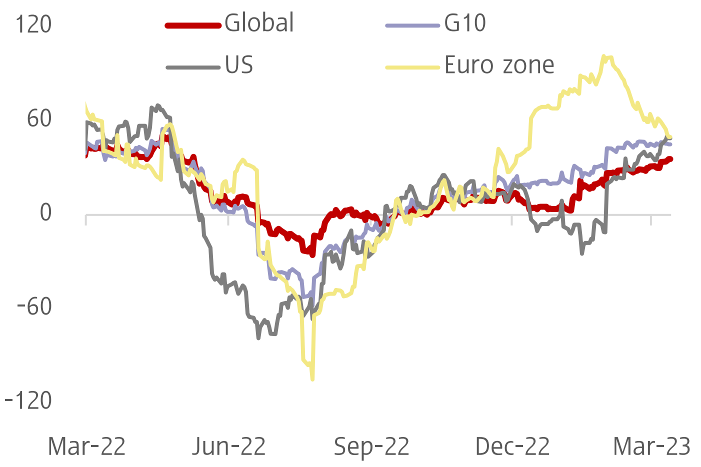
Global economic growth forecast by SCB EIC

Unit: %YOY

GDP growth (%YOY)	2021	2022	2023 Prev.	2023 latest
World	5.8%	3.0%	1.8%	2.3% ↑
US	5.5%	2.1%	1.0%	1.6% ↑
Euro	5.0%	3.5%	-0.1%	0.8% ↑
UK	7.5%	4.0%	-1.0%	-0.6% ↑
Japan	1.9%	1.4%	1.4%	1.2% ↓
China	7.8%	3.0%	4.3%	5.5% ↑
India	8.8%	7.1%	5.6%	6.0% ↑
Brazil	4.7%	1.9%	1.0%	1.2% ↑
South Korea	4.0%	2.5%	2.0%	1.6% ↓
Malaysia	3.0%	8.7%	4.0%	3.9% ↓
Global Inflation	3.7%	7.0%	4.7%	4.5% ↓

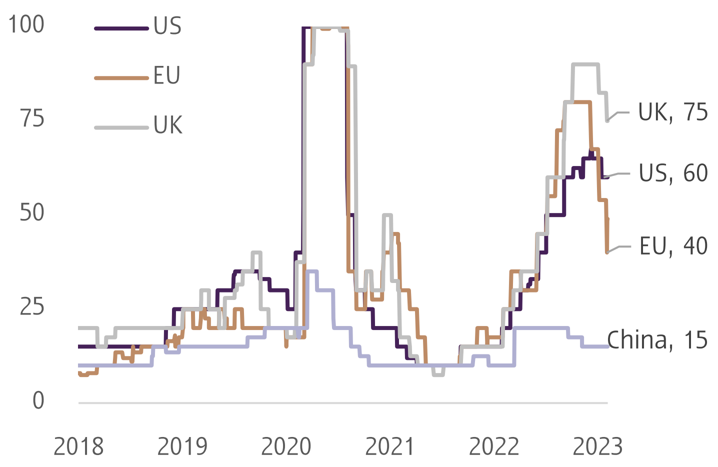
Citi Group Economic Surprise Index

Unit: Index > 0 Actual economic indicators better than forecasts



Probability of recession in the next 12 months

Unit: %, data as of March 16, 2023



Positive factors

- Global economic activity were better than expected.
- Recession risk in major economies subsided.
- Early China Reopening.
- Headline inflations is expected to slow down, following lower energy.

Risk factors

- Financial turmoil in US and EU banking sector pose a potential risk to global financial system.
- US-China Decoupling.
- Prolonged core inflation pressuring Central Banks to hike policy rates further.
- Global trade is projected to slow down.

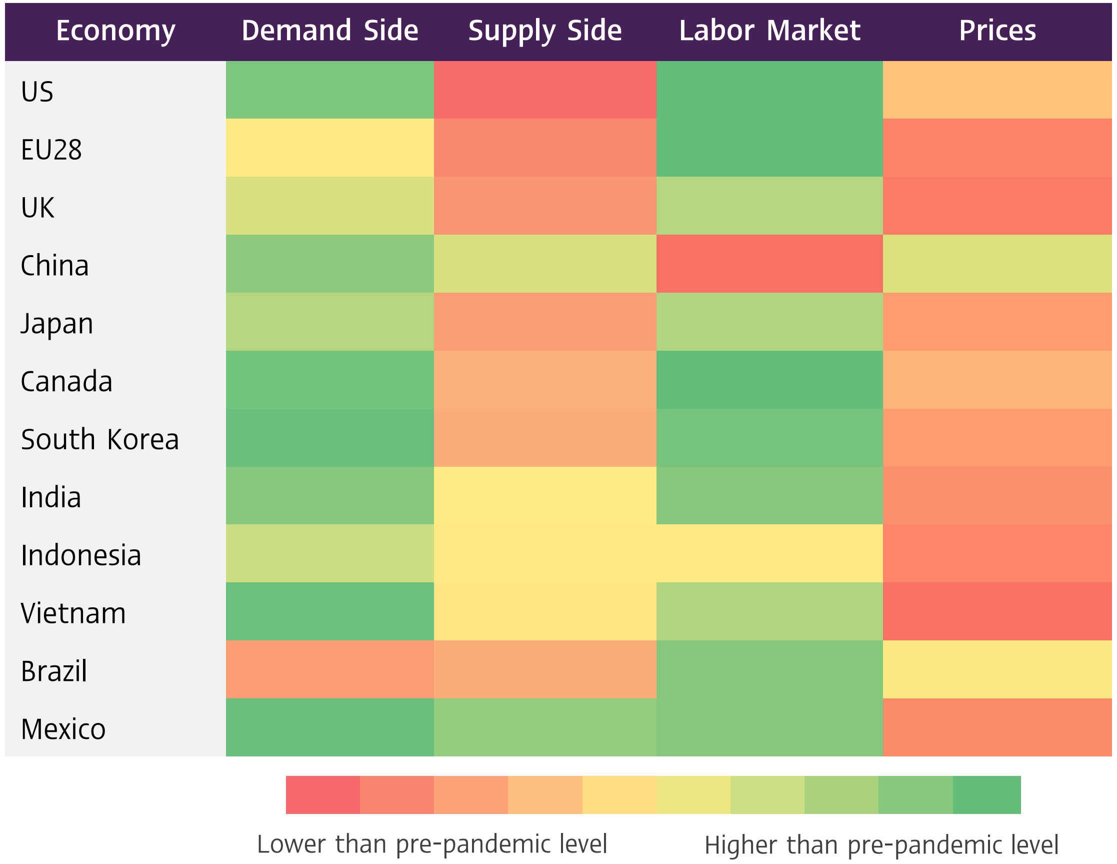
Source: SCB EIC analysis based on data from CEIC and Bloomberg.

Global economic growth regains its recovery momentum, despite remaining fragile.

Economic activity has passed the lowest point and is expected to recover going forward.

Global economic pulse* is reviving.

Unit: Index, Pre-pandemic = 100, data as of Jan – Feb 23



Global Purchasing Managers Index indicated that economic activities have bottomed out.

Unit: Index >50 = improvement, Seasonally adjusted

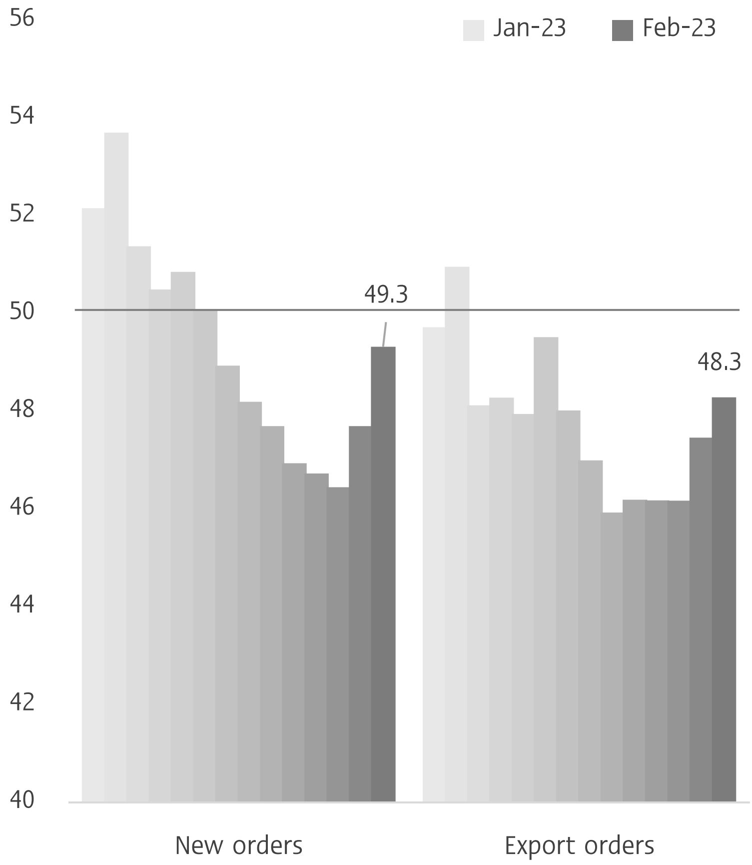
Indicators	Mar-22	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan-23	Feb
Composite PMI	52.7	51.2	51.3	53.5	50.8	49.3	49.6	49.0	48.0	48.2	49.1	52.1
Manufacturing PMI	52.9	52.3	52.3	52.2	51.1	50.3	49.8	49.4	48.8	48.7	49.1	50.0
Delivery times	38.7	35.8	38.8	42.2	42.8	44.8	45.7	46.5	47.3	47.8	49.0	50.9
Output	51.0	48.7	49.6	52.4	50.1	49.4	48.7	48.7	47.8	48.5	48.9	50.8
Backlogs of work	52.7	52.8	52.7	50.0	49.5	49.3	49.0	47.4	46.8	46.9	47.6	48.1
Future output	62.5	61.8	60.7	59.2	58.7	60.1	57.9	56.7	57.9	60.0	62.3	62.8
Service PMI	53.4	52.2	51.9	53.8	51.0	49.2	50.0	49.2	48.1	48.1	50.1	52.6
Business activity	53.4	52.2	51.9	53.8	51.0	49.2	50.0	49.2	48.1	48.1	50.0	52.6
New business	54.6	52.3	53.0	51.9	52.0	50.3	50.5	49.9	48.2	48.2	50.6	52.0

Note: *Color shading in each country considered from economic indicators, consisting of private consumption, retail sales, manufacturing activities, unemployment rates, employment rates and consumer price index.
Source: SCB EIC analysis based on data from CEIC and Moody's.

Global demand is expected to grow at a slower pace in line with the global economic outlook. However, a strong labor market will somewhat help support consumption growth going forward.

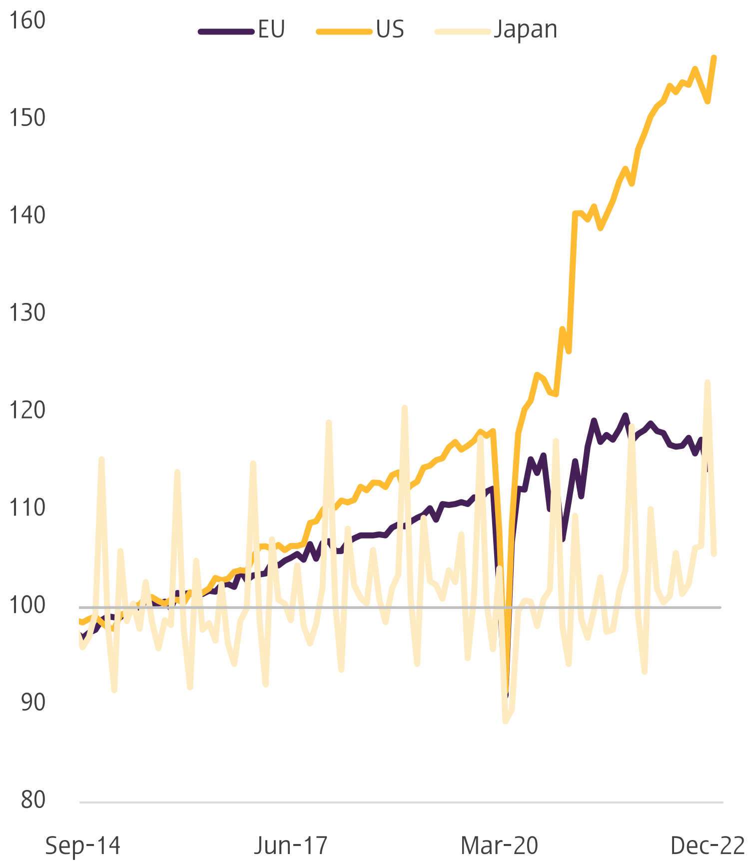
Manufacturing Purchasing Managers' Index

Unit: Index >50 = seasonally adjusted



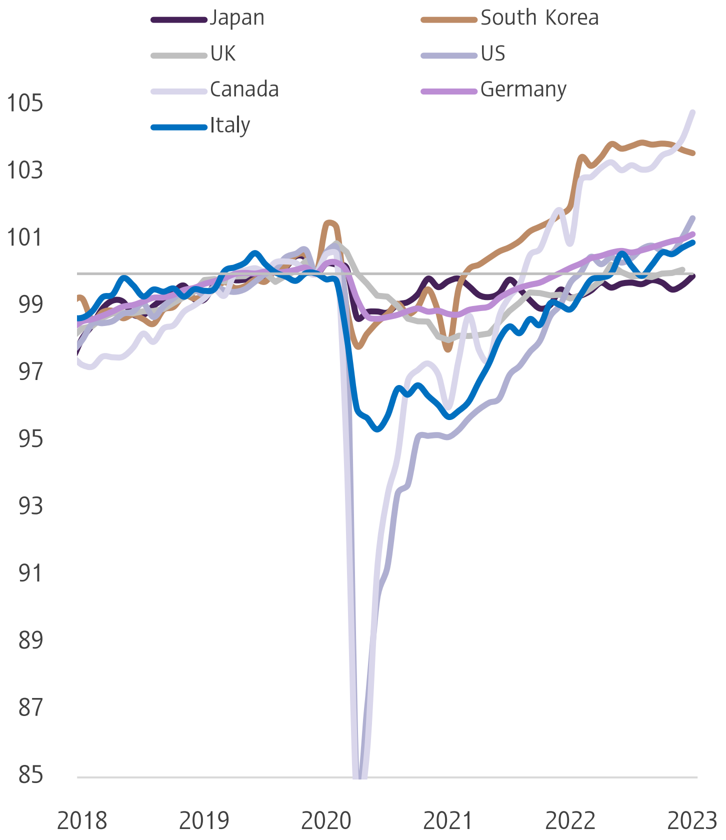
G3 Retail Sales Index

Unit: Index, 2015 =100, seasonally adjusted



Employed Persons Index reflecting strong labor market

Unit: Index, 2019 =100, seasonally adjusted

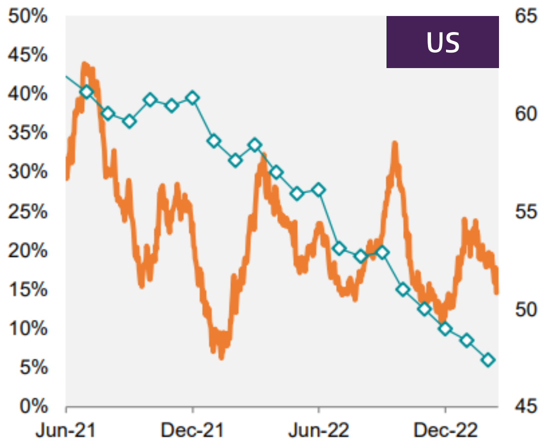


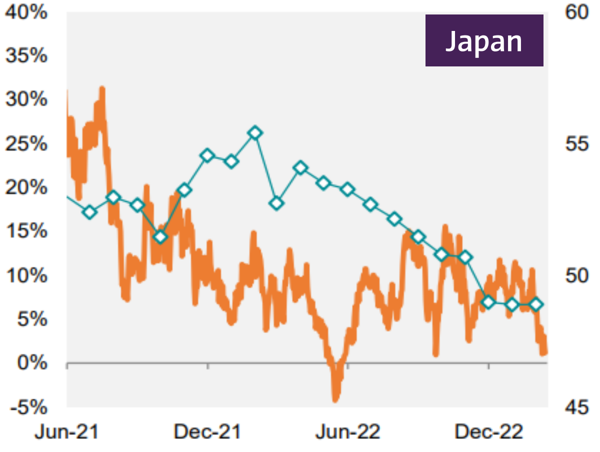
Source: SCB EIC analysis based on data from CEIC.

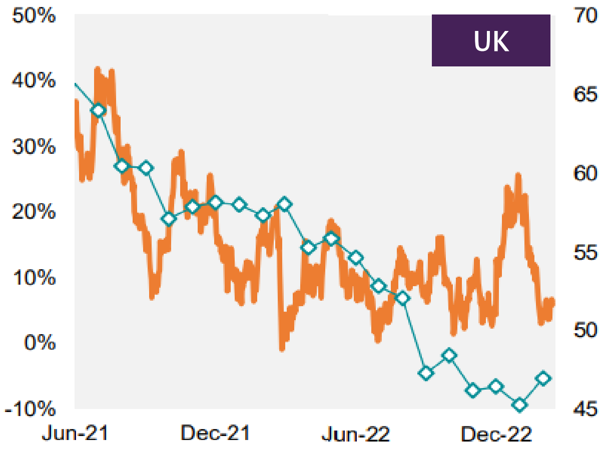
Consumers shift towards spending more on services rather than goods. However, Chinese demand will be additional supports following its economic reopening.

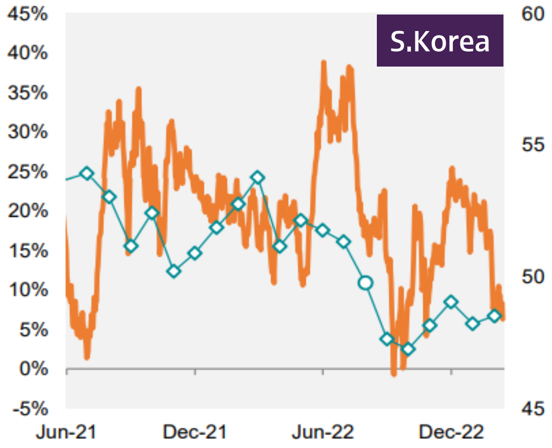
QuantCube International Trade Index

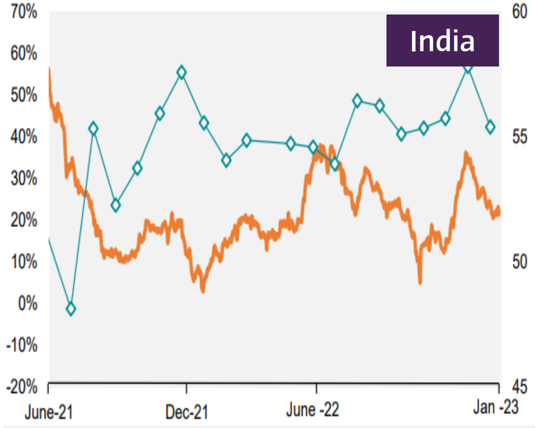
Unit: %YOY (Daily, Index Jul 6, 2012 = 100) latest data as of Feb 12, 2023 — QuantCube International Trade Index — Manufacturing PMI (RHS) — Unit: Index >50 = Improvement, seasonally adjusted

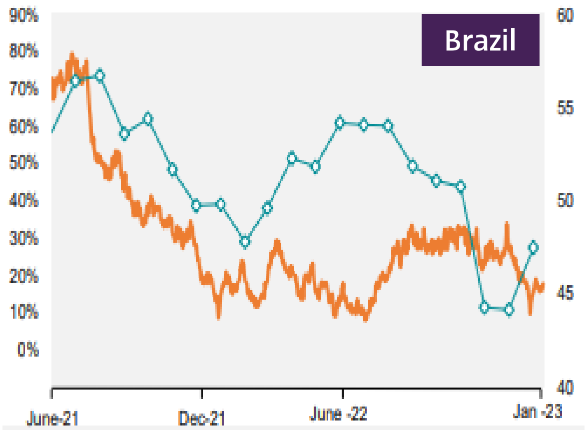


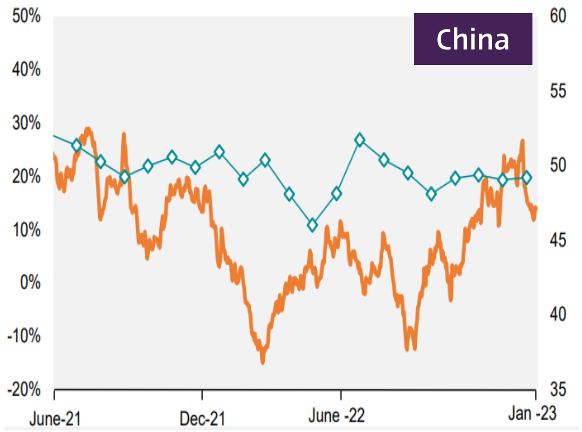












- **WTO projected global trade volume to grow 1.0% in 2023,** decelerating from 3.5% in 2022.
- **International trade index indicated that global trade has been weakening** and not yet seen a clear sign of recovery.
- **China's international trade is recovering** although there was a slight slowdown at the beginning of the year as business sector took a long holiday during the Chinese New Year festival.

Source: SCB EIC analysis based on data from Moody's.

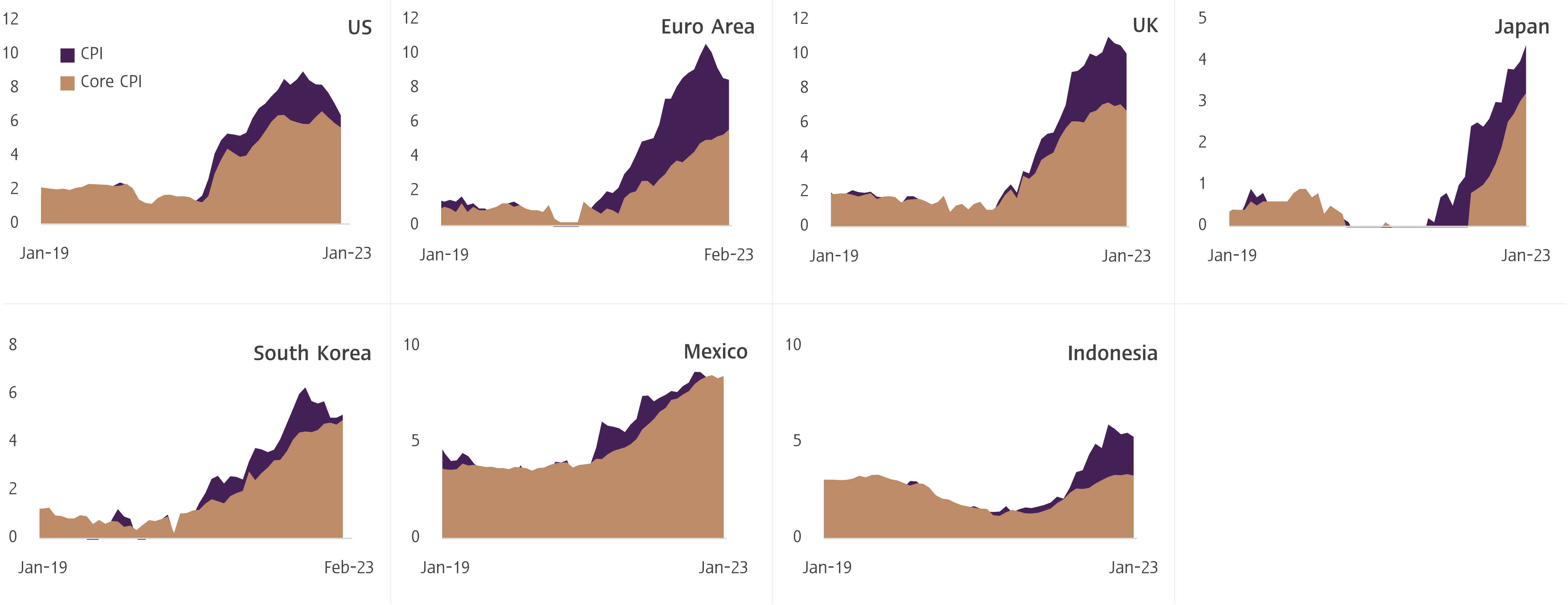
Higher for longer

Central Banks likely raise policy rates higher for longer period than anticipated. Although headline inflation is expected to slow down this year, core inflation tend to be more sticky. However, the size of policy rate hikes will be much smaller than last year, causing global financial conditions tightening only slightly.

Although headline and core inflation continue to slow down, but core inflation in EU and Japan have not reached .

Headline and Core inflation

Unit: %YOY

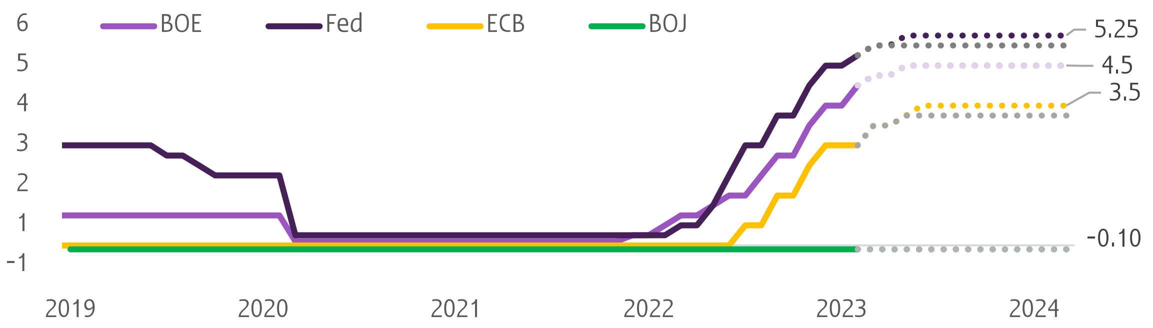


Source: SCB EIC analysis based on data from CEIC.

Thus, Central Banks likely raise policy rates higher for longer period than anticipated, but the size of rate hikes will be much smaller than last year, causing global financial conditions tightening only slightly.

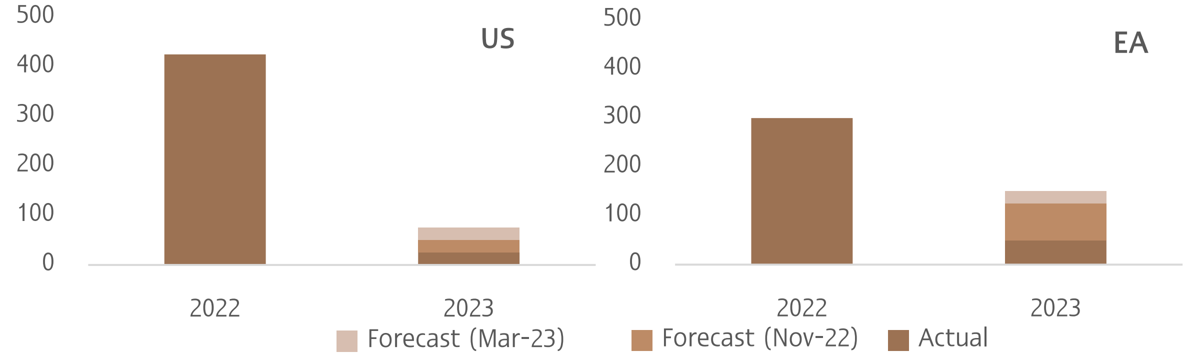
Major Central Banks policy rate forecast*

Unit: %



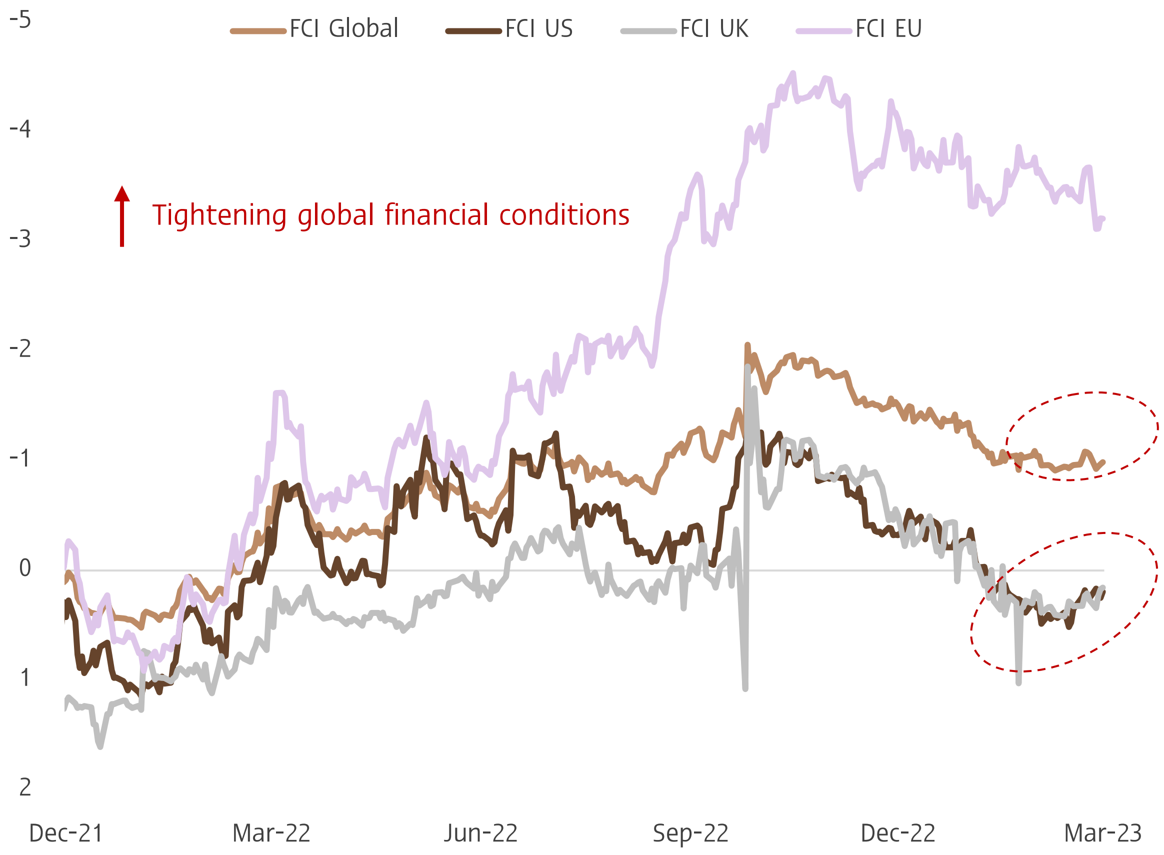
The size of Fed and ECB policy rate hikes tend to be smaller than last year.

Unit: Basis point



Global financial conditions

Unit: Index



Note: *Grey lines are forecasts as of Nov 2022. Dotted lines are the latest forecasts of each Central Bank as of Mar 2023.

Source: SCB EIC analysis based on data from CEIC and Bloomberg.

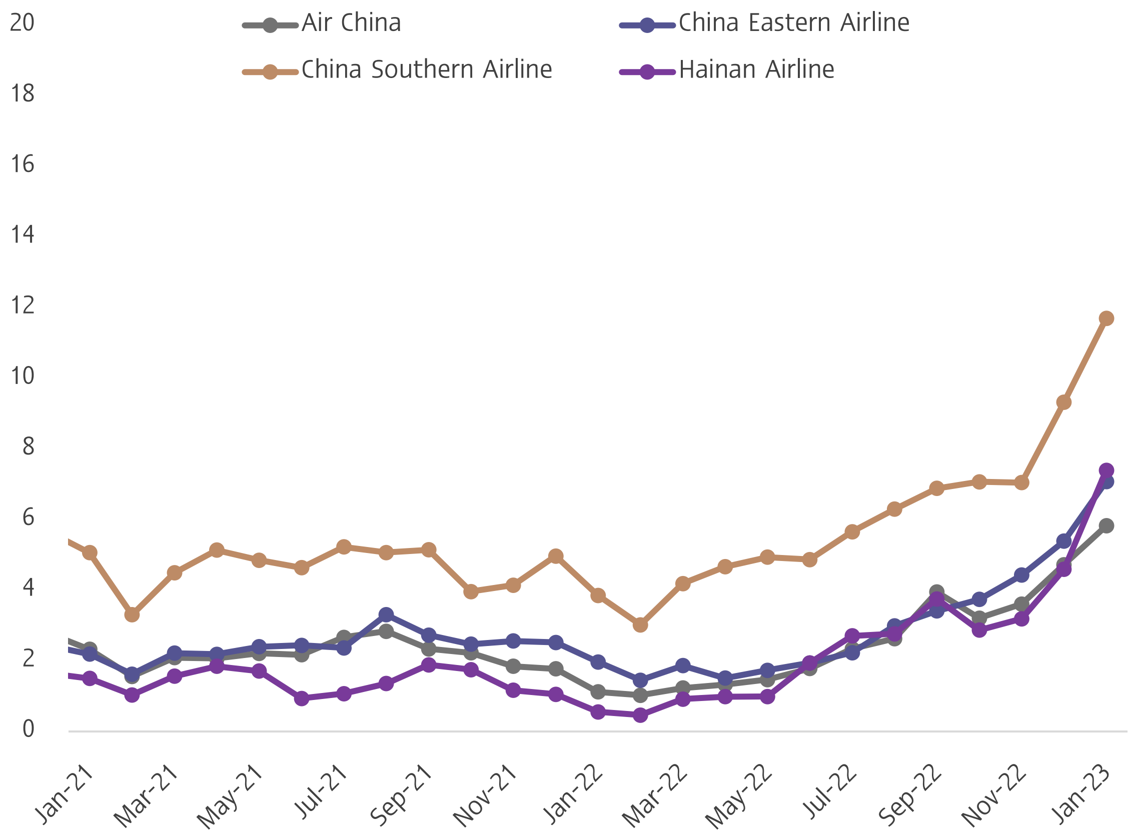
The impact of China reopening

China's earlier reopening is expected to have significant impacts on the global economy through 3 channels: (1) a rapid growth of Chinese tourists, (2) a additional boost in global trade as a result of demand recovery in China, and (3) a longer period of high global inflation due to rising.

An increase in Chinese tourists will be accelerating following the end of Zero-COVID Policy, with Asia ranks the top destination.

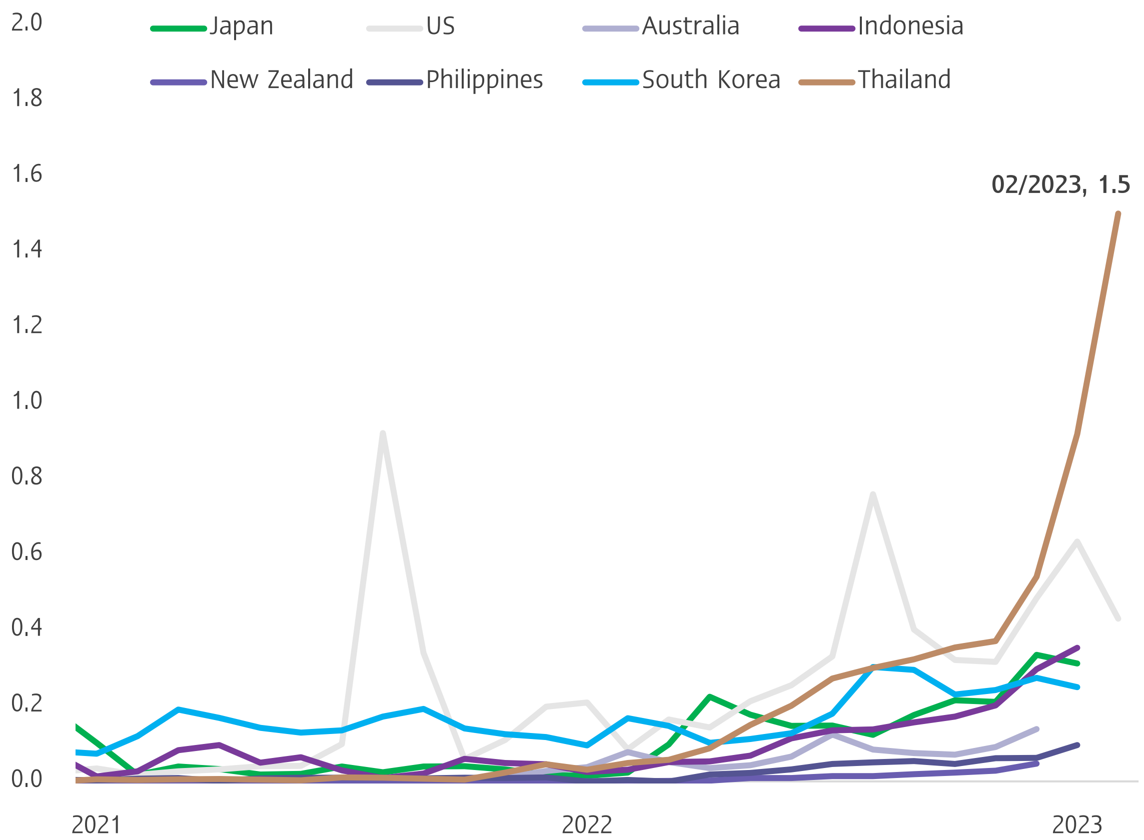
Air Passenger Traffic (Revenue Passenger Kilometers: RPK*) (by Airline)

Unit: Index, 2019=100



The number of Chinese tourists traveling to each country

Unit: Hundred thousand



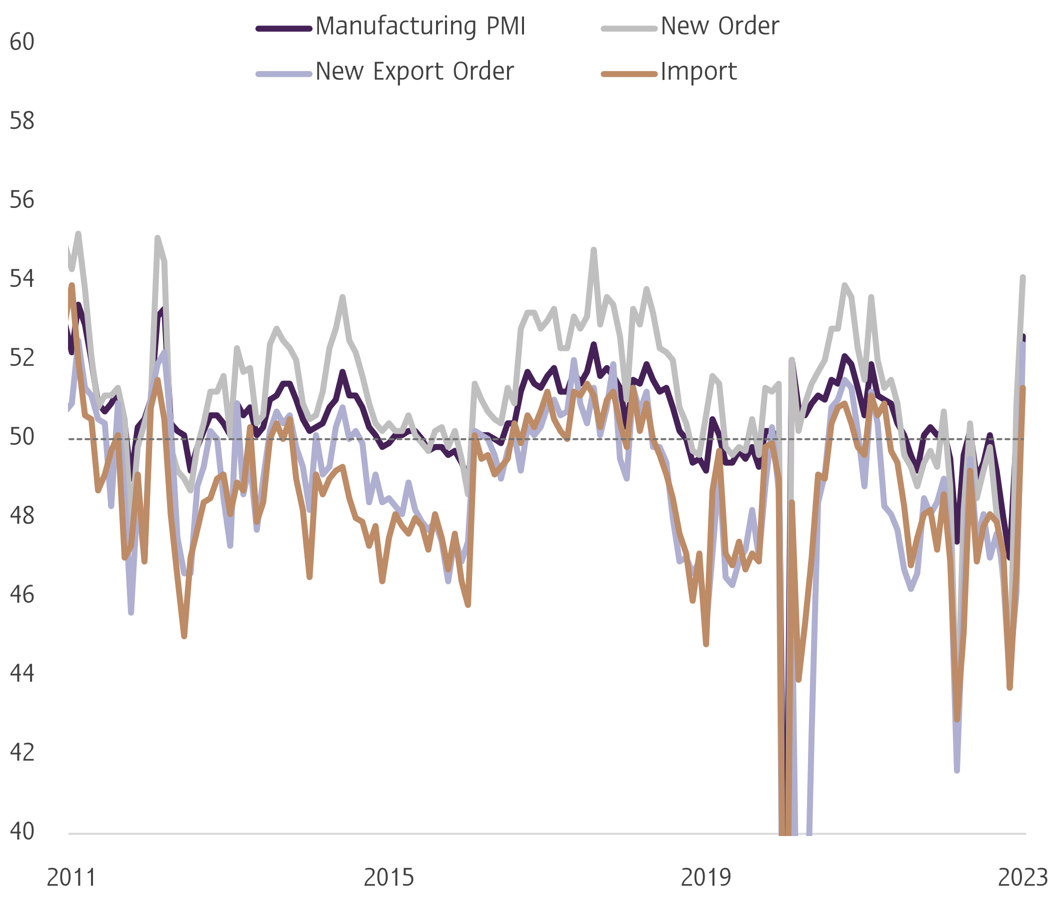
Note: RPK measures the air traffic of all Airlines multiply by the distance travelled in kilometers. An increase in RPK reflects a higher.

Source: SCB EIC analysis based on data from CEIC and Thai AirAsia.

A demand recovery in China will give additional boost to global merchandise, especially for Emerging Markets in Asia. But the effects should take some time to be notably evident.

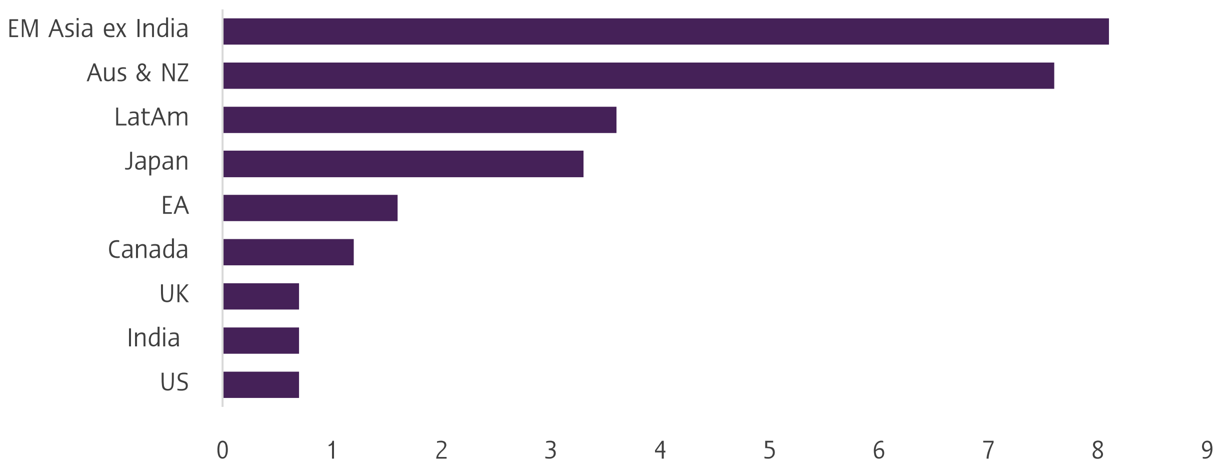
China's Manufacturing Purchasing Managers' Index

Unit: Index > 50 = improvement



Exports to China

Unit: % country GDP in 2021



Benefits in goods trade

- **China's manufacturing sector started to recover,** with Manufacturing PMI in February breaking record at 52.6 in 10 years.
- **Chinese demand is on a rising trend,** reflecting from new orders, new export orders, and China's imports returned to expansion first time in more than half a year.
- **Emerging Markets in Asia tend to benefit the most** from the recovery of Chinese imports as the proportion of exports to China is as high as 8% of GDP.
- **The benefit to US and UK is expected to be small** because the exports to China is less than 1% of GDP.

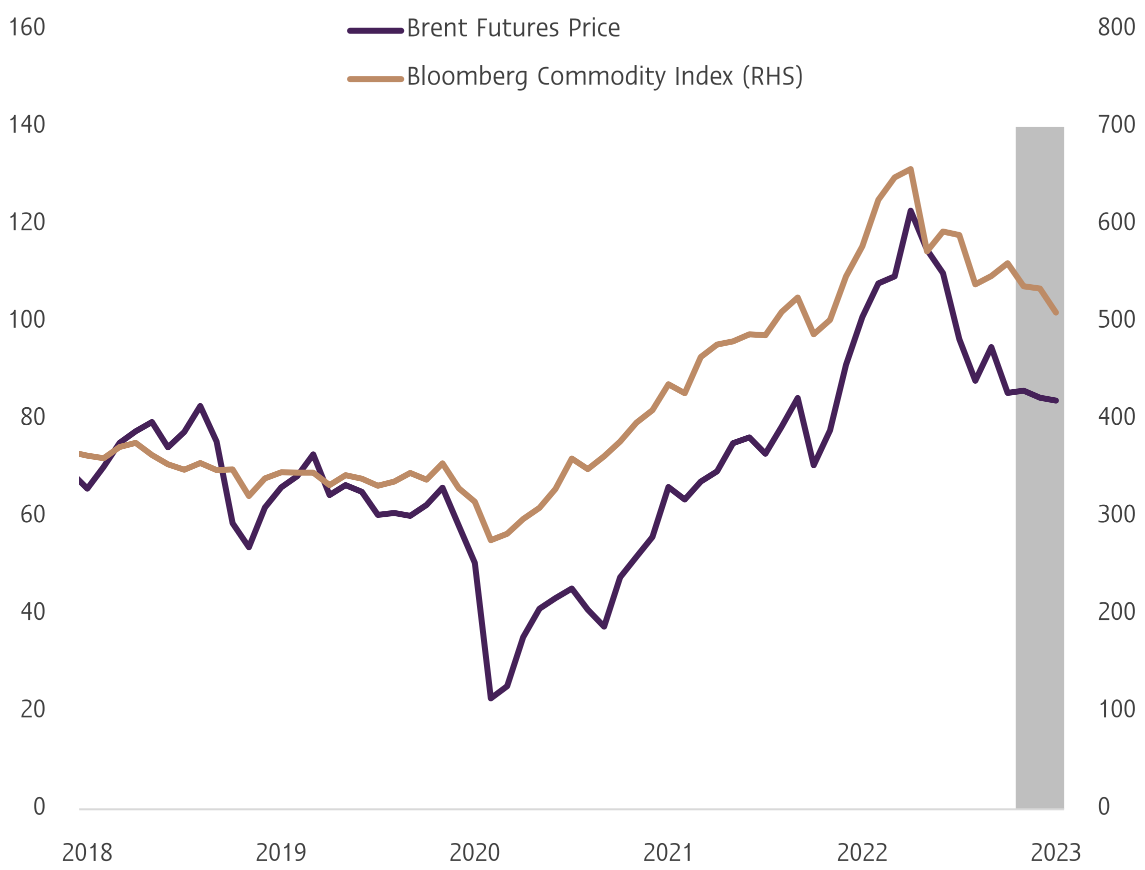
Source: SCB EIC analysis based on data from Bloomberg and CEIC.

Global inflation may be more sluggish as it face more upward pressure due to accelerating commodity prices driven by Chinese demand. However, the gradual improvement in supply bottlenecks in China would ease price pressure to some extent.

Commodity Price Index

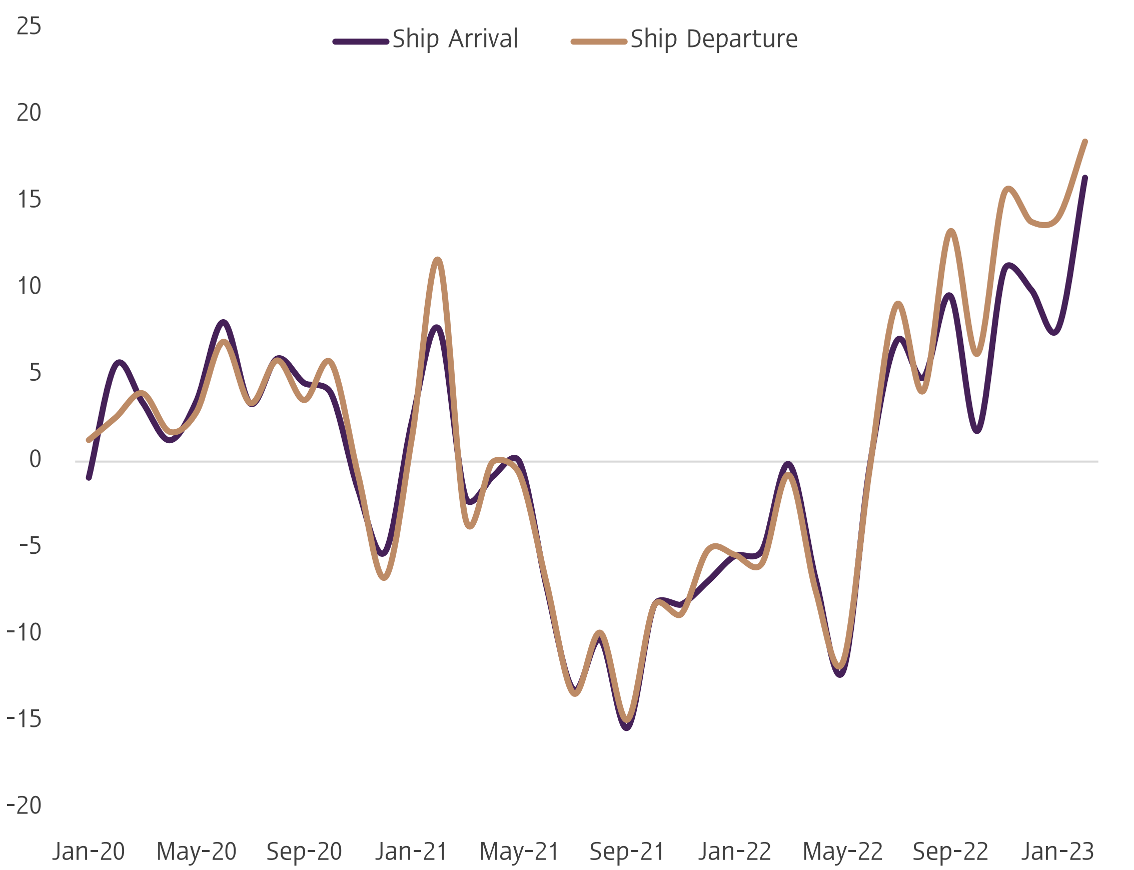
Unit: Index

Unit: Index



Container Ship traffic at 20 China's major ports

Unit: %YOY



Source: SCB EIC analysis based on data from Bloomberg and CEIC.

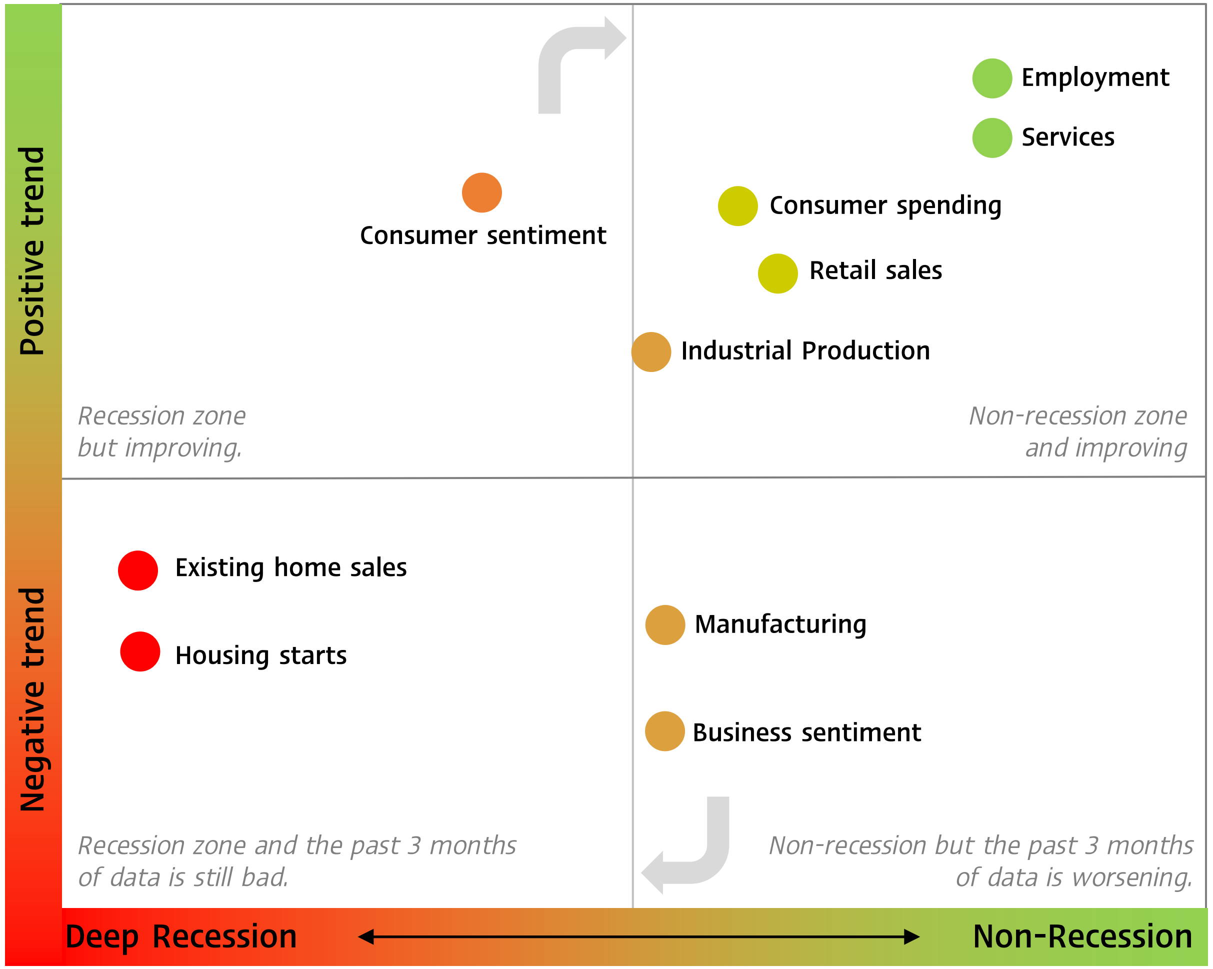
US economy

U.S. economic expansion is slowing down, but nevertheless is expected to be able to avoid a recession.

Inflation continues to rise and shows slow declines, resulting in a higher than forecasted terminal federal funds rate.

The US economy is growing more than previously estimated, and is expected to avoid a recession owing to support from the labor market and consumption.

U.S. Economic indicators

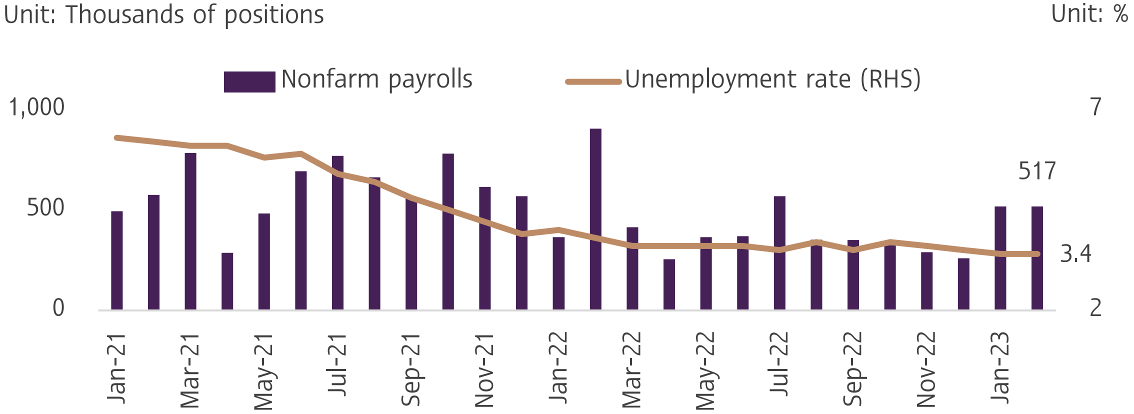


- **Overall, U.S. economic indicators remain strong especially in the services sector.** A tight labor market and rising wage growth, is helping to sustain purchasing power and consumer spending.
- **The U.S. economy is showing signs of slower growth over the second half of the year,** but will be able to avoid a recession given that:
  1. **The labor market remains strong:** Businesses are more likely to limit recruitment and decrease work hours, rather than lay off employees, as there is the risk that they may not be able to find new employees should the economy improve. As a result, this will not heavily impact employment.
  2. **Consumer spending is able to grow:** This is because real income is expected to return to positive levels as a result of slower inflation, a better labor market, higher income on interest, and greater support in the form of social security payments.
  3. **There is an increase in the supply of goods following China's reopening of its borders:** This has enabled the U.S. manufacturing sector to resume its growth, as U.S. exports to China account for 10% of its total exports.

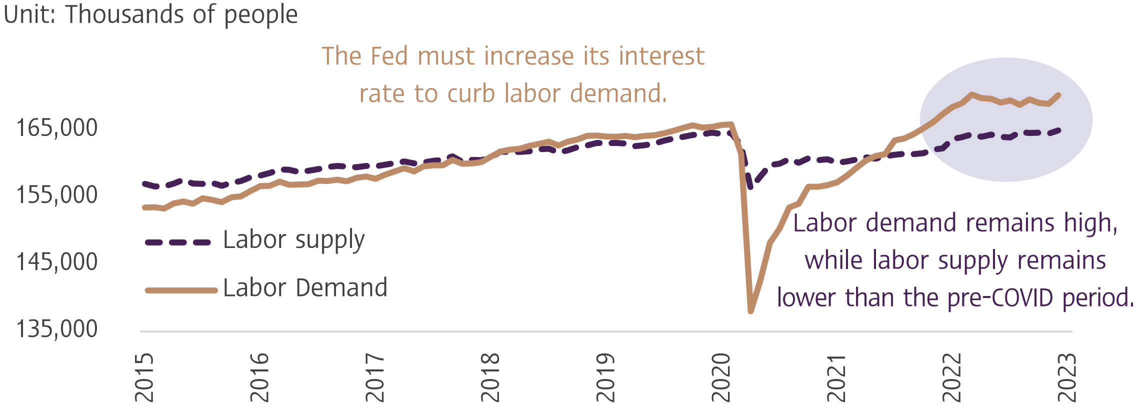
Note: The recession zone is determined based on the average value of each indicator in the past recessions.
Source: SCB EIC analysis based on data from Bloomberg.

The US labor market remains strong. Labor demand also remains high, while labor supply is lower than the pre-COVID level, creating pressure on wage growth and inflation.

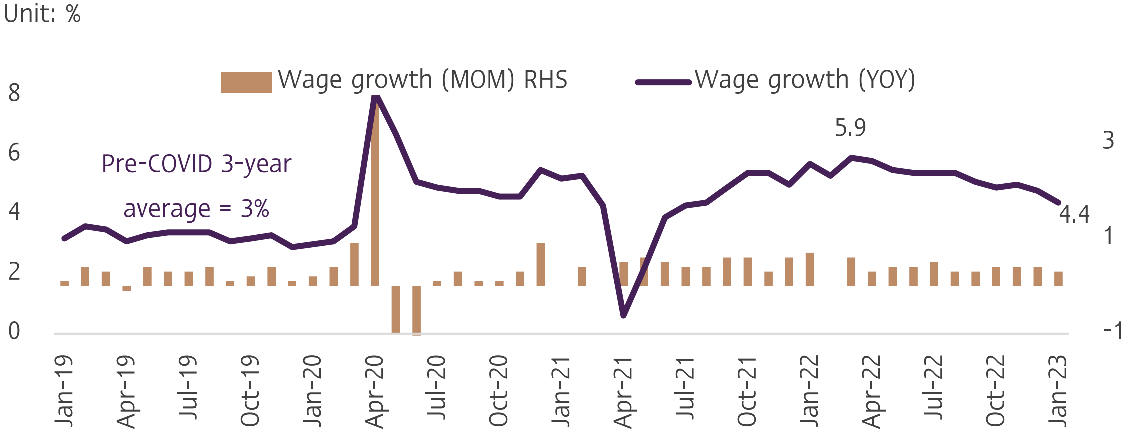
Nonfarm employment and unemployment rate



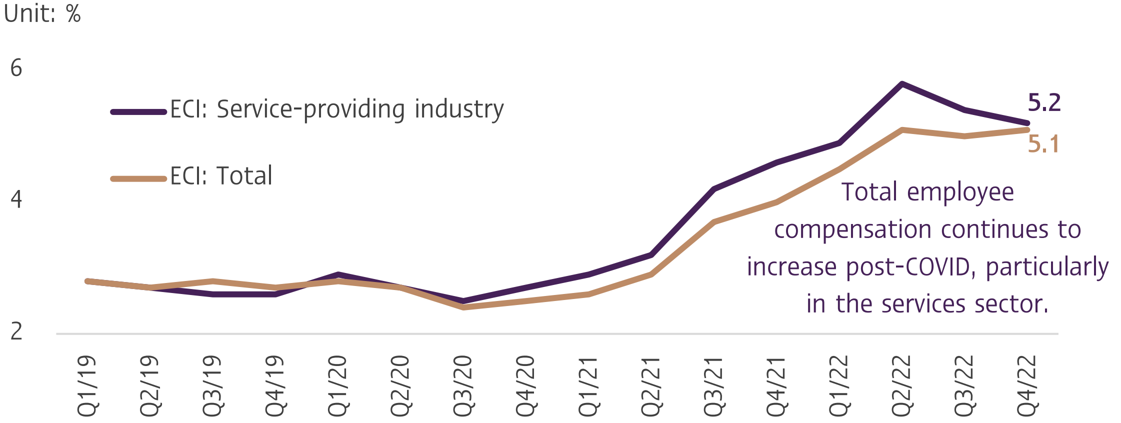
Labor supply and demand



Wage growth



The Employment Cost Index (ECI)

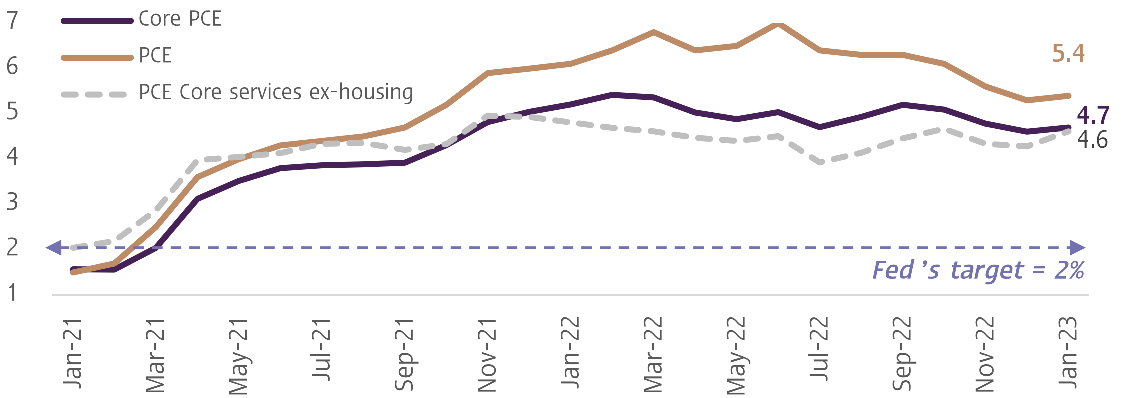


Source: SCB EIC analysis based on data from Bloomberg and the United States Department of Labor.

U.S. inflation is still high and tends to decline slowly, resulting in a higher than expected terminal rate. SCB EIC expects that the Fed will increase its terminal rate to 5-5.25% and enter the restrictive zone in the second quarter.

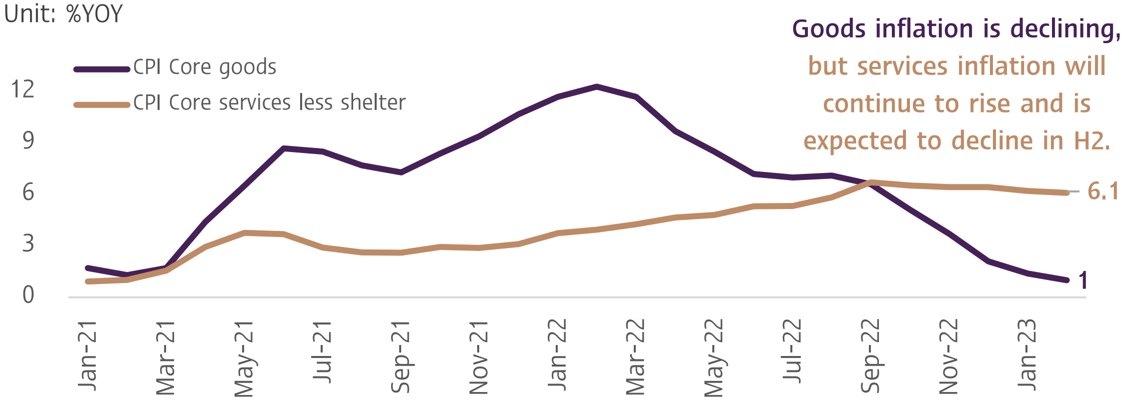
The Fed's inflation indicator: Personal Consumption Expenditures Price Index (PCE)

Unit: %YOY



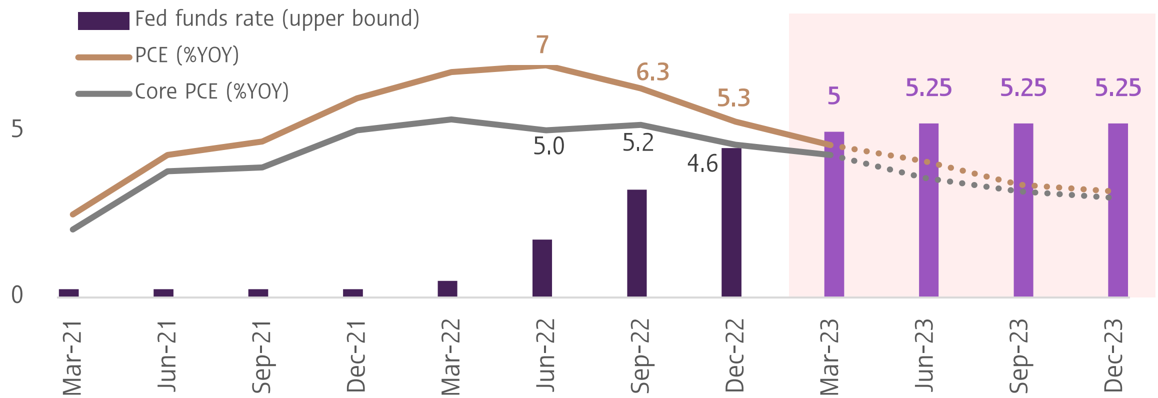
Consumer Price Index (CPI), by core goods and services

Unit: %YOY



The Fed funds rate will enter the restrictive zone in the second quarter

Unit: %



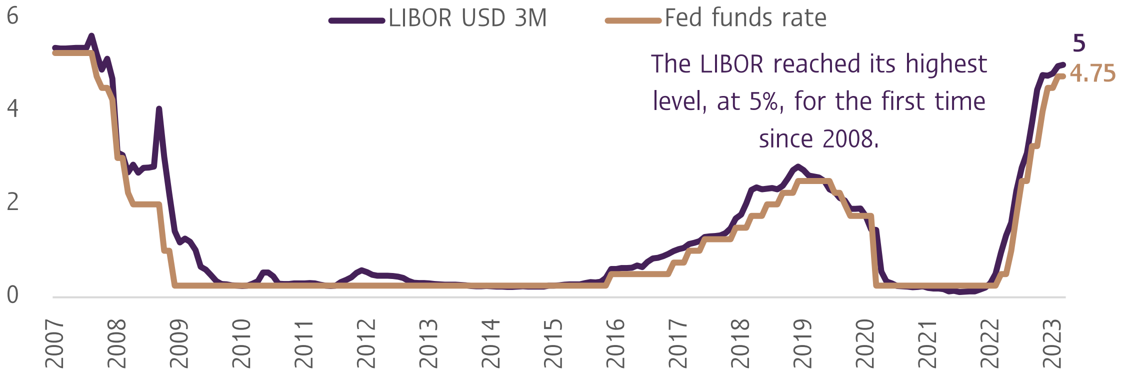
- **The Fed's PCE measure continues to accelerate and is showing a slow decline.** Inflation in the services sector (excluding shelter), in particular, continues to increase in response to the labor market and better than expected economic conditions. As a result, the Fed is poised to raise the interest rate higher than previously estimated.
- **SCB EIC expects that the Fed will increase its interest rate once more, to a terminal rate of 5 - 5.25%.** This will bring the interest rate into the restrictive zone (where the interest rate is higher than the inflation rate) in the second quarter, and it will remain at this level for the rest of the year.
- **In SCB EIC's view, the measures that the Fed issued following the Silicon Valley Bank (SVB) collapse will be able to directly prevent a domino effect in the U.S. financial system.** If the Fed is able to restore confidence to normal levels, it will likely increase its interest rate to continue controlling inflation.

Source: SCB EIC analysis based on data from Bloomberg and FRED.

The impacts of a higher interest rate will be increasingly passed on to the financial system and economy this year (lag effects). Growth in private sector investments is expected to slow, which will put pressures on economic expansion.

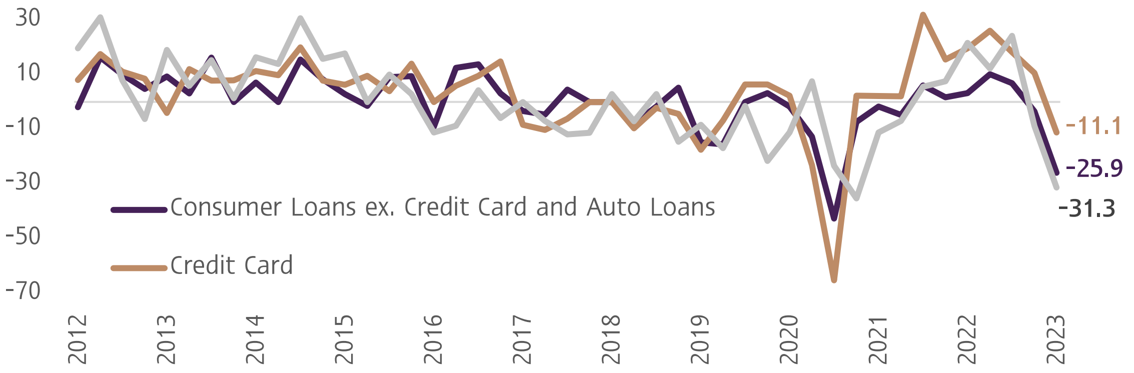
LIBOR and U.S. Fed funds rate

Unit: %



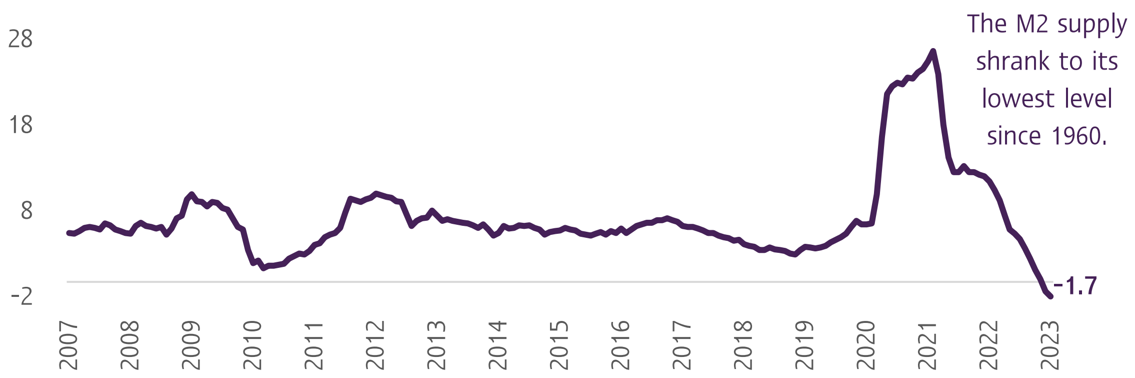
Loan demand by type, according to surveys by financial institutions

Unit: %



Federal Reserve Money supply M2

Unit: %YOY



- **In 2022, the higher interest rate may not yet fully impact the financial system,** as banks might increasingly pass the higher costs of interbank lending on to loans this year.
- **Private sector investments may be more heavily impacted this year,** reflected by a decrease in demand for loans, which will slow down loan growth.
- **The M2 money supply is beginning to shrink,** reflecting less liquidity in the system, which may signal a slowdown of financial flows in the economy.

Source: SCB EIC analysis based on data from Bloomberg and Senior Loan Officer Opinion Survey on Bank Lending Practices.

The bank run situation in the U.S. has resulted in lower confidence in the banking sector and caused volatility in the financial market. Nevertheless, there is limited risk that this could become a global financial crisis.

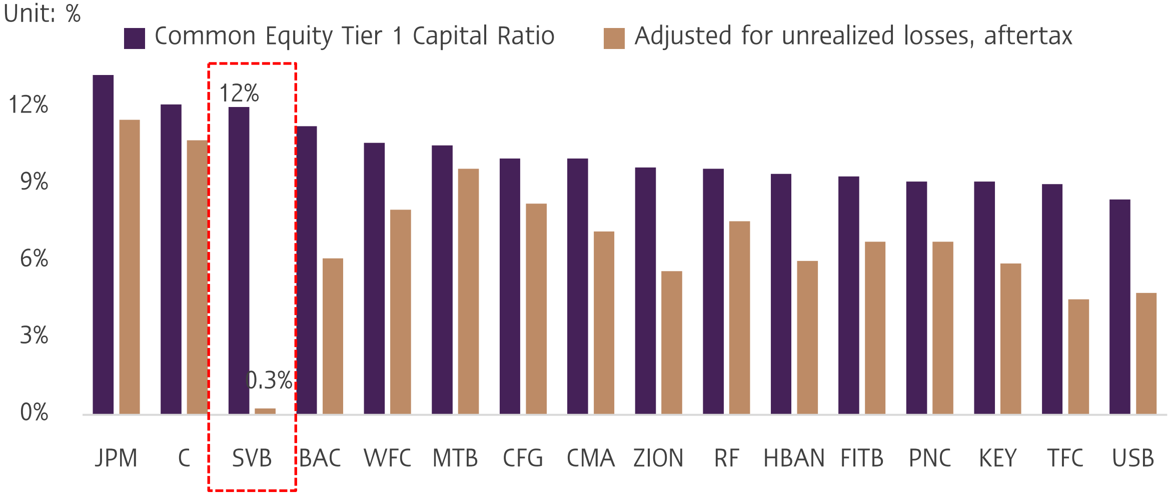
Summary of the Silicon Valley Bank (SVB) Collapse

- **SVB's deposits reduced after the Fed rapidly increased its interest rate. This is because SVB's deposit structure was concentrated in a customer base consisting of the tech sector and venture capital-backed startups,** a group which has withdraw its deposits regularly due to cash burn. At the same time, high-value customers were also taking out deposits from SVB.
- **Over 50% of SVB's assets were invested in mid- to long-term government bonds**, in contrast to the majority of banks in the U.S., which invest only 30% of their investments in such assets.
- **SVB faced a liquidity challenge. As its customers were withdrawing large amounts of money, SVB had to sell the government bonds that were in its possession.** However, because the Fed increased its interest rate, resulting in a higher bond yield and lower bond price, **SVB suffered losses of around $1.8bn.** As a result, SVB decided to raise capital to compensate for its losses.
- **As the market heard the news of SVB's capital raising, concerns arose regarding its liquidity, resulting in a panicked withdrawal of around $4bn.** US authorities therefore had to close down SVB to prevent further damages.
- **In addition, Signature Bank, a cryptocurrency service provider, was shut down** to prevent a bank run occurring in the banking sector.
- **U.S. authorities have come out to reassure customers with deposits in the closed banks that they would receive back their full deposits. Meanwhile, the Fed issued a $2.5bn Bank Term Funding Program** to help banks suffering from a lack of liquidity, and issued loans of up to one year from the purchase of government bonds at par value.

Impact on the Financial Market

- **Higher volatility in the financial market,** as confidence in the banking sector has not yet been restored to normal levels. Risky assets, in particular banking shares, could potentially be sold due to risk-off, while the demand for safer assets, such as government bonds and gold, could increase.
- **There is limited risk that this situation could turn into a global financial crisis, as in 2008.** This situation is an idiosyncratic risk for SVB, whose deposit structure is concentrated in the tech sector and was the result of mismanagement of assets and debt.

Unrealized securities loss on the CET1 Capital ratio of U.S. Banks



Source: SCB EIC analysis based on data from JP Morgan Q4/2022.

European economy

Eurozone economy is likely to avoid a recession due to its progress in reducing reliance on Russian energy.

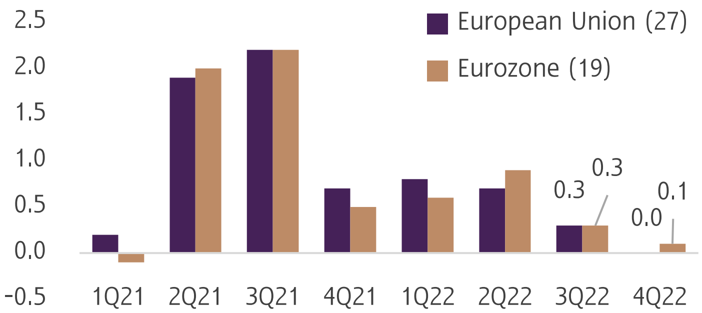
Inflation continues to slow, while the core inflation rate.

ECB is expected to increase its rate until June, to a level higher than previously estimated.

The Eurozone economy is likely to avoid a recession this year due to progressive efforts in reducing its reliance on energy from Russia.

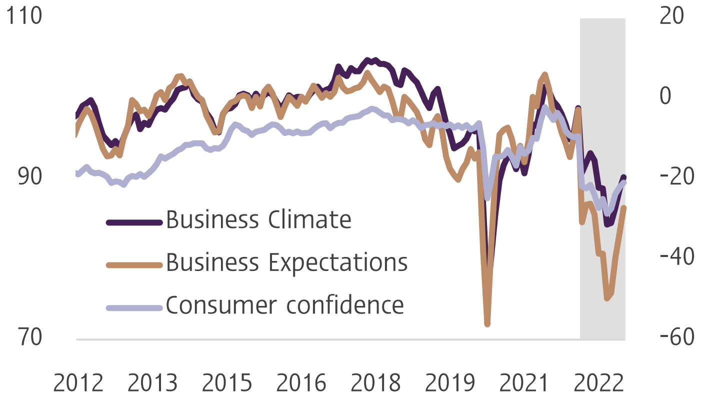
Growth of EU and Eurozone economies

Unit: %QOQ



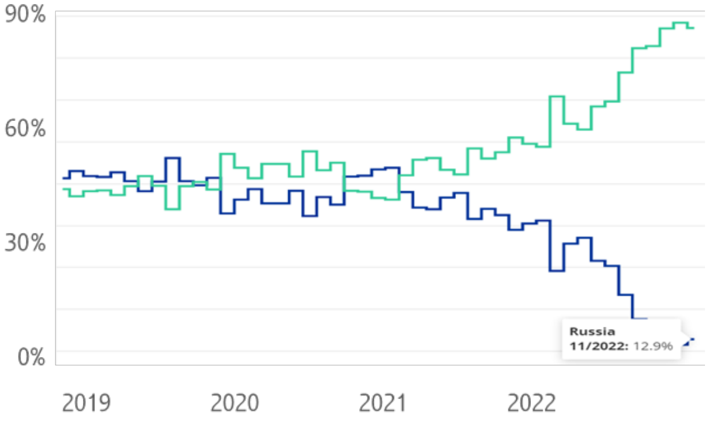
Ifo's Business Climate Index and Consumer Confidence Index for the Euro Area

Unit: Index, 2015 = 100, seasonally adjusted



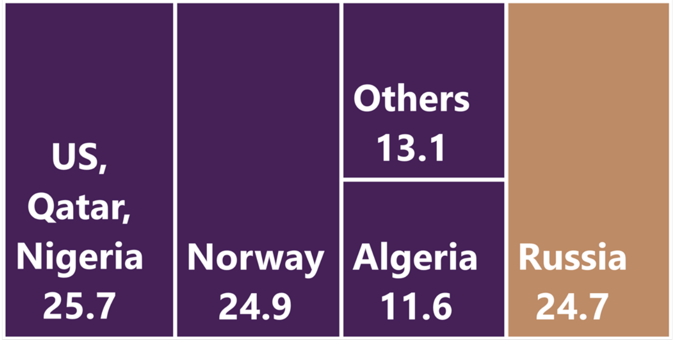
EU Gas Imports

Unit: %



Supply of EU Gas Imports (by country of origin)

Unit : %, average for January – November 2022



Factors enabling the EU to avoid a recession

GDP	**The EU economy has been able to avoid the technical recession** that was expected during the second half of 2022. This is because GDP (%QOQ) expanded a little in the EU, and stabilized in the Eurozone (initially GDP was expected to shrink in Q4/2022). Given this, the 2023 economy is starting from a position of greater strength than previously forecasted.
Supply side	**The EU decreased its Russian gas imports from 40% at the beginning of the year, to 12.9% in November.** The annual average decreased to 24.7%, which was less than half of 2021 (40%), with the U.S. being a key new supplier.
Demand side	**Energy demand over the previous winter was lower than the average due to milder winter conditions.** As a result, the level of gas reserves was higher than usual, which reduced the urgency in identifying future energy reserves.
Confidence	**The business environment and consumer confidence have reached its highest levels** since the beginning of the Russia-Ukraine war, revealing an improved economic pathway for the coming period.

Source: SCB EIC analysis based on data from ECB, European Commission and CEIC.

Inflation in the Eurozone is expected to decrease this year, while core inflation will be more sticky due to tight labor market and rising in service price.

The Eurozone Harmonized Index of Consumer Prices (HICP)

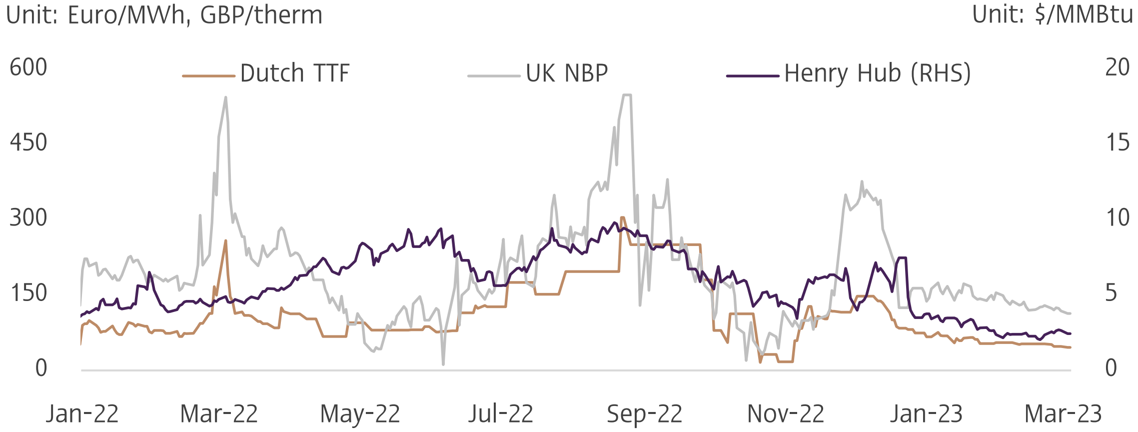
Price expectation over the next 3 months

Inflation in the Eurozone is expected to continue its decline in response to lower energy prices. It is expected to return to the 2% around the end of 2024.

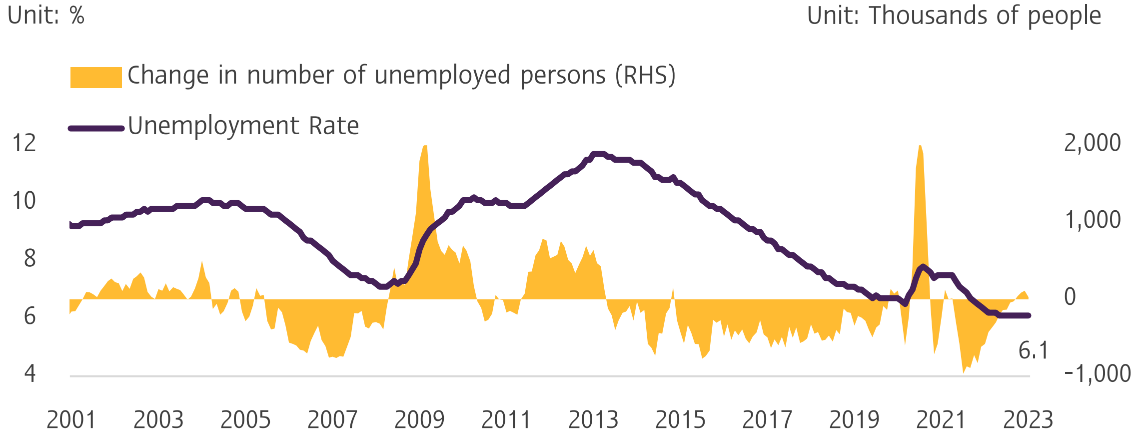
Core inflation is expected to be more sluggish. This is because historically strong labor market.

The service price is expected to continue rising and have not yet reach its peak. Meanwhile, the survey of price expectation indicate that retail trade and industry prices have already passed their peak but it will be significantly higher than their average level in the past .

Natural gas price



EU (27) Unemployment rate and change in number of unemployed persons

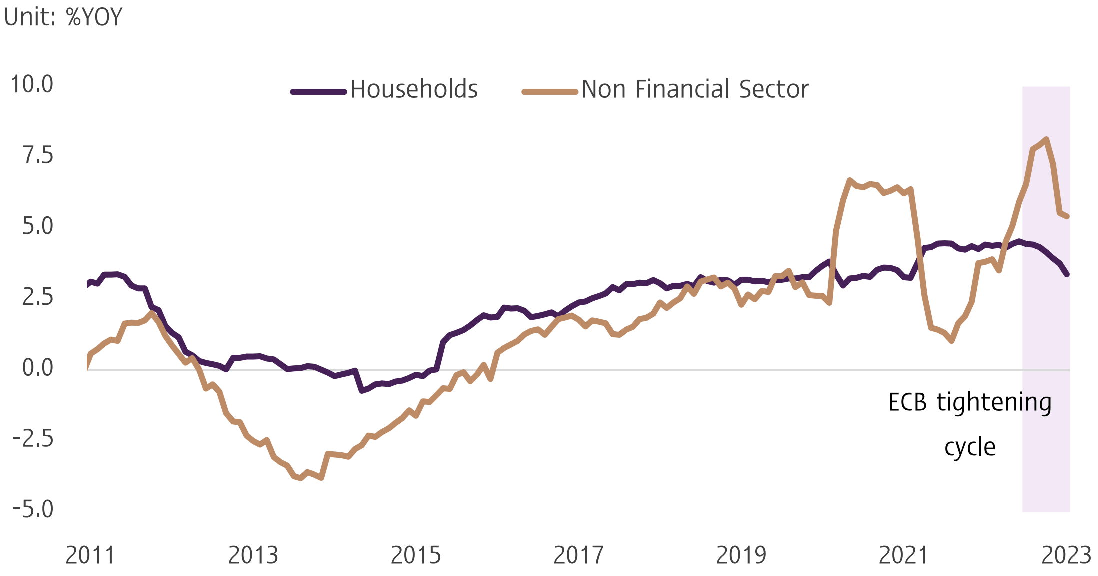


Source: SCB EIC analysis based on data from Bloomberg, CEIC and ECB.

SCB Economic Intelligence Center

The ECB is expected to hikes its policy rate until June, to 3.5%, while the risk of bank run incidents like the SVB in Europe is limited.

Loans by Monetary Financial Institutions (MFIs)



Financial status of commercial banks in Europe and the UK

Metric	Requirement	European Banks	Euro Area Bank	UK Large Cap Banks
Liquidity Coverage Ratio	100% required	153%	158%	148%
Net Stable Funding Ratio*	100% required	128%	130%	138%
CET 1 Capital Ratio	Bp above regulatory min.	406 bp	418 bp	401 bp
Unrealized losses on HTM Securities	Mean	29 bp	19 bp	64 bp

- **ECB is expected to increase its interest rate to 3.5% (previously forecasted at 3.25%),** with another 2 hikes of 0.25% in May and June.
- **There is low likelihood that the ECB will increase its interest rate higher than 3.5%,** as during H2, the Eurozone is likely to face pressures from a U.S. economic downturn as well as the lag effects of a higher interest rate being passed on to economy, seeing from the decrease in loans over the past few months.
- **There is limited risk that Europe will encounter an incident like SVB,** given that (1) the CET1 level of Europe's commercial banks are significantly higher than the minimum requirement, (2) liquidity and capital ratios remain strong overall and for individual banks, (3) unrealized losses on HTM securities are at low levels, and (4) Europe's banks have high excess deposits, where the loan to deposit ratio is 88%, higher than the U.S. ratio of 67%.

Note: *Net Stable Funding Ratio is the ratio of capital that is expected to remain with a bank for longer than one year, calculated as the amount of Available Stable Funding (ASF) as a percentage of Required Stable Funding (RSF).
Source: SCB EIC analysis based on data from Goldman Sachs and CEIC.

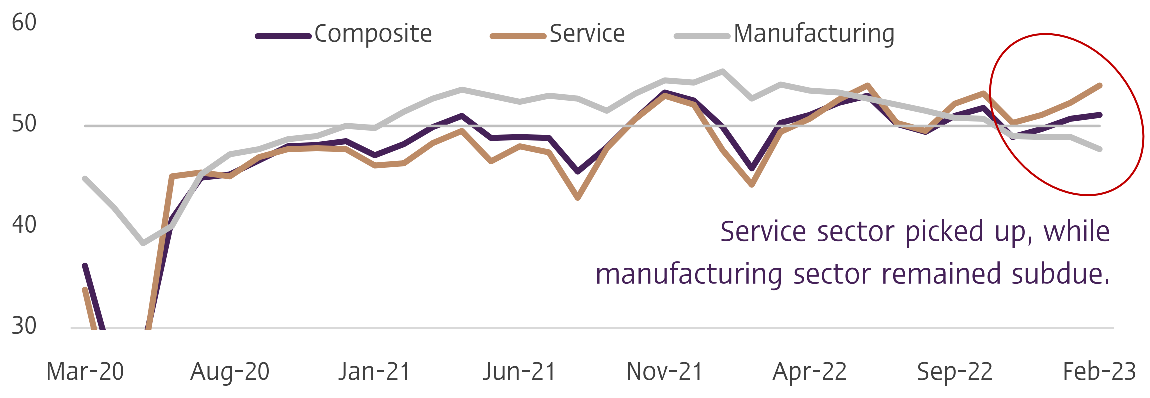
Japanese economy

Japanese economy is expected to expand at slower rate from last year. Manufacturing and export sectors will slow down in line with declining global demand, but tourism sector and higher wages will partially support consumption amid rising inflation.
BOJ likely adjust YCC further after the new governor takes the office in April.

Japanese economic growth is expected to expand at a slower rate than last year due to a slowdown in manufacturing and export sectors in line with global demand condition. However, the economy will be partially supported by tourism sector and higher wages, boosting consumption amid rising inflation.

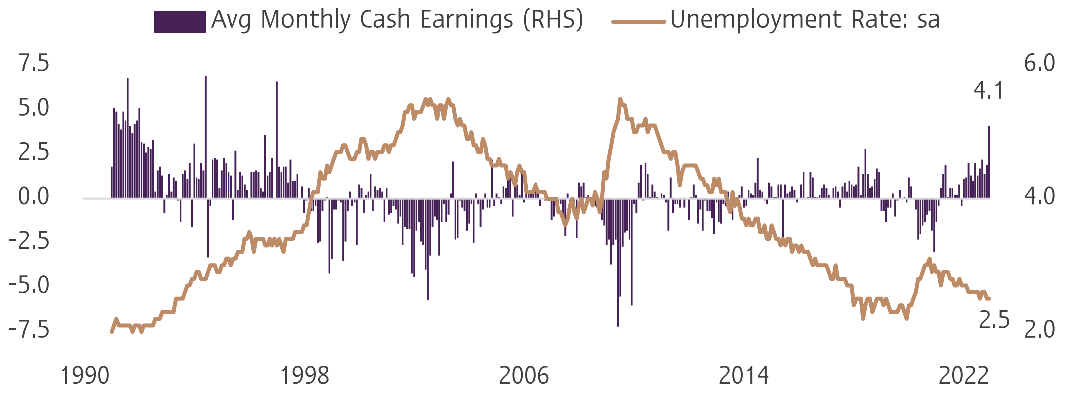
Japan's Purchasing Managers' Index picked up in service sector.

Unit: Index >50 = improvement, seasonally adjusted



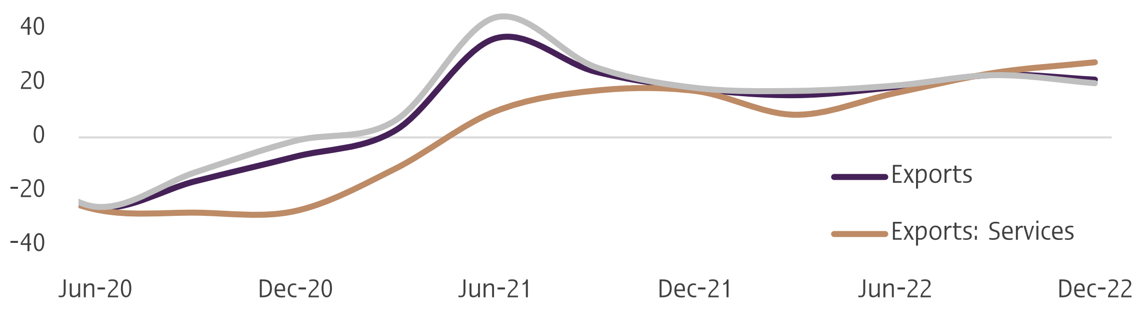
Japan's wage growth and unemployment rate improved.

Unit: % Unit: %YOY



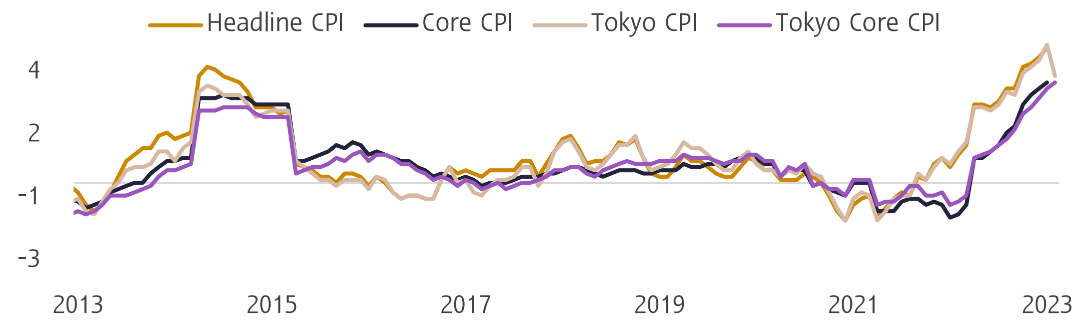
A slowdown in Japan's exports continued

Unit: % YOY



Japan's inflation rate is accelerating.

Unit: %YOY



Source: SCB EIC analysis based on data from CEIC and BOJ Tankan.

BOJ's monetary policy likely becomes less accommodative this year. It is expected to further adjustment to YCC conditions after the new governor takes office (in April), while maintaining a negative policy rate for at least 2-3 years.

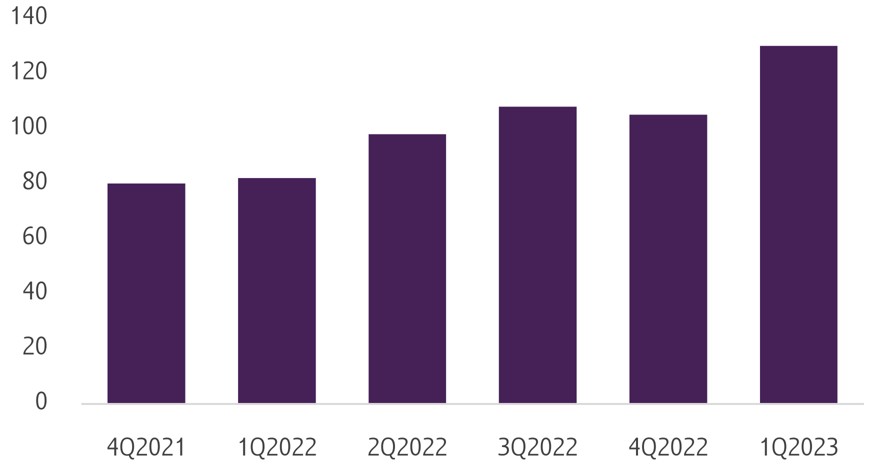
BOJ Bond Market Survey: Question = the degree of JGB market performance in companies' view

Unit: % point (high – low)

The degree of bond market functioning	Aug-19	Nov-19	Feb-20	May-20	Aug-20	Nov-20	Feb-21	May-21	Aug-21	Nov-21	Feb-22	May-22	Aug-22	Nov-22	Feb-23
Diffusion Index: %points	-38	-32	-27	-45	-27	-25	-24	-27	-27	-25	-21	-27	-40	-51	-64
percentage: High	1	1	1	0	4	4	4	3	3	1	4	3	1	1	0
percentage: Not Very High	60	66	70	55	64	67	68	67	67	72	71	67	58	46	36
percentage: Low	39	33	28	45	31	29	28	30	30	26	25	30	41	52	64

BOJ 10 year JGB holding

Unit: % Total 10y-JGB issuance by quarter



- **Japan's bond market index measuring market functioning at record low after BOJ extended YCC framework in December 2022.** BOJ bought back a large amount of 10y-JGB, with more than 100% holdings, causing market liquidity and bond yield to be severely distorted.
- **Although accommodative monetary policy is suitable for economic recovery,** BOJ needs to shift the monetary policy toward more normal path to support bond market functioning.
- **BOJ tends to adjust YCC conditions further after the new governor takes the office (in April) by imposing more control over shorter-term yields (e.g. 2-5 years) but maintaining negative policy rate for at least 2-3 years** to ensure that short to medium borrowing costs (which are more important to real economy) remain low to support the economic recovery.
- **The additional extension of YCC is less likely** as the size of further ban adjustment must be large enough to lead the market mechanism. However, that kind of adjustment further would BOJ's principle of keeping yields low to support economic recovery.

Note: *BOJ lends out holdings of JGBs again to maintain the market supply. The sellers borrow and sell back in the market with only BOJ buying back again.

Source: SCB EIC analysis based on data from BOJ Tankan and Financial Times.

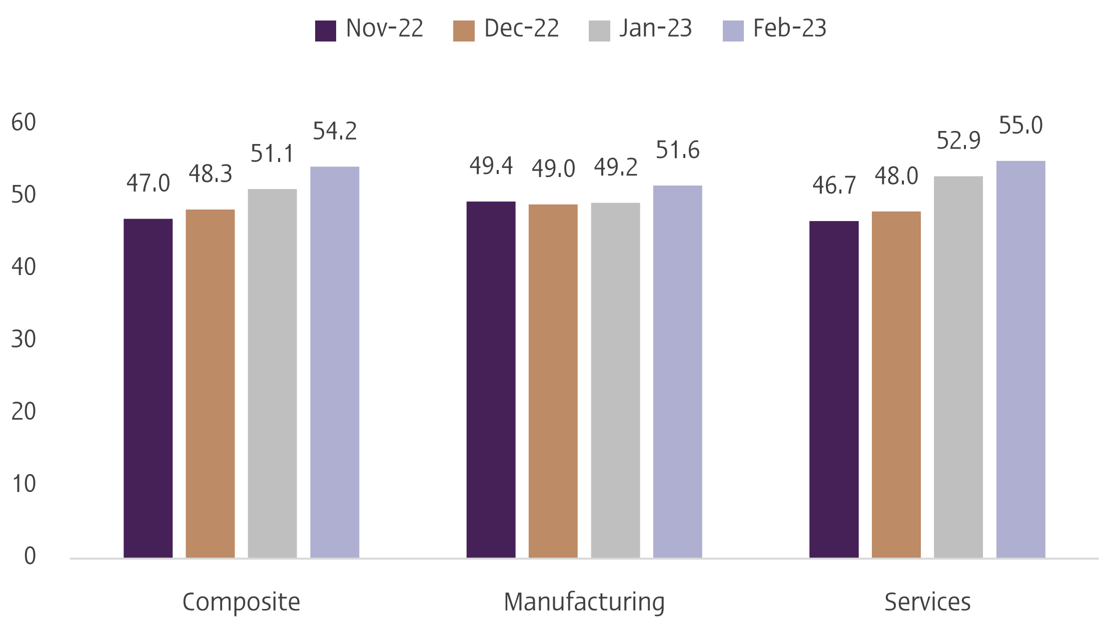
Chinese economy

Chinese economy is expected to expand 5.5%, driven mainly by a rebound in private consumption after the end of Zero-COVID Policy. However, risks to be monitored include a slowdown in export sector and limited fiscal space of local governments.

SCB EIC revised China's GDP up to 5.5% in 2023, following stronger economic activities after the end of Zero-COVID Policy, with private consumption as a key driver.

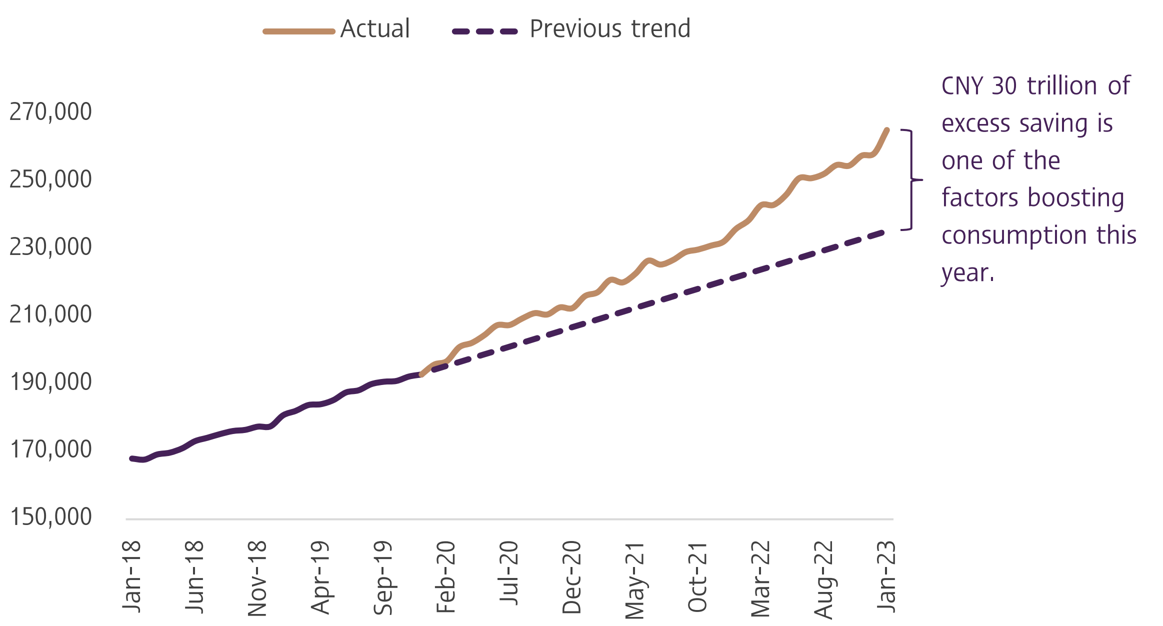
Caixin PMI

Unit: Index (>50 = expansion)



Savings

Unit: CNY billion



- **PMI in February indicated a stronger economic growth in both manufacturing and service sectors,** following a resumption of economic activities after the end of Zero-COVID Policy. The survey revealed an increase in new orders in manufacturing and service businesses, which help support the labor market. In addition, business sentiment over the next year improved.
- **Private consumption will be a key driver of economic growth this year** as a result of pent-up demand and low-base effect from last year. A recovery in the labor market will be a supporting factor for income and consumer spending. Moreover, higher saving during lockdown and a gradual recovery of the real estate market will help improve consumer confidence.

Source: SCB EIC analysis based on data from CEIC, S&P Global and The People's Bank of China.

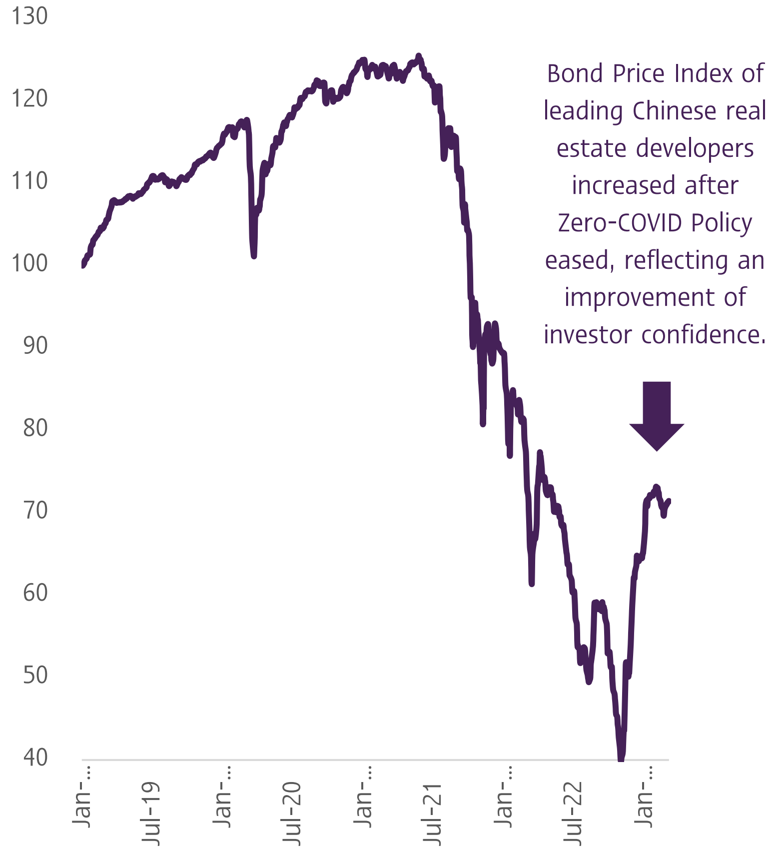
Real estate sector recovering from low-base effect will be another driver of Chinese economy this year from a rebound in home buyer confidence and government supports. However, the recovery is expected to be gradual and take time.

Property sales and property price of leading Chinese developers

Unit: %YOY

Bond price Index (USD) of leading Chinese developers*

Unit: Index



China's real estate outlook 2023

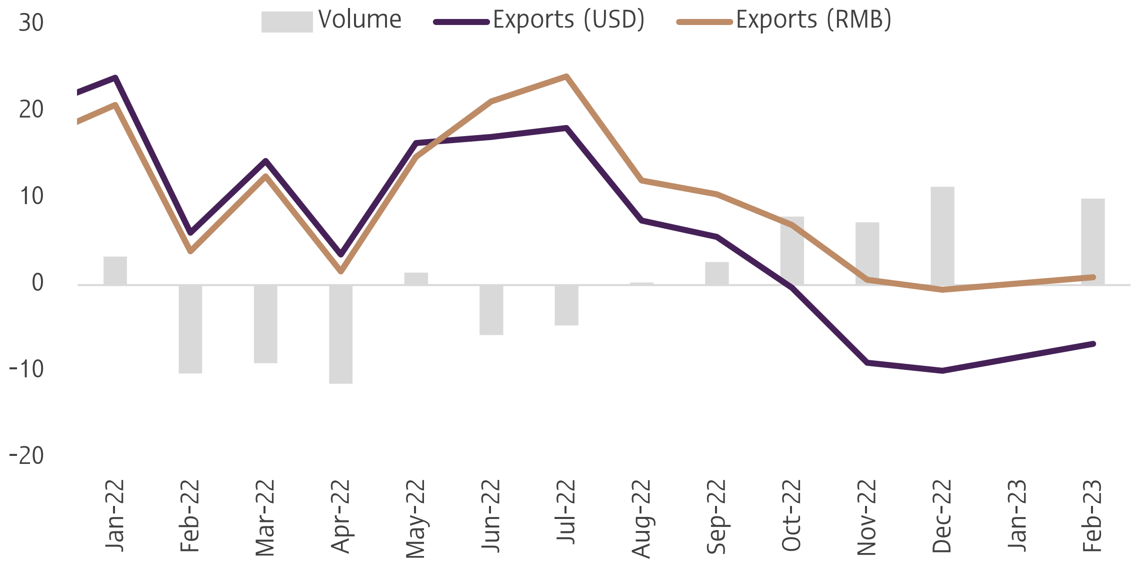
- **Real estate sector is set to gradually recover**
  1. Home buyer confidence improved, income recovered, and traveling for real estate project inspection became more convenient.
  2. The government eased borrowing restrictions by real estate developers in year end 2022, facilitating easier fundraising for real estate projects.
  3. The recovery will take some time to get closer to 2021 level, but the growth will not be as high as before since the government aims to reduce the speculative behavior in the market.
- **The recovery in real estate sector will spread positive effects to many economic sectors.**
  Real estate is the primary mean of wealth accumulation for Chinese people, while land sales is the main source of income for local governments, and financial institutions have a sizeable exposure to the real estate sector.

Note: *CRIC China Real Estate Bond Leadership Index.
Source: SCB EIC analysis based on data from Bloomberg and China Real Estate Information Corp.

Chinese economy still faces pressure from export sector which should slow down in line with the global economy. Also, local governments have lower capability to raise fund which potentially impacts the effectiveness of fiscal stimulus.

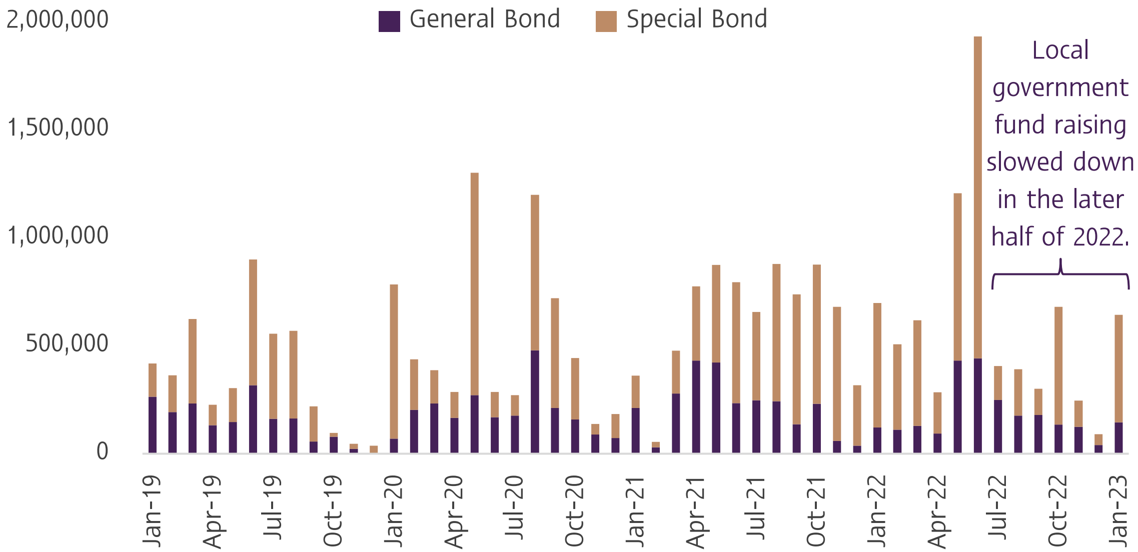
China's exports

Unit: %YOY



New local government bond issuance

Unit: CNY trillion



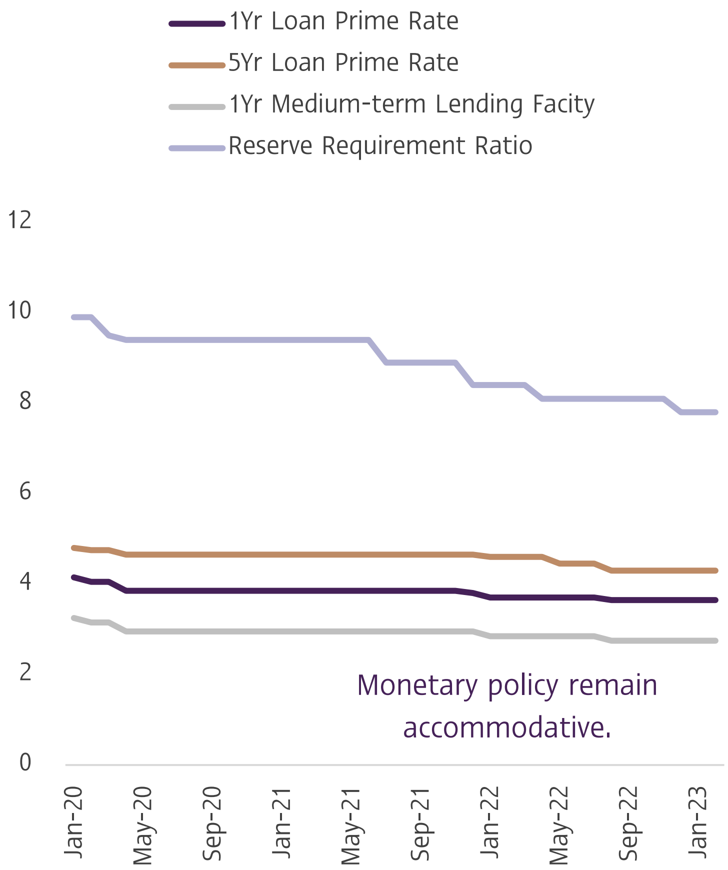
- **China's exports contracted for the first 2 months in 2023,** following a slowdown in global demand from the effect of high inflation and tightening monetary policy. Although exports may recover in H2, the growth will be much slower than last year.
- **Chinese local governments are facing limited fiscal space** due to a large revenue reduction during the lock down and sluggish real estate market. Meanwhile, spendings continue to increase from the need to disburse the stimulus package. SCB EIC views that China's central government will support local governments and there will be no widespread defaults. However, the disbursement to support investment projects to boost the economy may expand at a slower pace, which potentially affect the economic recovery.

Source: SCB EIC analysis based on data from CEIC and international news agencies.

Chinese monetary policy will remain accommodative to support the economic recovery and real estate sector that is still fragile. Fiscal policy in the long term will focus on maintaining economic stability.

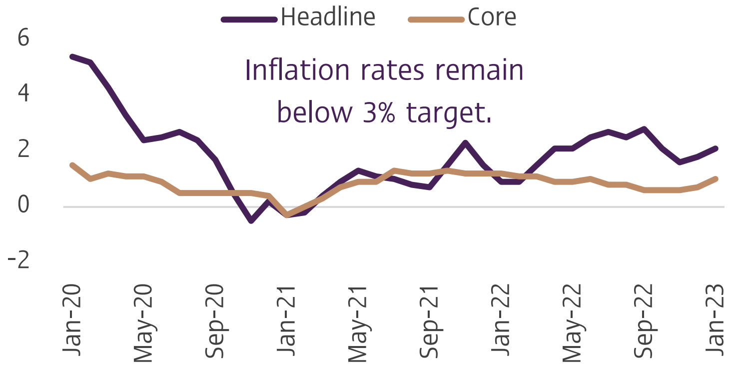
Policy rate and other key interest rates

Unit: %



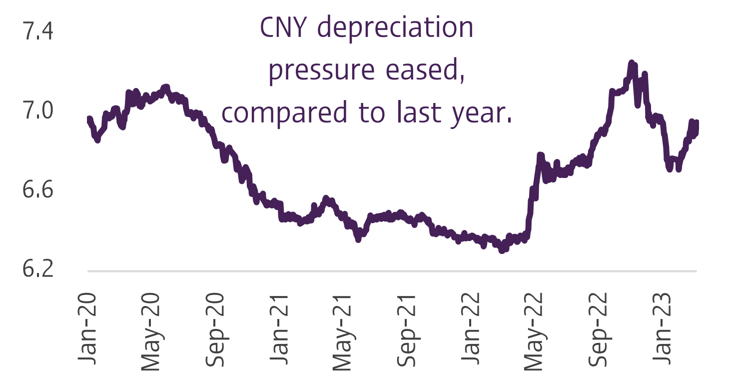
Headline and core inflation rates

Unit: %YOY



USD/CNY Exchange Rate

Unit: USD/CNY



China's Economic Policy Summary from NPC Meeting in March 2023

- **China's GDP growth target for 2023 was below the market expectation.** The economy is set to grow 5% with fiscal deficit of 3% of GDP and 12 million urban job increase. Most targets are set close to last year levels, although the 2023 economic outlook seems better. This may reflect that the government want to resume confidence after an economic slowdown in 2022 worsened more than expected.

- **China announced plan to merge financial market regulators** to enhance governance efficiency and allow the government to have more control over the financial market. (China Securities Regulatory Commission, regulating stock market and bond issuance will not be merged, but will be upgraded to a government agency, directly under the State Council)

Source: SCB EIC analysis based on data from CEIC, Goldman Sachs and international news agencies.

Thai Economy in 2023

SCB Economic Intelligence Center

SCB EIC revises up the Thai economic forecast for 2023 to 3.9% on the back of tourism and private consumption growth. headline inflation is expected to the target range as global energy prices dropped, while domestic measures to subsidize energy prices continued.

Gross Domestic Product (GDP) forecast

Economic Forecast (Base case)	Unit	2021	2022	2023F As of Nov 2022	2023F As of Mar 2023
GDP	%YOY	**1.6**	**2.6**	**3.4**	**3.9**
Private Consumption	%YOY	0.6	6.3	3.0	3.9
Government consumption	%YOY	3.7	0.0	-1.0	-1.5
Private investment	%YOY	3.0	5.1	2.5	3.0
Public investment	%YOY	3.4	-4.9	2.4	2.2
Goods exports value (USD BOP basis)	%YOY	19.2	5.5	1.2	1.2
Goods imports value (USD BOP basis)	%YOY	27.7	15.3	3.2	0.9
Foreign tourist arrivals	Million persons	0.4	11.2	28.3	30.0
Headline inflation	%YOY	1.2	6.1	3.2	2.7
Core inflation	%YOY	0.2	2.5	2.7	2.4
Crude oil price (Brent)	USD/Bbl.	70.5	100.9	84.7	77.8
Policy rate (Year-end)	%	0.5	1.25	2.0	2.0
Exchange rate (Year-end)	THB/USD	33.2	34.6	34.5-35.5	32-33

Supporting factors

- China's economic rebound to be more rapid and robust than evaluated
- Better than anticipated global economic growth
- Continual recovery in consumption
- Competitor’s policy to control/ restrict exports

Risk factors

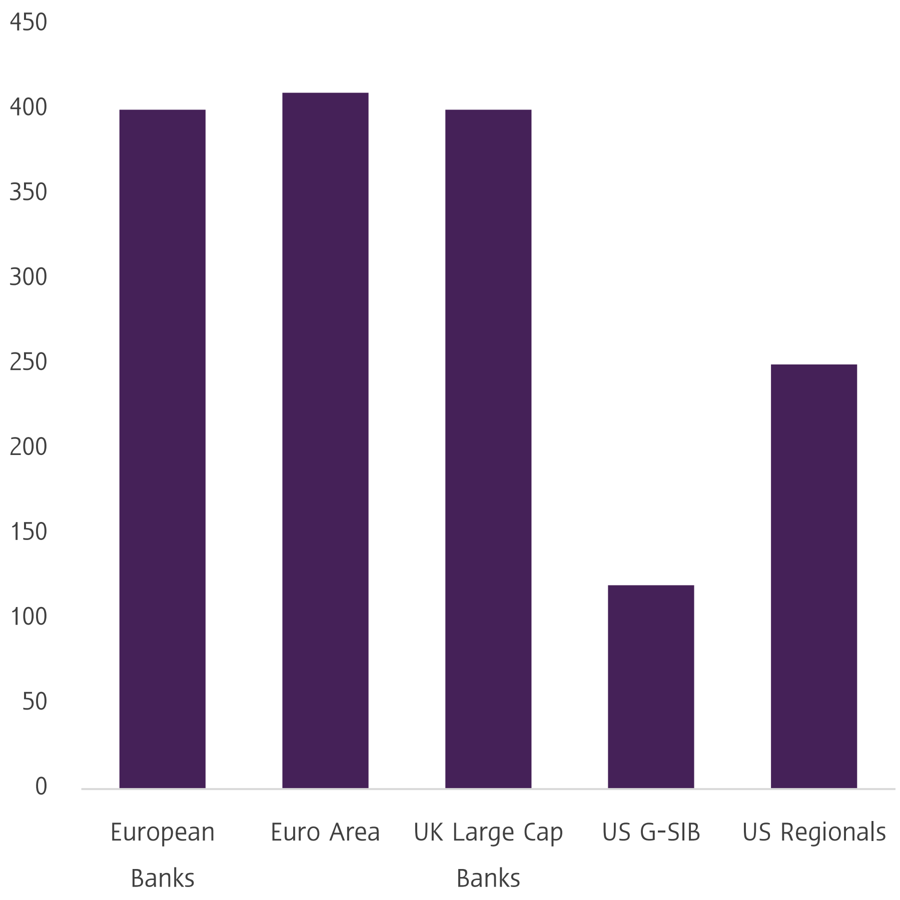
- **Elevating Geopolitics risks** with an impact on the global supply chain and exports
- Worsening **global financial stability**
- **Aggressive global monetary policy tightenings** as global inflation eases slowly
- **Increasing household debt** to hamper consumption growth
- **High inflation** to impair cost of living and business operations
- **The election and the formation of the new government** to impact government spending

Source: SCB EIC analysis based on data from the Office of the National Economic and Social Development Council and CEIC.

SVB fallout worsen global financial stability and confidence in the short term. However, the probability of widespread financial crisis, as in the past, is limited, though conditions should be monitored closely.

CET1 surplus exceeding minimum threshold

Unit: Basis point



The probability of widespread financial crisis is limited

Financial institutions outside the US are subject to stricter supervision. Although SVB is the 16th largest bank in the US, the Fed's supervisory stress test that covers approximately 50% of total banks' asset did not include SVB. Meanwhile, ECB conducts a stress test that covers 75% of total banks' asset.

SVB's overseas branches are small. As such, the direct impact from bank closures is limited. The size of SVB's UK and Germany branches stand at GBP 8,800 million ($10.700M) and EUR 789 million ($844M) compared to the size of the parent company ($209,000M).

European and UK banks' CET1 ratios are above the minimum requirement of each country. This reflects that banks have sufficient capital. Also, the size of the CET1 surplus in Europe and the UK is greater than that of US banks' CET1 surplus. which reflects a better capital position.

Limited risks from the fallout in China. Despite the fact that SPD Silicon Valley Bank is a joint venture with a Chinese bank, its balance sheet is independent of SVB. Furthermore, furthermore, there are only a small portion of startups in China deposit money with SVB.

Factors that may contribute to the spread

- **Insufficient liquidity support from the central bank** may force financial institution to sell assets at low prices to increase liquidity. Resulting in large realized profit losses in which will worsen debt repayment ability.
- **The deterioration of the banking sector's confidence may spur a bank run.** Self fulfilling prophecies may lead to a bank run even if the financial positions of commercial banks are fundamentally strong.

Source: SCB EIC analysis based on data from Bloomberg and Goldman Sachs.

SCB Economic Intelligence Center

If conditions escalate and trigger a new financial crisis, the global economy may enter a recession this year. EMs will see severe implications accordingly from 4 channels.

Extreme capital outflow episodes

- **Capital outflows return to safe assets**
- **Credit crunches** in countries that the banking sector is highly dependent on capital from the global market as the global liquidity crisis looms
- **Domestic currency depreciation**
- **Prices of risky assets,** such as stocks and high-yield bonds plummeting

Greater difference in EMs monetary policy

- **Central banks in some EMs ending the interest hike cycle faster**
- **Central banks in EMs that are highly dependent on foreign capital** will see severe impacts from capital outflows and will have to **raise interest to stabilize currency fluctuations**

Tighter financial positions

- **Stricter domestic lending conditions** following greater risks, global liquidity crunch, and worsening confidence
- **Loan growth and investments conditions** should worsen accordingly

Export contractions

- **Exports from EMs should contract** following weaker import demand, especially from the US and EU, as financial conditions tightened and economic recessions approach

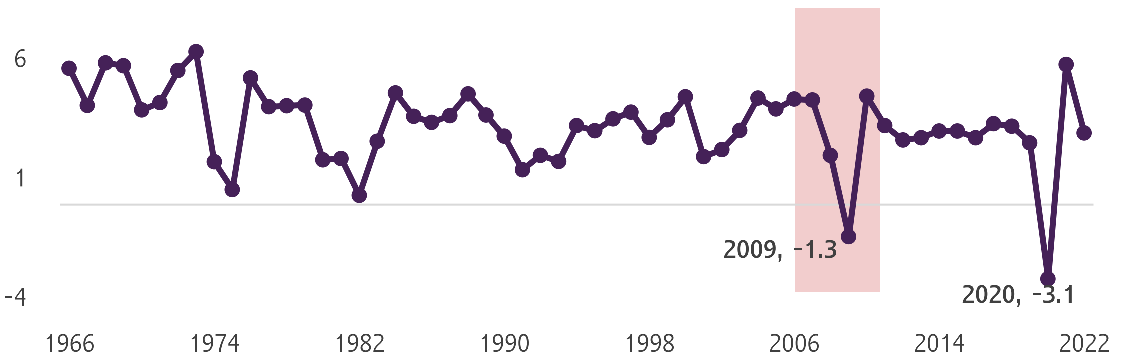
Source: SCB EIC analysis.

SCB Economic Intelligence Center

EMs could see impacts as severe as during the 2008 crisis with extreme capital outflow episodes, financial conditions tightening severely, as well as prices of risky assets plummeting with slow recovery.

Global economic growth

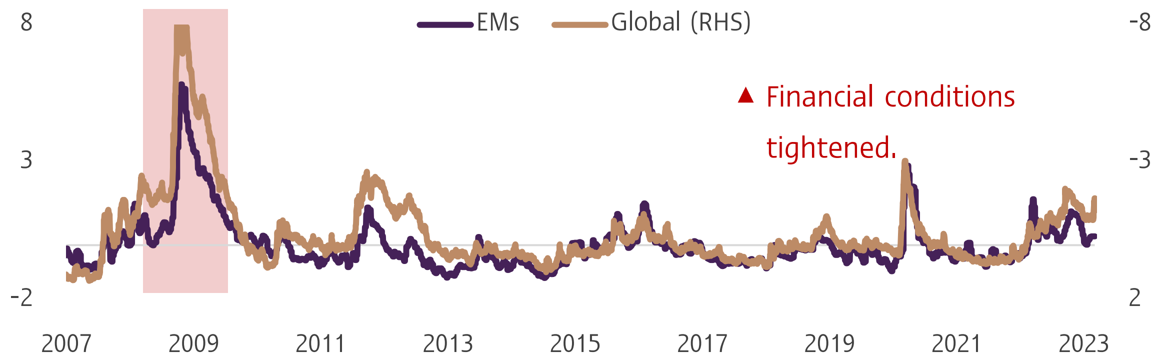
Unit: %YOY



Financial Conditions Index

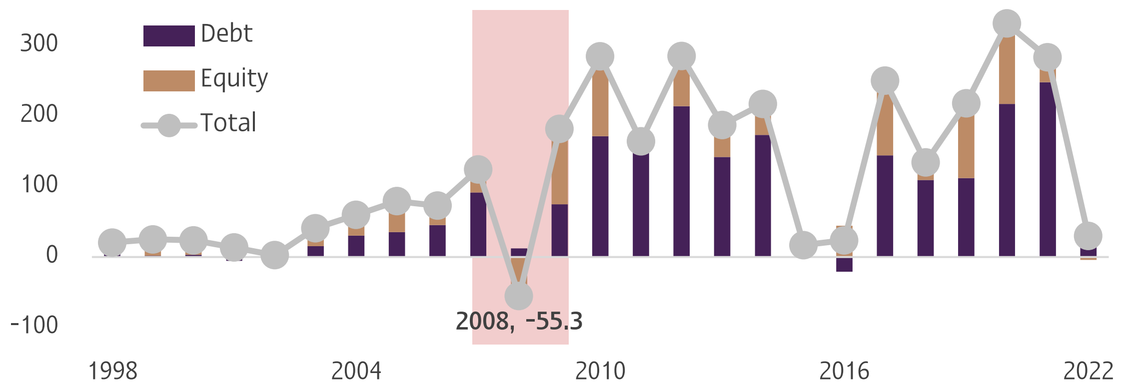
Unit: Index

Unit: Index



EMs Capital Flows

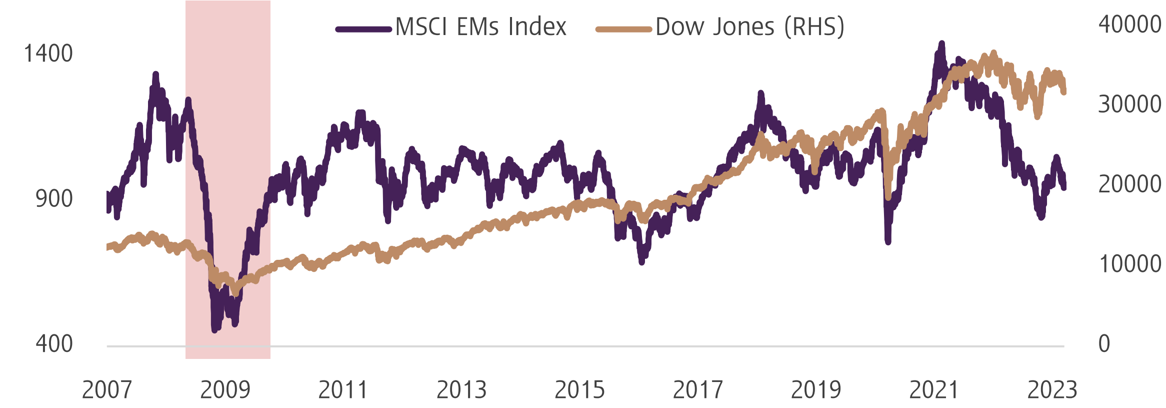
Unit: USD Billion



Stock Market Index

Unit: Index

Unit: Index



Source: SCB EIC analysis based on data from The World Bank, The Institute of International Finance, Bloomberg and Yahoo Finance.

Thailand's financial market frequently faces high volatility triggered by the global financial market.

However, Thailand's financial market remains strong despite facing high volatility in the past crises.

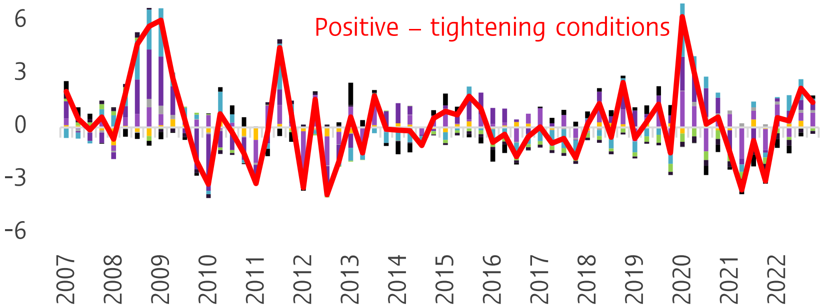
Impact on Thai financial market during past financial crises

Unit: % Change from peak to trough in each period

Past crisis	SET index	USDTHB	VIX index	MOVE index
Tom-Yum-Kung	-70%	-56%	179%	123%
Dotcom bubble	-50%	-16%	103%	64%
GFC	-58%	-11%	444%	284%
Taper tantrum	-25%	-11%	73%	141%

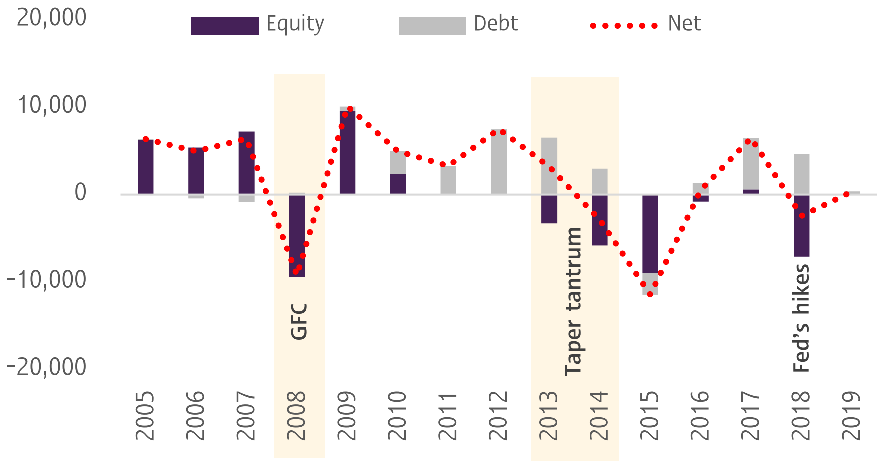
Thai Financial Condition Index

Unit: z-score



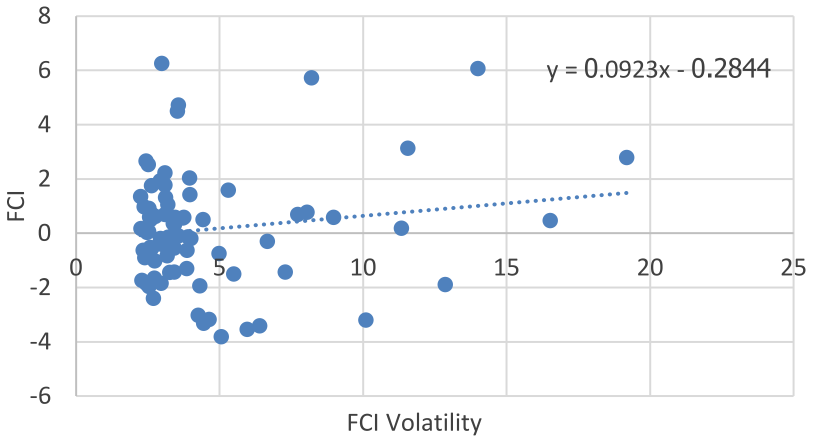
Foreign capital flows in the Thai financial market

Unit: USD million



Relationship between Financial Condition Index and volatility

Unit: unit



- **During financial crises, Thailand's financial market is often exposed to high volatility according to global conditions,** measured by substantially higher readings of the VIX and MOVE index (global volatility in stock and bond markets). **As such, the stock market index will significantly drop as capital flows out of risky assets, causing the Baht to depreciate and Thailand's financial conditions to tighten.**
- **Nevertheless, Thailand's capital market remains strong despite facing such volatility.** From an in-depth analysis, overall volatility in Thailand's financial conditions has a limited impact on financial tightening.

- **The spillover of capital market impacts on the wealth effect** of households is limited as the ratio of retail investors to population is low.
- **Thai merchandise exports will slow as global GDP significantly worsens.** If the global economy shrinks by -1%YOY, Thai exports should see an impact of -4.8%YOY.

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

Recovery amid weak export

The Thai economy performed better than previously anticipated following tourism and private consumption growth. Meanwhile, exports saw boosts from stronger than anticipated global economic growth.

Thai economic indicators in January improved from the prior month. Meanwhile, business sentiment and consumer confidence in February reflected continual recovery.

Thai economy	Unit	2022	Q1/22	Q2/22	Q3/22	Q4/22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
Gross domestic product (GDP)	%YOY	2.6	2.2	2.5	4.6	1.4						
Demand-side												
Private consumption index	%YOY	8.5	4.1	10.3	14.6	5.4	11.6	6.6	7.2	2.6	4.1	
Domestic car sales	%YOY	15.1	22.7	11.5	36.2	-3.0	30.4	0.2	-4.8	-3.9	-5.6	
Private investment index	%YOY	2.7	3.9	2.9	6.4	-1.6	5.0	0.1	-1.7	-3.2	-1.5	
Exports ex. gold (Customs data)	%YOY	4.4	10.0	11.0	6.3	-8.3	6.7	-5.3	-5.1	-13.9	-4.4	
Consumer Confidence Index	100 = stable	43.9	43.4	40.8	43.6	47.9	44.6	46.1	47.9	49.7	51.7	52.6
Business Sentiment Index	50 = stable	49.0	48.6	49.3	49.5	48.5	49.6	47.8	49.4	48.4	49.8	50.6
Supply-side												
Farm income	%YOY	12.8	6.8	13.4	14.3	15.8	15.3	20.7	15.1	13.3	4.2	
Manufacturing Production Index	%YOY	0.4	1.4	-1.1	7.7	-6.0	3.0	-4.3	-5.3	-8.5	-4.4	
Capacity utilization sa	%, SA	62.8	63.5	63.7	63.8	60.1	63.5	60.6	60.3	59.4	60.1	
Foreign tourist arrivals	thousands	11153.3	498	1582	3608	5465	1309	1475	1748	2241	2145	
Domestic trips	%YOY	182.4	74.4	399.9	1167.8	83.4	666	285	69.0	35.5	41.4	
Hotel occupancy rate	%	47.2	36.2	42.1	47.8	62.6	48.4	54.6	63.3	70.0	71.4	
Labor market												
Unemployment rate	%	1.3	1.5	1.4	1.2	1.2						
Youth unemployment rate	%	6.6	6.6	7.1	6.5	6.1						
Unemployment rate under SSO	%	2.1	2.3	2.1	2.0	1.8	2.0	1.8	1.8	1.7	1.7	
Private sector hours worked	hours/week	45.7	43.7	45.9	46.7	46.3						

Thai economic indicators improved

- **Domestic demand,** as well as business sentiment and consumer confidence improved. However, exports continued to contract, though at a slowing rate.
- **Thailand's domestic supply sector improved,** especially tourism, with growing numbers of Chinese tourists visiting Thailand. Farm income growth remained solid. Meanwhile, industrial production contracted at a slower rate in line with merchandise export momentum and the resumption of refinery activities after maintenance shutdowns.
- **Better labor market recovery as various indicators were approaching the pre-COVID-19 levels.** However, vulnerabilities lingered though such impact should ease as economic conditions and employment in the tourism sector improved.

Source: SCB EIC analysis based on data from the Ministry of Commerce, Office of the National Economics and Social Development Council, Bank of Thailand, Office of Agricultural Economics, Office of Industrial Economics, Federation of Thai Industries, National Statistical Office of Thailand, Tourism Authority of Thailand, and CEIC.

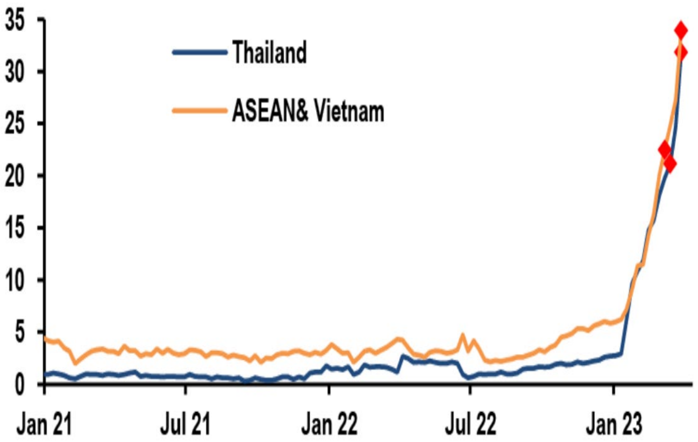
The lifting of China's international travel greatly increases Chinese tourists' demand for international travel, as reflected by the growing number of flights.

Number of international flights from China

Unit: % compared to 2019 (7dma)

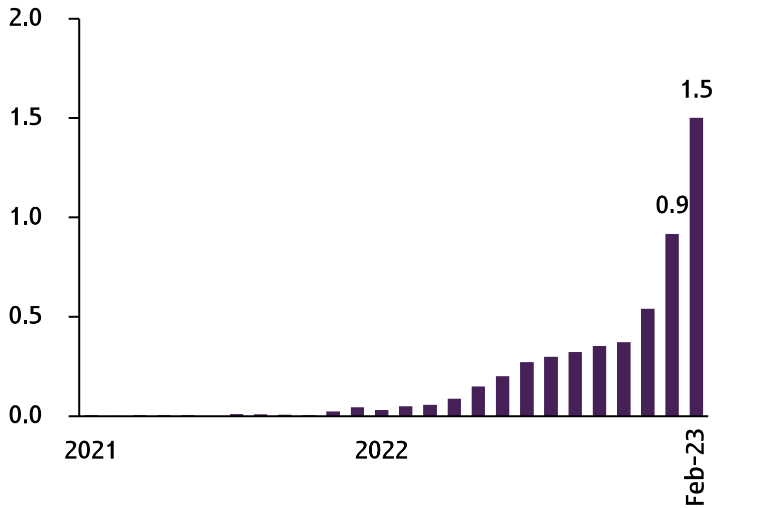
The recovery of the number of flights from China to ASEAN

Unit: % compared to 2019 average



Number of Chinese tourists visiting Thailand

Unit: 100,000 persons



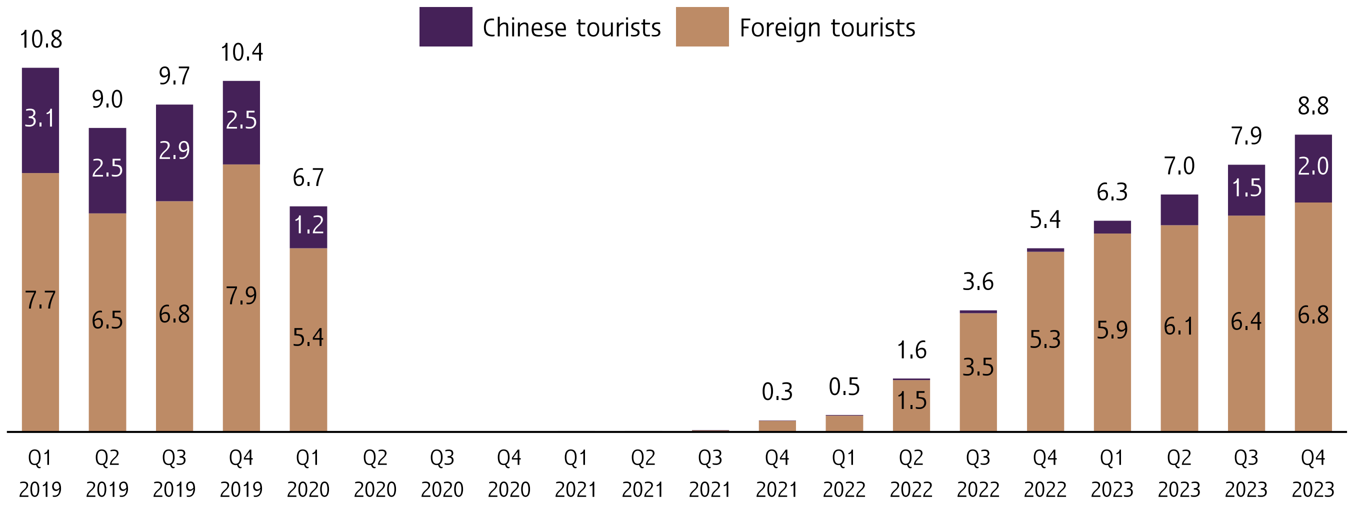
The number of Thai-Chinese flights should accelerate. Both Thai and Chinese airlines have plans to increase the number of flights to serve the growing travel demand of Chinese tourists to Thailand. Such airlines include Thai VietJet, Thai AirAsia, and Hainan Airlines.

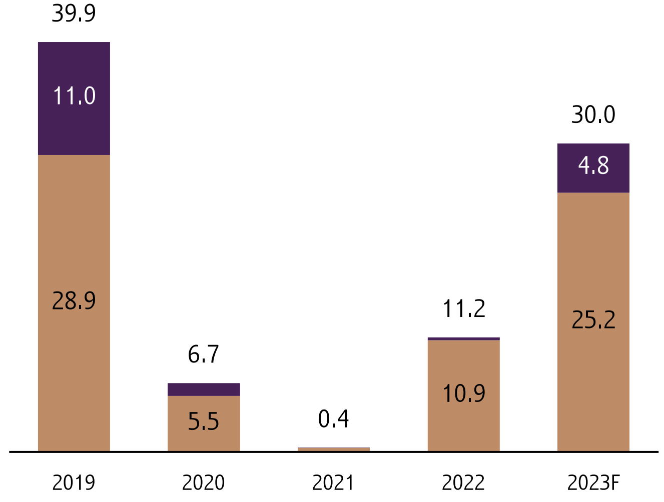
Source: SCB EIC analysis based on data from Ministry of Tourism and Sports and J.P Morgan.

In 2023, the number of Chinese tourists visiting Thailand should hit 4.8 million, thus increasing the number of international tourists visiting Thailand to reach as high as 30 million.

Forecasted number of international tourists visiting Thailand after China reopens

Unit: Million persons





Supporting factors

Chinese tourists

- Thailand is 1 of the 20 nations where China resumed pilot outbound group tours from 6 Feb
- Thailand is 1 of the 5 main destinations Chinese tourists plan to visit

Foreign tourists

- Demand for travel remains high
- Thai and foreign airlines resume most of their international routes.

Risk factors

Chinese tourists

- Certain groups of tourists are still concerned about sanitation
- China's international flight recovery is falling behind pent-up demand for travel in the first phase.

Foreign tourists

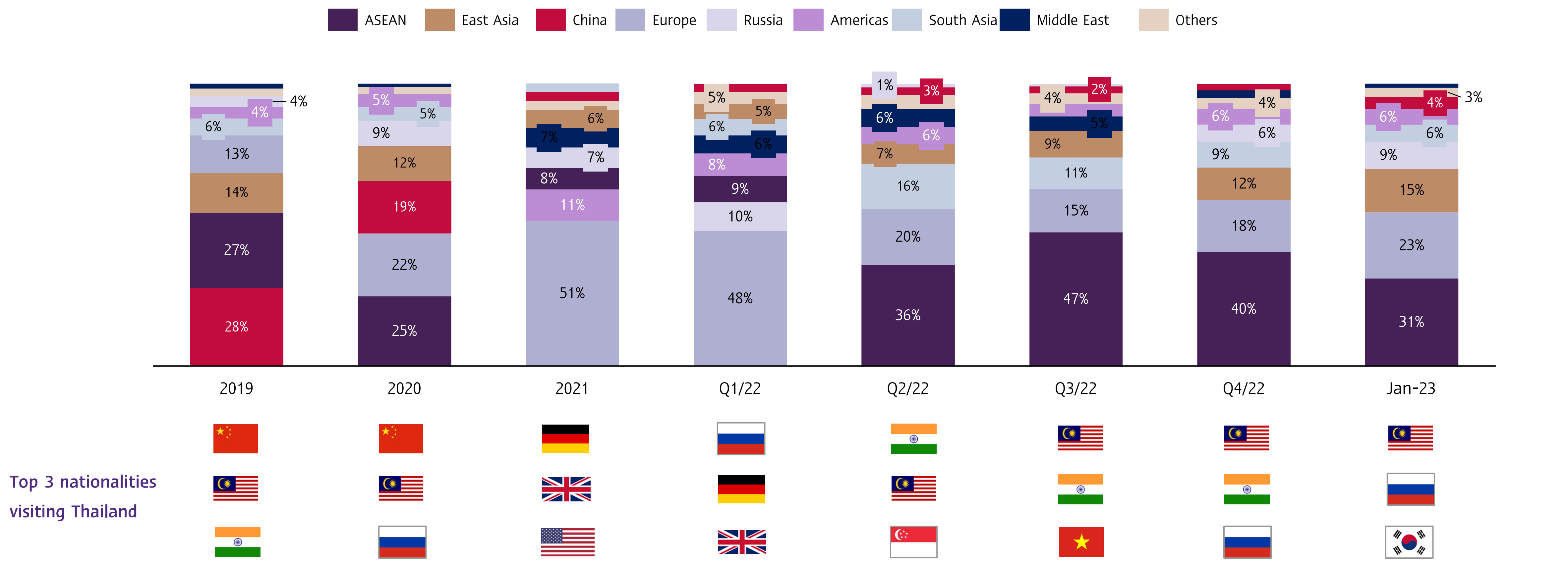
- Various economies face slowing growth with high uncertainty
- High traveling costs as fuel prices remain high

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

Foreign tourist arrivals to Thailand continued to change. At the present, the main group of tourists is from ASEAN and Europe.

Proportion of international tourists visiting Thailand

Unit: %

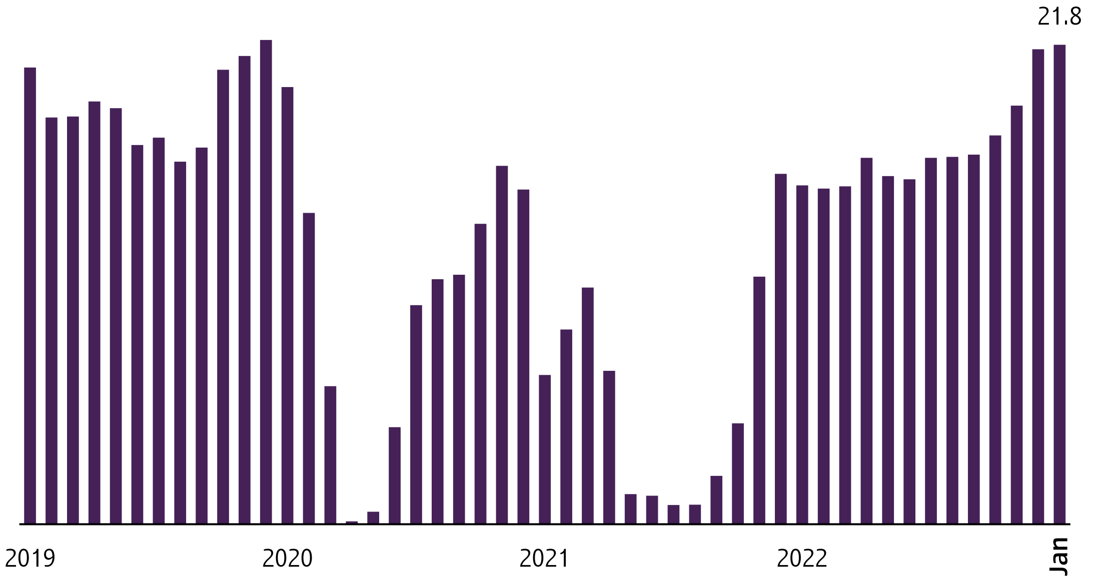


Source: SCB EIC analysis based on data from Ministry of Tourism and Sports.

Regarding domestic travel, the number of visitors continued to increase with levels approaching pre-COVID-19. However, the number of Thais traveling abroad also increased.

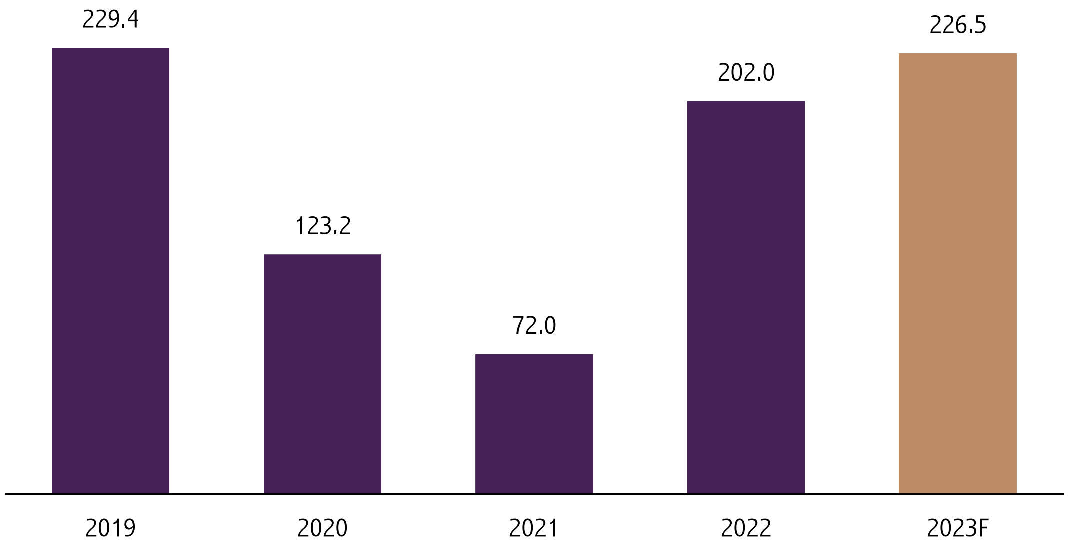
Number of Thai visitors

Unit: Million persons – trip



Forecasted number of Thai visitors

Unit: Million persons – trip



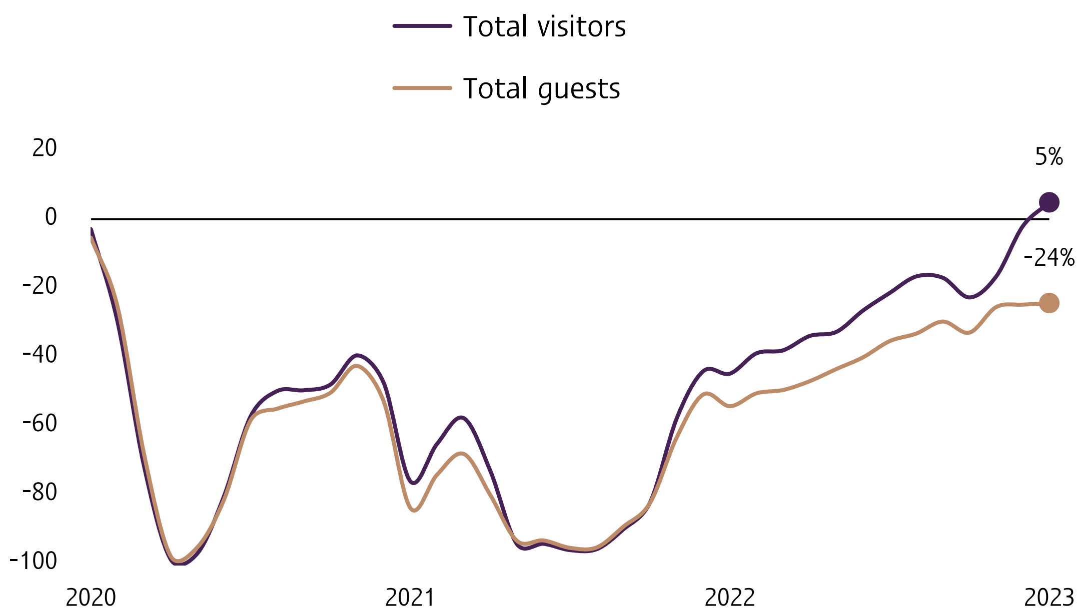
- **Domestic travel demand should continue to improve following better economic conditions,** as well as boosts from campaigns, including the We Travel Together (Rao Tiew Duay Kan) phase 5 that will help stimulate tourism during Mar – Apr.
- **Growing numbers of Thais traveling abroad.** Based on information from Japan National Tourism Organization, as of December 2022, approximately 83,000 Thais visited Japan, representing a growth of 60%MOM from November, with only 52,000 Thai visitors.
- **Additional campaigns to boost domestic tourism may not be launched this year,** as the tourism sector robustly rebounded. Furthermore, the new government formation may impact the direction of economic stimulus packages implemented in the periods ahead.

Source: SCB EIC analysis based on data from Ministry of Tourism and Sports and Japan National Tourism Organization.

The number of guests and occupancy should see considerable recovery in 2023, especially in provinces that are high dependent on international tourism revenue.

Recovery in total visitors* and guest arrivals

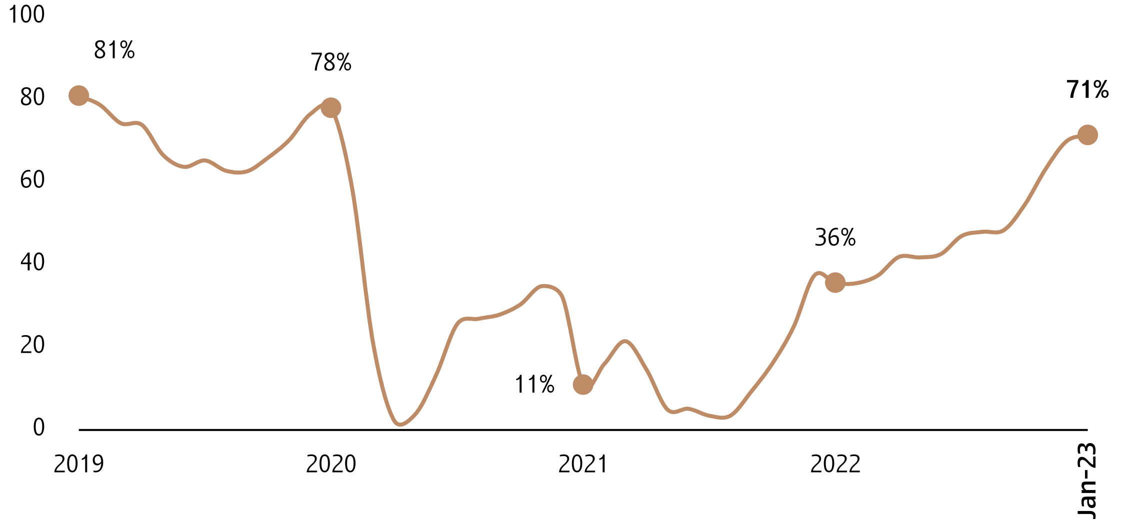
Unit: % vs 2019



Nationwide occupancy rate

Unit: % of total room supply

Year	2019	2020	2021	2022	2023F
Occupancy	70%	30%	14%	48%	64%



Most Thai tourists still continue to take short trips or one-day trips, as the number of visitors increases above pre-COVID-19 levels, while the number of guests is still recovering. Due to the recent economic conditions, household income may not return to normal levels yet. Thus, limiting spending on tourism. However, Thai tourists should go on more overnight trips as economic situations should improve this year.

Note: Total visitors include Thai and international visitors.

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

Returning tourists should promote continual recovery in businesses within the tourism ecosystem, especially businesses that are highly dependent on Chinese tourists.

Tourism ecosystem that will see support from returning tourist recovery

Tourism sector recovery overview

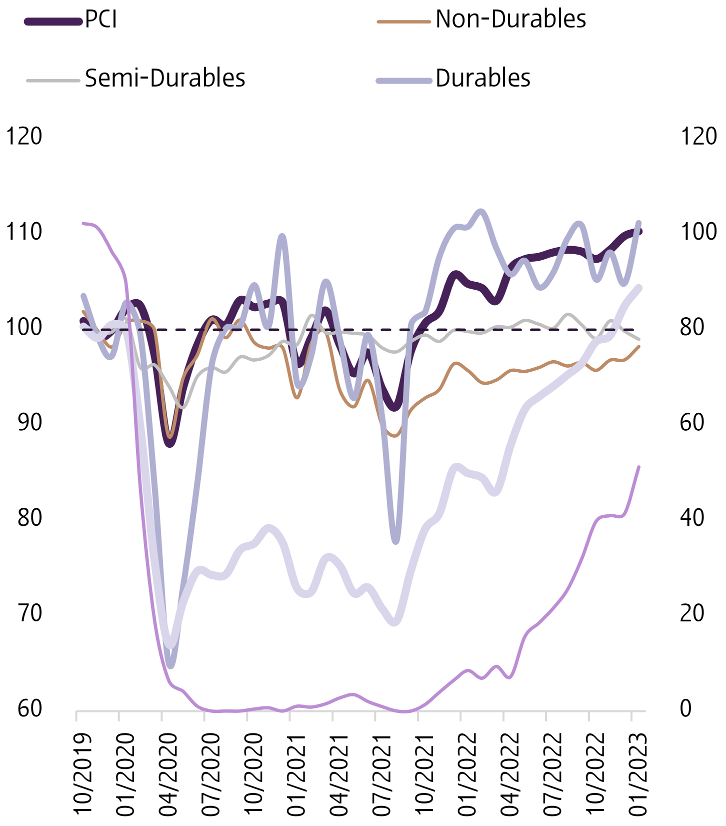
- **The hotel business continues to recover,** especially hotels in Bangkok, Phuket, Pattaya, and Chiang Mai, which are popular tourist destinations for Chinese tourists
- **The airline business should increase the number of flights to levels similar to pre-COVID-19,** especially low cost airlines that serve Chinese routes, including charter flights
- **Tour businesses,** including inbound tour companies that offer private or group tours, local tour guides that service foreigners, and outbound tour companies that service Thais traveling abroad
- **Tour bus operators** that service group tours and car rental companies that cater to F.I.T tourists
- **Tourist attractions and activities,** including amusement parks, zoos, shows, and cruises
- **Retail stores,** including stores that sell healthy products, such as herbal medicines, food supplements, and Thai brand beauty products, as well as fashion and brand name products in city center malls and supermarkets and convenience stores in tourist attraction areas.
- **Restaurants** that focus on Chinese group tours, including restaurants that are popular among foreigners i.e. Khao San Road, Yaowarat
- **Spa and Thai massage** businesses that focus on serving foreign tourists
- **The use of medical services should increase,** including treatment, health checks, and vaccination

Source: SCB EIC analysis based on data from Press release.

Private consumption should continue to improve, especially service expenditure, following tourism recovery. Consumer confidence hits a record high since COVID-19, though worries about sluggish economic recovery and high inflation remain.

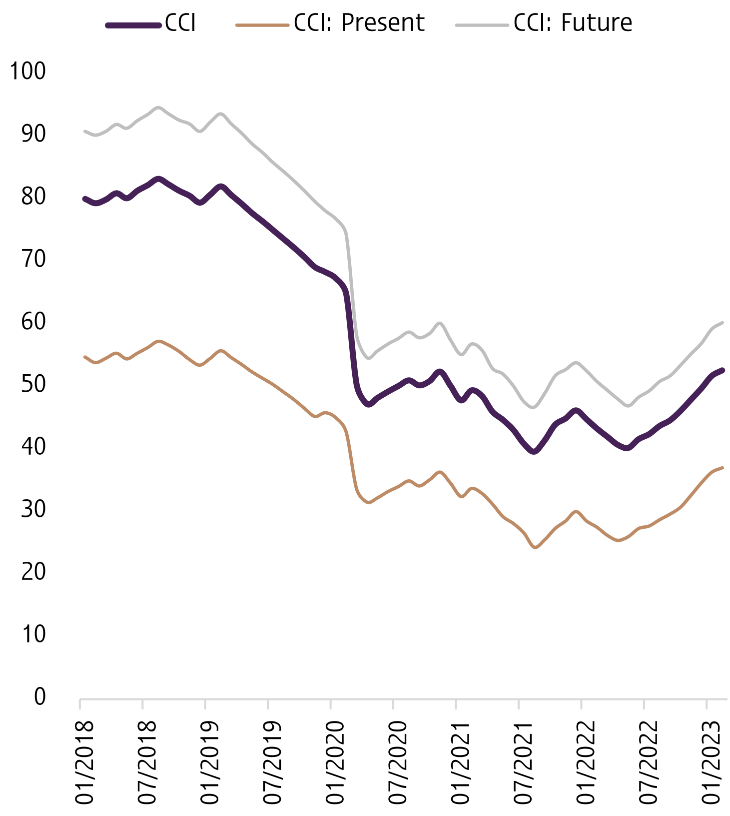
Private Consumption Index

Unit: Index (2019Q4 = 100), seasonally-adjusted



Consumer Confidence Index

Unit: Index > 100 = improving or in good position



Private consumption should continue to improve

- **The readings of nearly all Private Consumption Index (PCI) sub-categories improved from the prior month** (seasonally adjusted) following boosts from government economic stimulus measures, except semi-durable goods.
- **The Consumer Confidence Index (CCI) rose to 52.6 in February, the highest in 3 years,** on the back of tourism recovery, especially from Chinese tourists. In addition, domestic oil prices dropped considerably.
- **However, the CCI index continued to move under 100,** reflecting that consumers still view that overall economic conditions will slowly recover with concerns about high inflation, interest rate hikes, and the global economic slowdown.

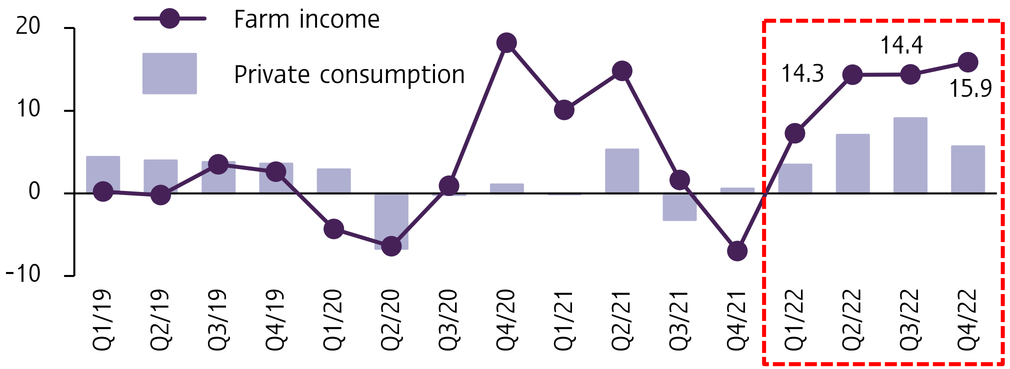
Source: SCB EIC analysis based on data from the Bank of Thailand, University of the Thai Chamber of Commerce, and CEIC.

Farm income should slow considerably as prices of various agricultural products may drop this year.

Private consumption and farm income (quarterly)

Unit: %YOY

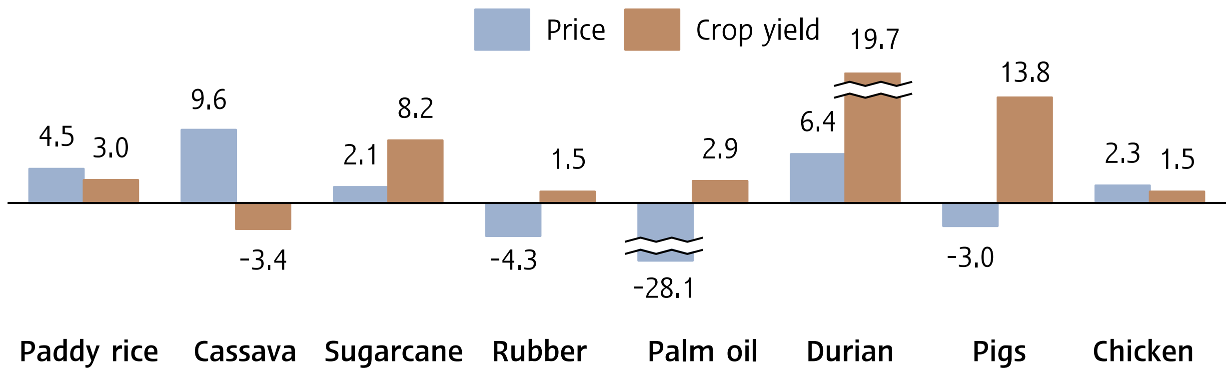
In 2022, robust farm income growth was one of the key drivers for private consumption recovery.



Forecasted agricultural crop yield and price index growth in 2023

Unit: %YOY

8 products account for 81% of the total products used to calculate the farm income index



Farm income growth forecast in 2023

Unit: %YOY

Forecast	2021	2022E	2023F
Income index	2.6	12.8	1.3
Price index	3.0	11.6	-1.5
Crop yield index	0.8	0.9	3.0

Farm income in 2023 should continue to expand, albeit at a slower pace. Agricultural production should increase, whereas prices may drop, a scenario that is different from last year with high price growth.

Positive/ negative factors to

- **Ample rainfall and water reservoir levels, as well as cultivation area growth,** should increase the production of rice, sugarcane, rubber, palm oil, and durian.
- **As the swine fever alleviated,** pig production should increase.
- **Excessive rainfalls in some areas** should impair cassava production.

Positive factors to prices

- **Global rice stock should drop, while India's rice export control** increases the price of rice in the global market.
- **Higher demand for durian from China** will increase durian prices.

Negative factors to prices

- **Given slowing global economic conditions and declining oil prices,** rubber prices should drop.
- **Increasing palm oil production in Malaysia** may reduce the price of Thai palm oil.
- **Higher pig production** reduces the price of pigs.

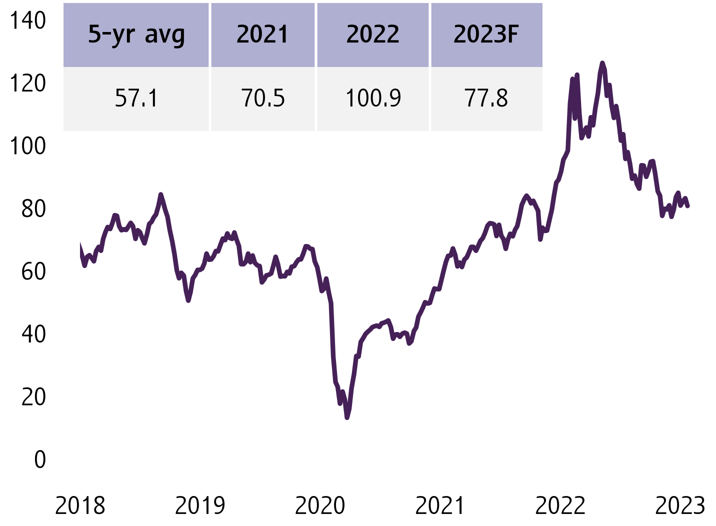
Source: SCB EIC analysis based on data from the Office of Agricultural Economics (forecast as of Feb 2023).

Global energy prices saw a sign of slowdown in 2023, but will remain extremely volatile and stay above the past average.

Brent prices

Unit: USD/Barrel

5-yr avg	2021	2022	2023F
57.1	70.5	100.9	77.8

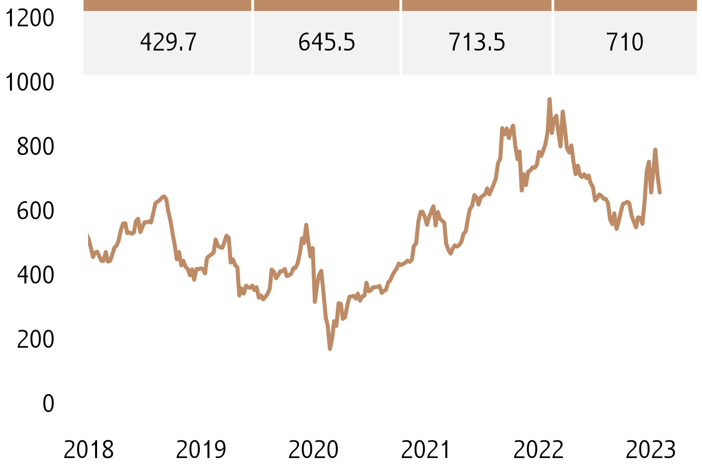


- Oil prices started to cool down after reaching an all-time high in 2022. Still, there remain downside risks from mounting fears over the economic recession and escalating sanctions on Russia via crude oil ban.
- China's reopening—which should drive global oil demand—and unsteady oil supply will keep oil prices high above the 5-year average.

Aramco LPG prices

Unit: USD/Ton

5-yr avg	2021	2022	2023F
429.7	645.5	713.5	710

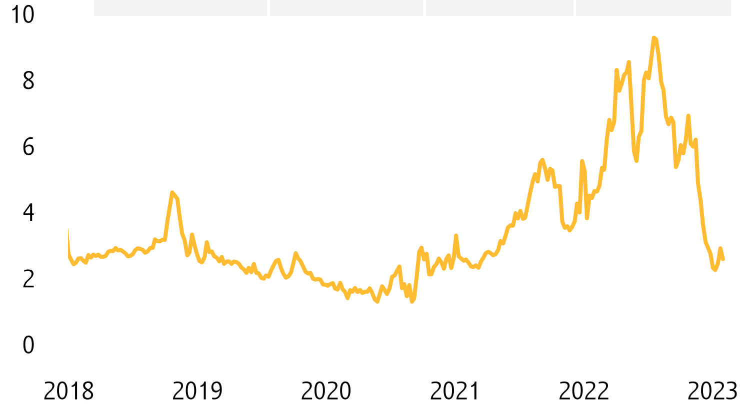


- Liquid Petroleum Gas (LPG) prices started to fall back alongside demand for final goods using propane feedstock.
- Yet, a slowdown in propane prices is unlikely since many PDH plants—which use propane as raw materials—plan to raise generation capacity this year, and the number of new plants also rose significantly.

Henry Hub natural gas prices

Unit: USD/MMBtu

5-yr avg	2021	2022	2023F
2.8	3.7	6.6	3.4



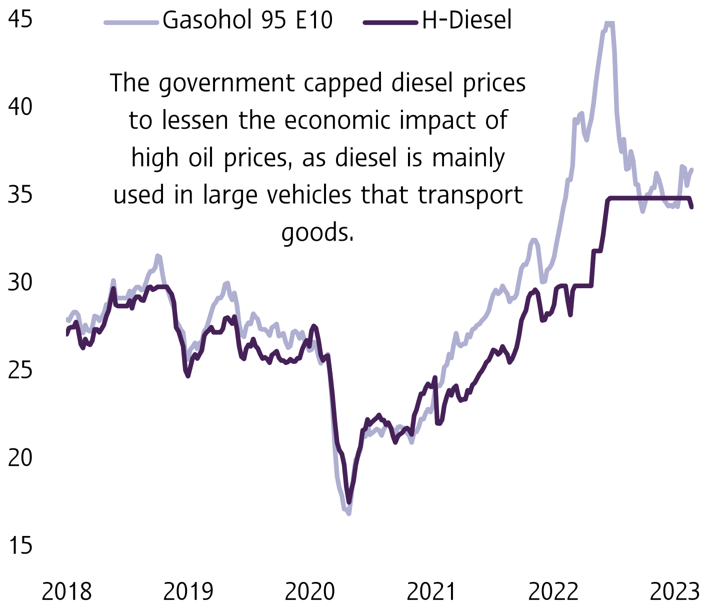
- Natural gas prices tumbled from the peak in 2022. Reasons behind were lower consumption due to price spikes, warmer-than-usual winter, and looming concerns over an economic slowdown. Still, recent China's reopening and extreme heat expected in mid-2023 might send natural gas prices rebounding this year.
- Overall, the global natural gas market has been increasingly tightened and exposed to diverse risks, which could trigger severe price volatility.

Note: 5-year period = 2015-2019; Data and analysis as of March 2023.
Source: SCB EIC analysis based on data from Bloomberg, TradingView, Goldman Sachs, US EIA, JP Morgan, and news report.

Despite a slowdown in energy costs, domestic energy prices should slowly recede since there remains an enormous subsidy burden on the Thai government.

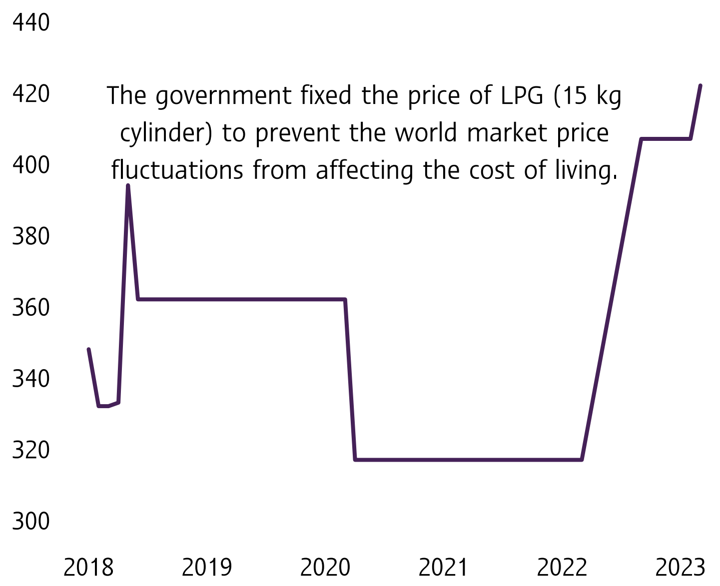
Retail price of diesel and gasohol

Unit: THB/ liter



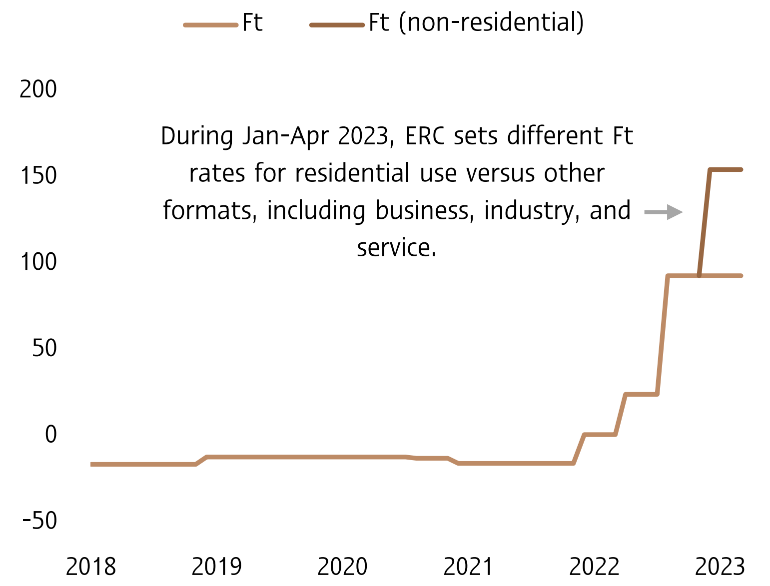
Cooking gas (LPG) price for 15 kg cylinder

Unit: THB/ 15 kg cylinder



Fuel tariff (Ft)

Unit: Satang per unit



In comparison to 2022, domestic energy prices dropped as global energy prices passed their peak, and the baht appreciated yet remain at higher levels compared to the 5 years average rate (2015-2019). However, the government fixed domestic energy prices in the past to help alleviate the cost of living. As such, the government had to bear substantial subsidy costs (as of March, the Oil Fund accumulated a deficit of THB 99,700 million while EGAT's electricity cost subsidy was over THB 150,000 million). Thus, **in 2023, the government should gradually lower energy prices.**

Note: Data and analysis as of the 3rd week of March 2023; fuel and household LPG subsidy scheme is administered under the Oil Fund.
Source: SCB EIC analysis based on data from EPPO, ERC, CEIC and news report.

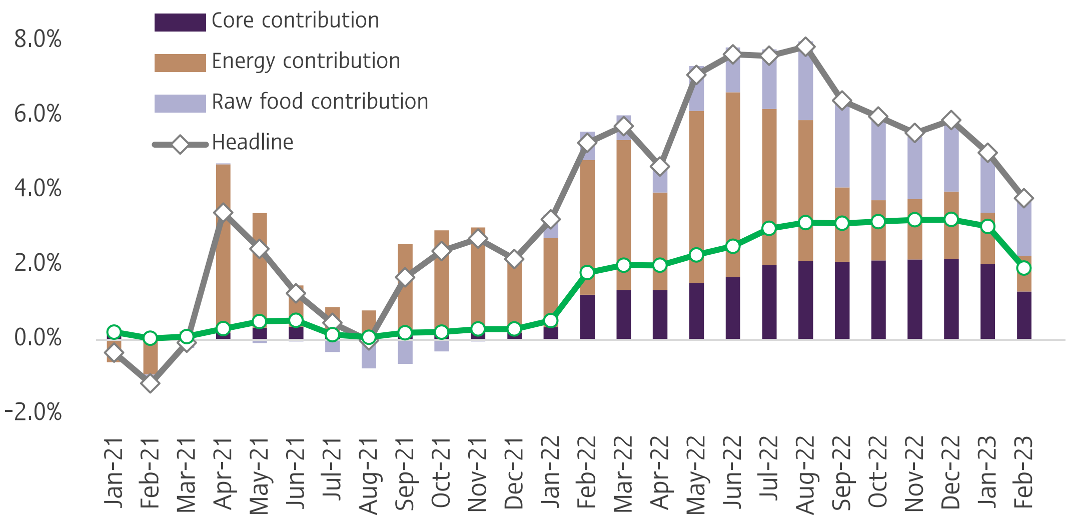
Thailand's inflation will likely cool down to 2.7% in 2023. Yet, we anticipate higher cost pass-through from producers to consumers and growing demand-pull inflationary pressures.

Change of CPI in each product category, February 2023

%YOY	Share	2022	Dec-22	Jan-23	Feb-23
All items	100%	6.1%	5.9%	5.0%	**3.8%**
Food and non-alcoholic beverages	40.4%	6.9%	8.9%	7.7%	**5.7%**
Raw food	20.6%	6.8%	8.9%	7.3%	7.1%
- Meat	3.5%	21.1%	19.9%	-1.1%	2.1%
- Prepared food at home	8.7%	7.5%	9.9%	9.2%	**5.0%**
- Food away from home	6.7%	7.0%	9.3%	8.6%	**4.4%**
Apparel and footwear	2.2%	0.0%	0.3%	0.2%	**0.3%**
Housing and furnishing	23.2%	4.7%	3.5%	3.1%	**3.1%**
Electricity, fuel, and water supply	5.5%	20.8%	13.0%	11.2%	11.2%
Medical treatment and personal services	5.7%	1.1%	1.8%	1.9%	**2.0%**
Vehicles, transport, and communication	22.7%	9.1%	5.7%	4.3%	**2.4%**
Recreation, education, and religion	4.5%	0.2%	1.4%	1.4%	**1.4%**
Tobacco and alcoholic beverages	1.4%	2.0%	1.3%	1.0%	**1.1%**
Core CPI	67.1%	2.5%	3.2%	3.0%	1.9%

Contribution to headline inflation

Unit: Index (2019 = 100)



- **Headline inflation showed a more apparent sign of slowdown** as overall prices regained firm ground or slightly ebbed—particularly oil prices, which slipped alongside global market prices and high-base effects.
- **Looking ahead, the core inflation should soften more slowly** as producers pass on higher cost burdens to consumers while demand-pull inflation pressures have been rising in response to an economic rebound.

Forecast	2023F
Headline CPI	2.7%
Core CPI	2.4%

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

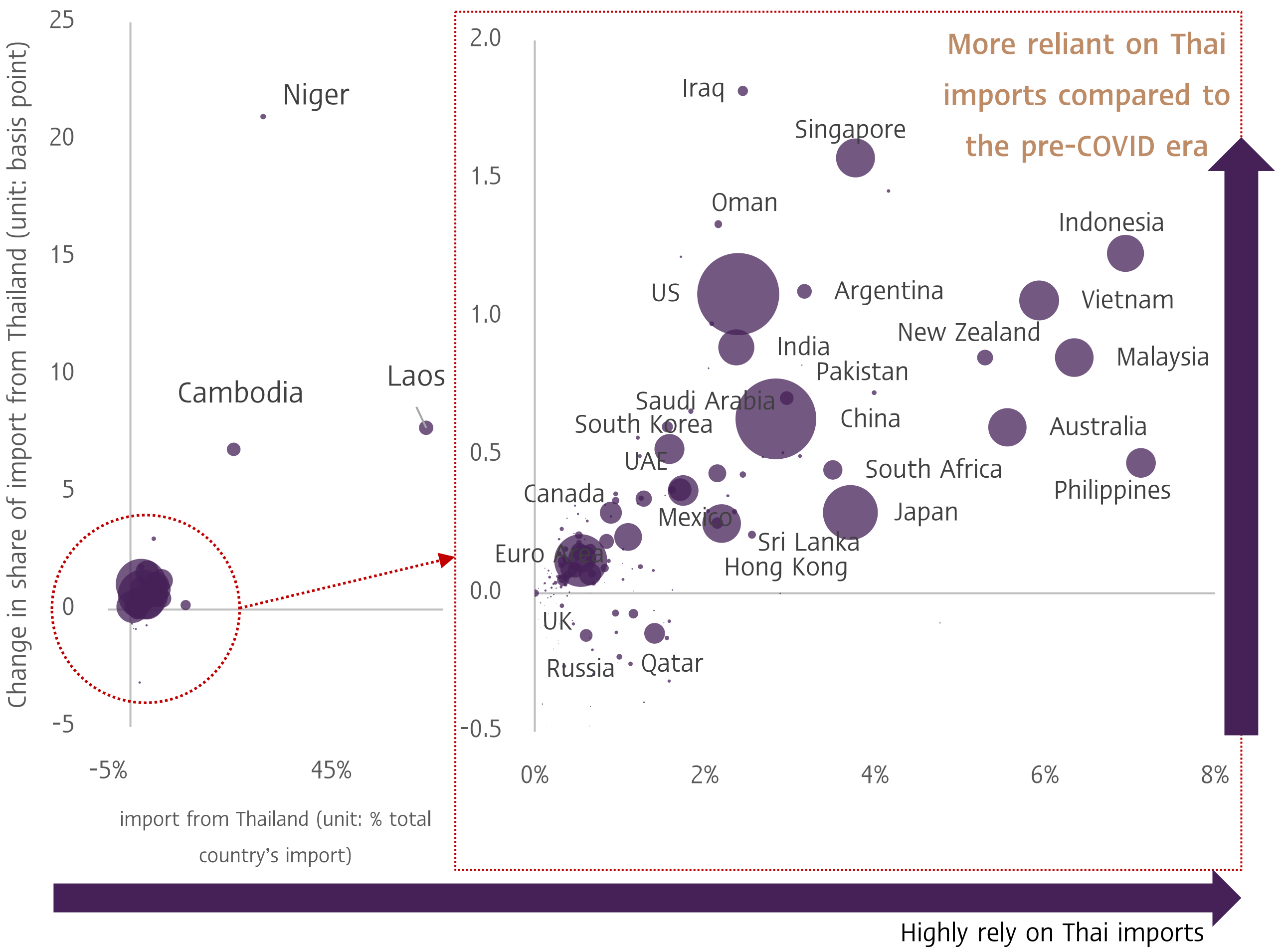
Thai exports grow 5.5% in 2022, despite the Q4 contraction due to the economic slowdown among major trade partners. Notably, ASEAN, the Middle East, and LATAM have increasingly relied on Thai imports compared to the pre-COVID-19 era.

Export value and top export markets

Unit: %YOY, customs basis

Unit: %YOY, (2022 share)	2022	2022Q3	2022Q4	Nov-22	Dec-22	Jan-23
Total exports (100%)	5.5%	6.6%	-8.5%	-6.0%	-14.6%	-4.5%
Excluding gold (97.5%)	4.4%	6.3%	-8.3%	-5.1%	-13.9%	-4.4%
Agriculture (9.3%)	2.2%	-3.0%	-7.0%	-4.5%	-11.5%	-2.2%
Agro-industrial (7.9%)	17.8%	21.2%	-4.0%	1.0%	-10.7%	-3.3%
principle manufacturing products (78.6%)	4.4%	6.2%	-8.4%	-5.1%	-15.7%	-5.4%
Mining and fuel (4.1%)	15.5%	11.3%	-22.0%	-35.0%	-4.8%	6.8%
US (16.6%)	5.5%	15.8%	-1.3%	1.2%	-3.9%	-4.7%
China (12%)	13.4%	-18.1%	-13.4%	-9.9%	-20.8%	-11.4%
ASEAN-5 (14.2%)	-7.7%	11.9%	-17.6%	-15.5%	-24.2%	2.3%
CLMV (10.9%)	9.5%	30.1%	-0.9%	-0.3%	-11.8%	-11.1%
Japan (8.6%)	11.5%	-0.2%	-7.1%	-4.6%	-13.7%	-9.2%
EU-28 (9.3%)	-1.3%	17.4%	-1.8%	3.3%	-0.9%	2.7%
Hong Kong (3.5%)	6.6%	-22.6%	-24.7%	-9.5%	-40.1%	-33.0%
Australia (3.9%)	-13%	17.8%	-2.9%	-2.2%	-20.8%	-8.8%
Middle East(3.8%)	1.8%	37.5%	12.9%	13.5%	4.7%	23.6%
India (3.7%)	22.8%	13.6%	-6.1%	0.7%	-4.2%	5.3%

Reliance on Thai imports by trade partners

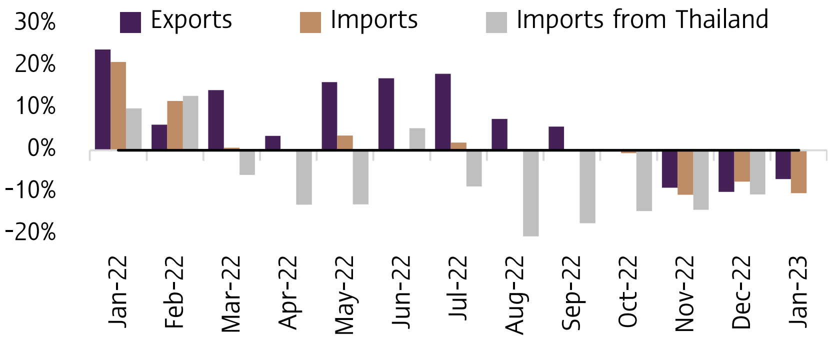


Source: SCB EIC analysis based on data from the Ministry of Commerce and CEIC.

Thai exports are expected to grow 1.2% in 2023, against headwinds from the global economic, trade deceleration and high-base effects, thanks to a more upbeat global economy and a rebound in Chinese demand.

China's export and import value

Unit: %YOY

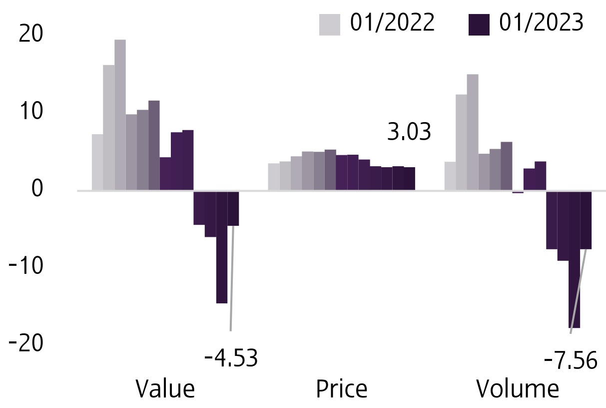


Tailwinds to exports

- **The global economy is likely to perform better than expected.**
- **Recovery in China's demand:** Shortly after the reopening, Chinese imports should rebound slowly as most of the first economic activities to regain pace are concentrated in the service sector, which hardly relies on imports. We expect China's demand and imports to fully resume momentum from 2H2023 onwards.
- **Supply bottlenecks have been easing gradually**, thus improving delivery times and container shortages.
- **The Thai baht weakened further than anticipated,** thus which will help boost the value of exports when converted to local currency.

Thailand's export value, price, and volume

Unit: %YOY



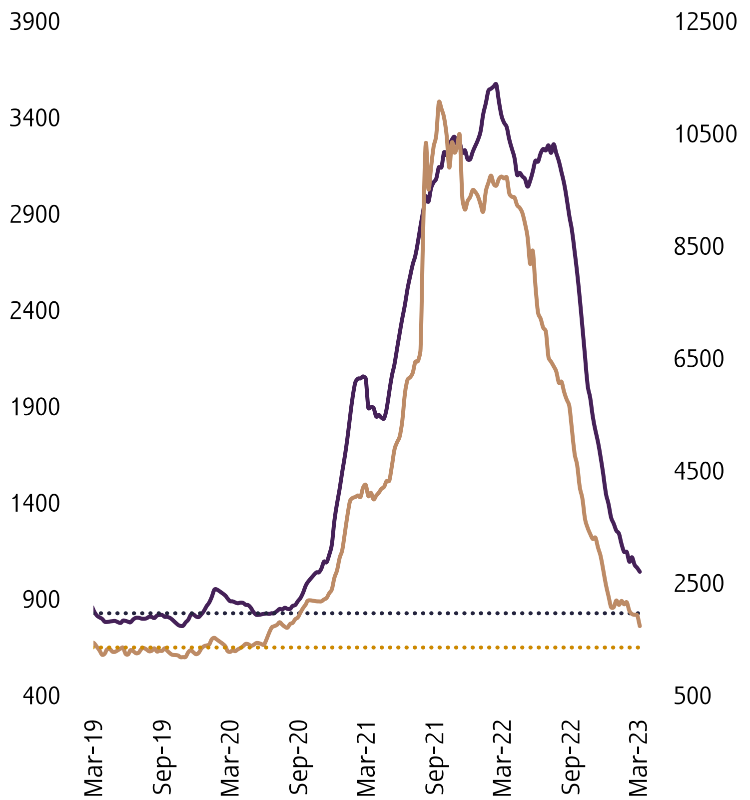
Headwinds to exports

- Global trade and demand looked to ease off, thus threatening Thai export volume.
- A slowdown in export prices

Container Freight Rate Index

Unit: Index (1 Jan 1998 = 1,000)

Unit: Index (weighted avg. of 12 regional routes, USD/FEU)



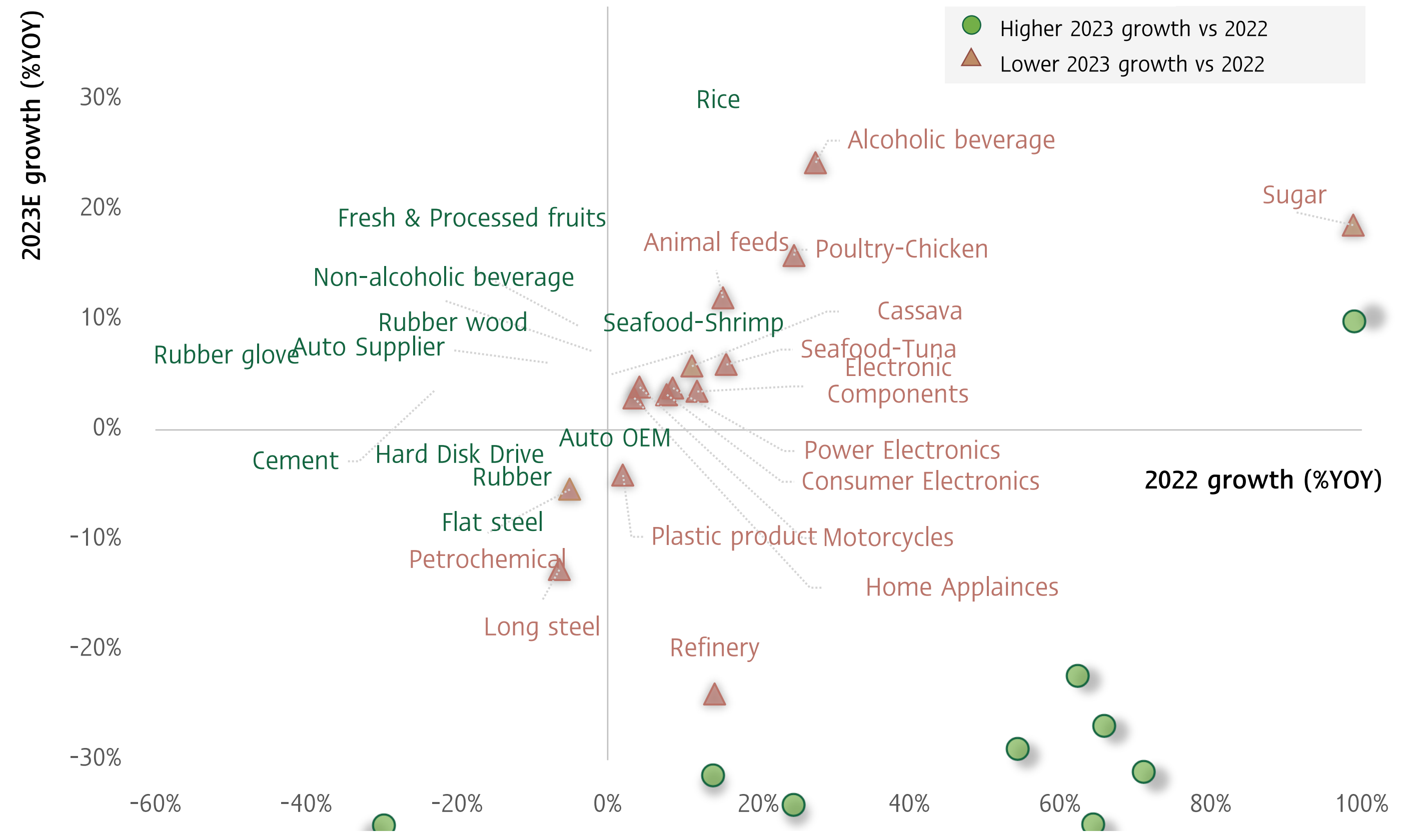
Source: SCB EIC analysis based on data from Bloomberg and CEIC.

Exports of industrial products should slow as lower commodity prices dragged growth. Meanwhile, consumer goods should robustly increase following trading partner demand, especially in China, with recovering growth after the reopening.

Export growth in 2022 vs forecast for 2023 (by industry)

Unit: %YOY

Forecasted merchandise export value in 2023 (%YOY)	1.2



Exports of most industrial products in 2023 should slow or contract from the previous year, including

- **Slowing growth:** sugar, cassava, alcoholic beverages, electronics equipment, and motorcycles, following sluggish global demand
- **Growth contraction:** steel, energy, and plastic, following declining prices and lower global crude oil prices

Exports of certain industrial products should increase this year, including

- **Accelerating growth:**
  - Shrimp (recovering trading partner demand, especially in China)
  - Rice (higher global competitiveness from 1) India's rice export control measures and 2) increasing Thai rice output)
- **Recovering growth:**
  - Gloves, rubber, non-alcoholic beverages, and cement (recovering global demand, especially in China and CLMV)
  - Automotive (easing supply disruption)

Note: *Industrial products included in the forecast accounts for 55.6% of total export value.

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

Furthermore, SCB EIC sees three potential markets for Thai exports in 2023: the Middle East, CLMV, and Latin America.

GDP growth forecast by IMF (Oct 2022 and * =Jan 2023)

Unit: %YOY

Region	2019	2020	2021	2022	2023F	2024F	2025F	2026F	2027F
MECA	1.7	-2.7	4.5	5.0	3.2*	3.7*	3.6	3.7	3.7
CLMV	6.4	0.6	-2.6	4.1	4.7	5.1	5.1	5.2	5.3
LaTam	0.2	-7.0	6.9	3.5	1.7	2.4	2.5	2.5	2.4
World	2.8	-3.0	6.0	3.2	2.9	3.1	3.4	3.3	3.2

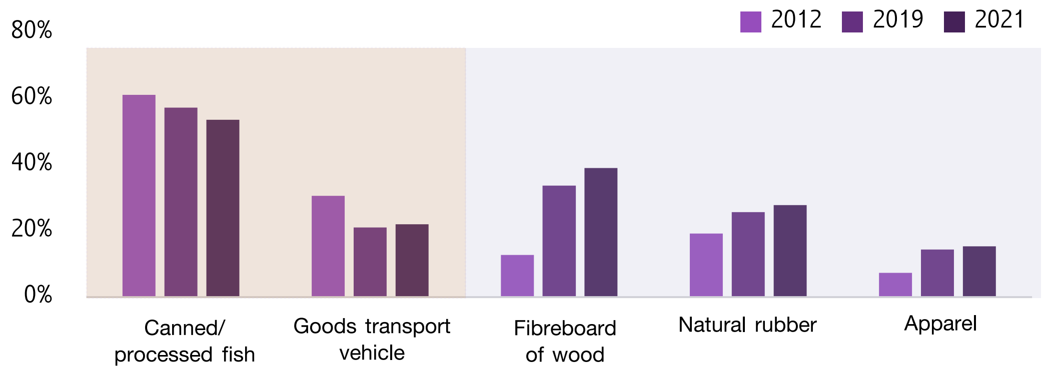
Export outlook of potential export market

Export market	Short-term outlook (2023)	Medium-term outlook
Middle East		
CLMV		
LaTam		

- **The Middle East:** Thai exports will benefit from the restored diplomatic ties between Thailand and Saudi Arabia and the buoyant regional growth, which will likely beat the global economy this year.
- **CLMV:** Thai exports continued gaining substantial support from the Thai government, such as border export promotion. The CLMV economies also look to outperform global growth in 2023.
- **LATAM:** The new export market targeted by the Ministry of Commerce—huge room for growth despite a small market size.

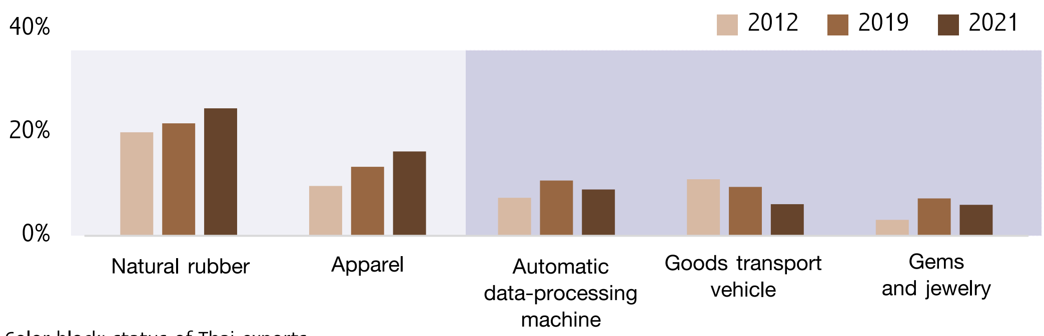
Potential export products to the Middle East

Unit: % of imports from Thailand to total imports of the Middle East market



Potential export products to the Latin America

Unit: % of imports from Thailand to total imports of the Latin American market



Color block: status of Thai exports

= High value, large market share, room for growth; **should strengthen the market share** (but the market size remains small)

= Large market share but tends to shrink; **must maintain the current market share**

= Major import products are what Thailand specializes in, but market share remained small; **a rosy export opportunity**

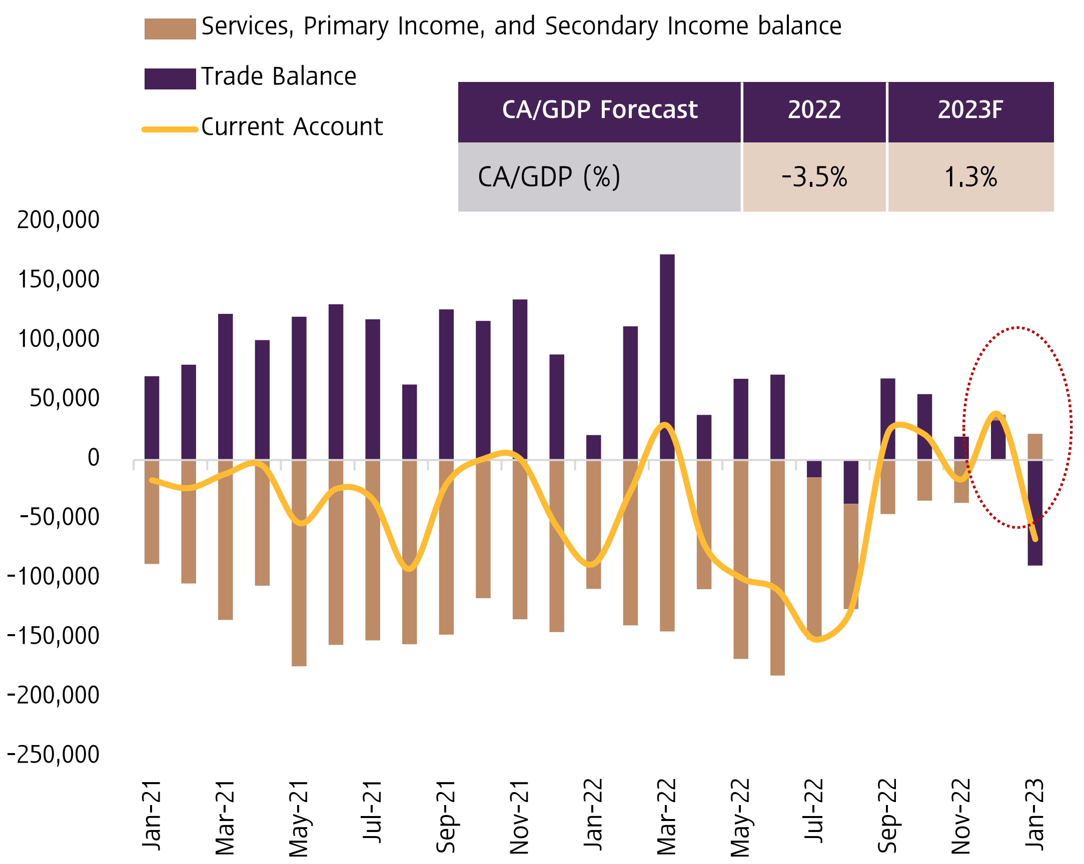
Source: SCB EIC analysis based on data from International Trade Center and IMF WEO.

Looking ahead, the current account balance will likely improve thanks to a rebound in tourism income and trade surplus, as exports continue to expand while imports should fall back alongside commodity prices.

Thailand's balance of payments slipped to a deficit again in Jan due to widening trade deficits

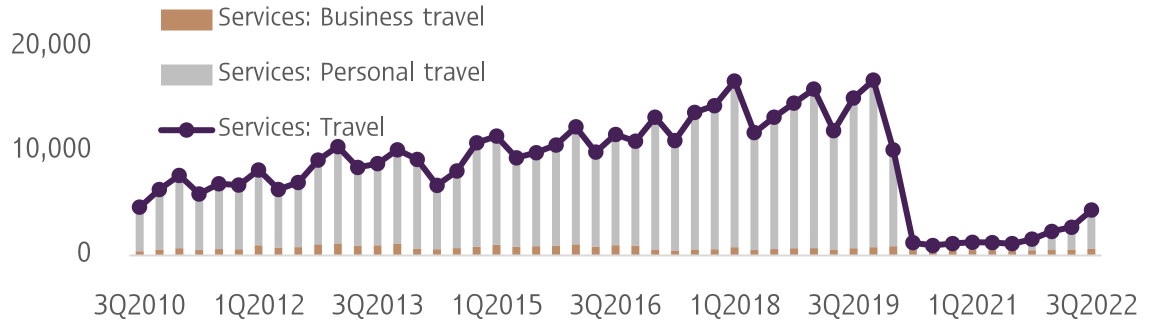
Unit: THB million

CA/GDP Forecast	2022	2023F
CA/GDP (%)	-3.5%	1.3%



Services balance

Unit: THB million



Import value by product: increased, particularly fuels and vehicles and transport accessories

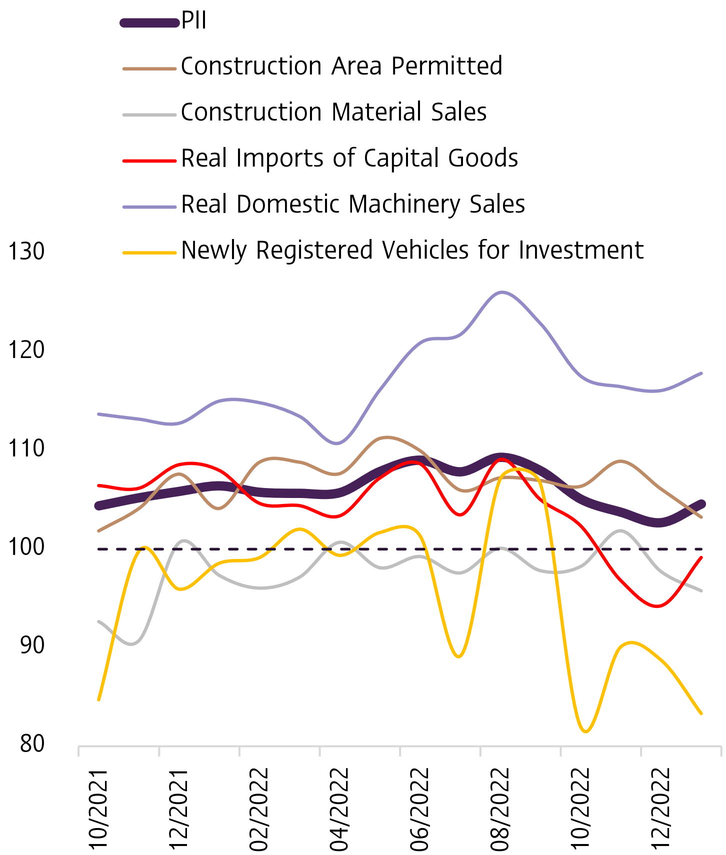
Unit: %YOY, Thai Customs System, 2021 share	2022	2022Q3	2022Q4	Dec-22	Jan-23
Total imports	13.6%	20.2%	-3.3%	-11.9%	5.5%
Excluding gold	13.0%	15.7%	-4.0%	-11.2%	6.3%
Fuel lubricants (14.7%)	56.9%	78.8%	8.3%	-13.2%	84.4%
Capital goods (24.4%)	2.5%	-0.5%	-8.5%	-8.6%	-10.3%
Raw materials & intermediate products (43.6%)	8.3%	16.6%	-6.8%	-17.1%	-7.4%
Consumer goods (11.7%)	4.3%	6.5%	-6.4%	-7.5%	0.4%
Vehicle and transport accessories (5.4%)	-14.8%	-10.5%	-6.1%	-9.9%	28.4%
Military weapon, ammunition, and others (0.1%)	1039.9%	881.3%	2222.3%	1948.1%	3.9%

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

Private investment should continue to expand following higher business sentiment and number of projects submitted and certificates issued by BOI.

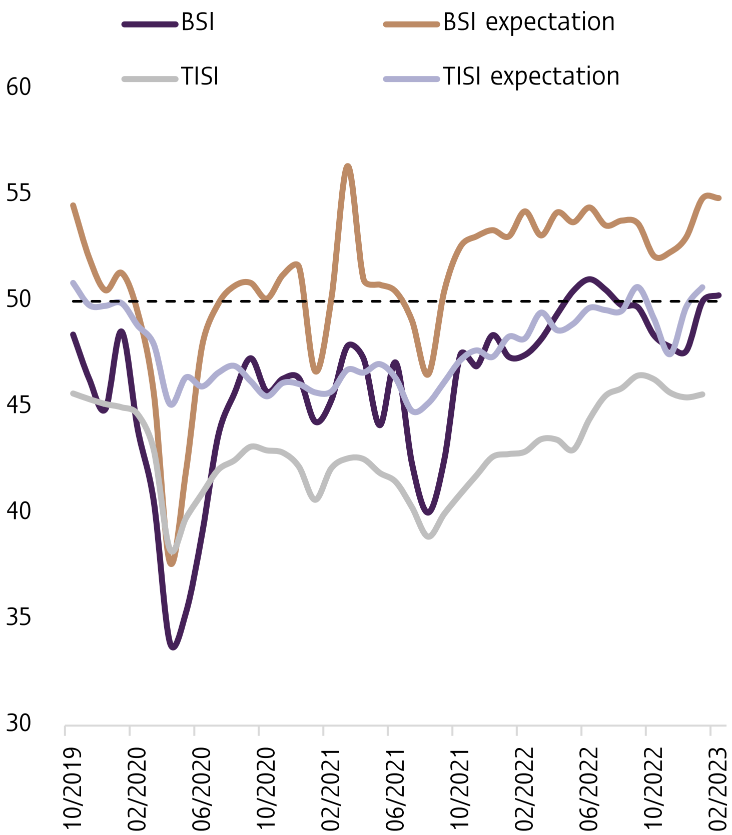
Private Investment Index

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



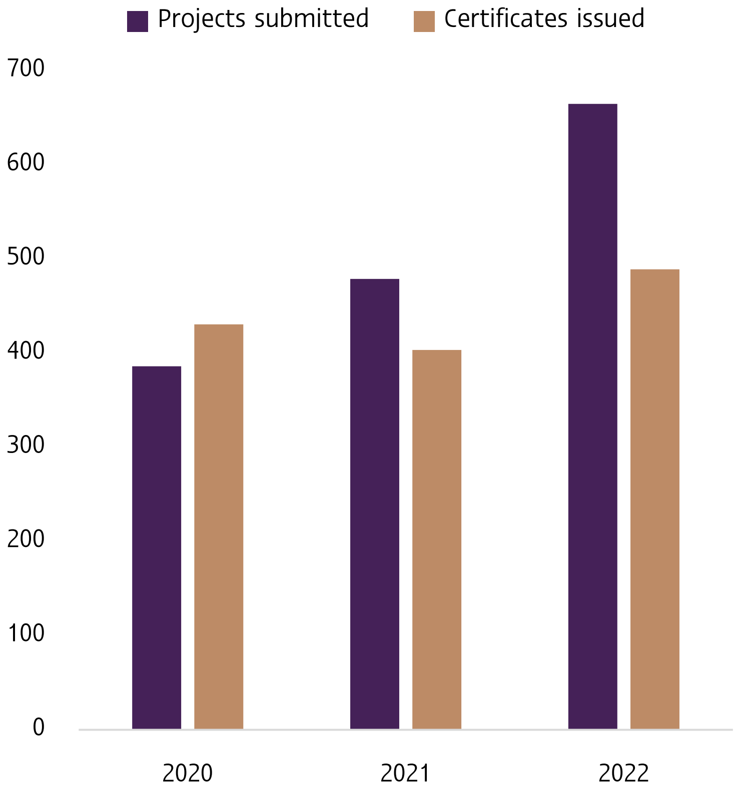
Business Sentiment Index (BSI) and Thai Industries Sentiment Index (TISI)

Unit: Index >50 = better conditions, seasonally adjusted



Projects submitted to BOI and issuance of BOI certificates

Unit: THB billion

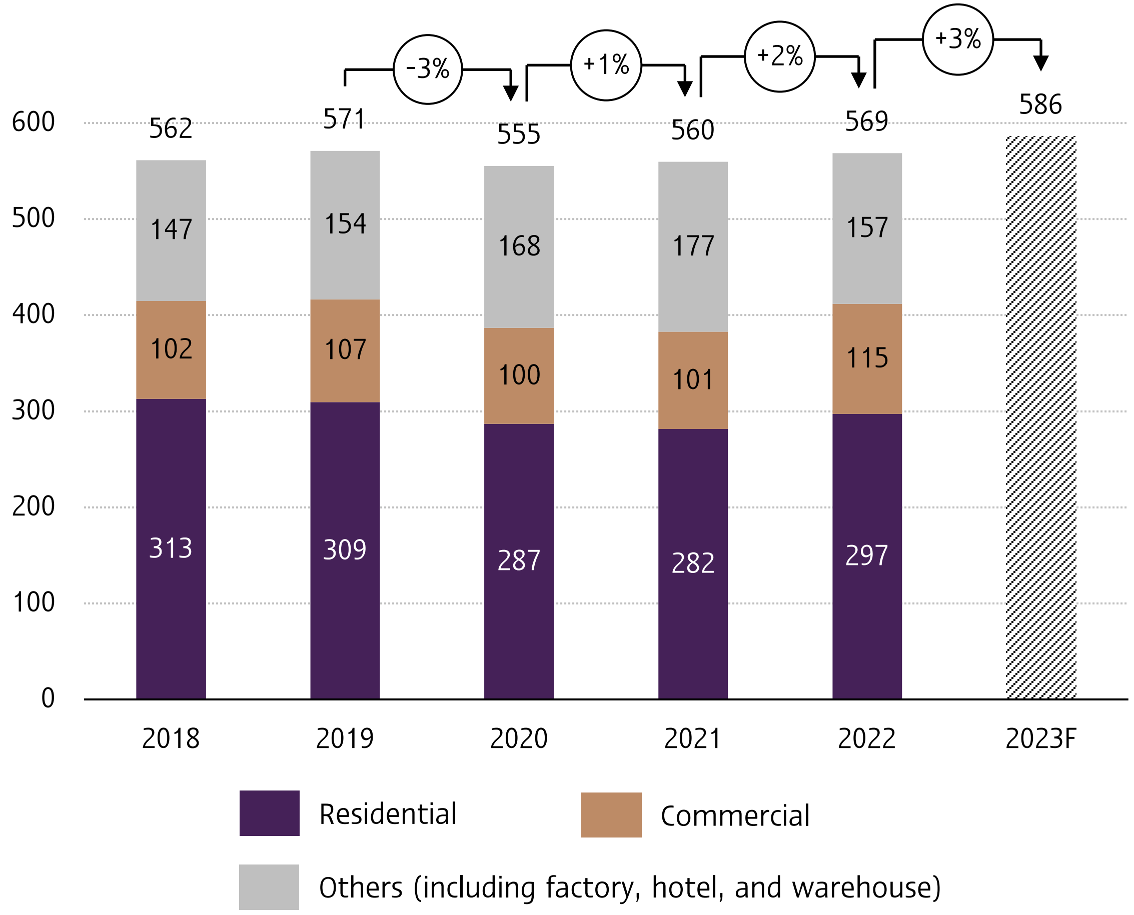


Source: SCB EIC analysis based on data from the Bank of Thailand, Federation of Thai Industries, Board of Investment, and CEIC.

Private construction in 2023 will expand further with impetus from the new residential and large commercial real estate projects.

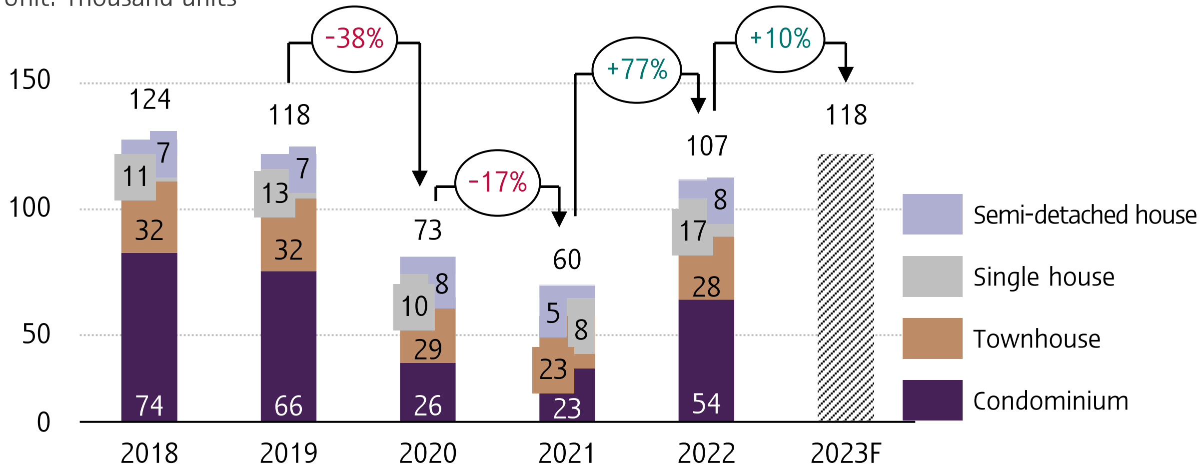
Value of private-sector construction

Unit: THB billion



Number of new housing units in the Bangkok Metropolitan Region

Unit: Thousand units



Residential project: observed a rising number of new projects to be launched this year, both horizontal properties and condominiums, mainly medium- to low-priced projects. Meanwhile, high-priced housing projects—especially condominiums—will gradually rebound from a contraction in 2022.

Commercial real estate:

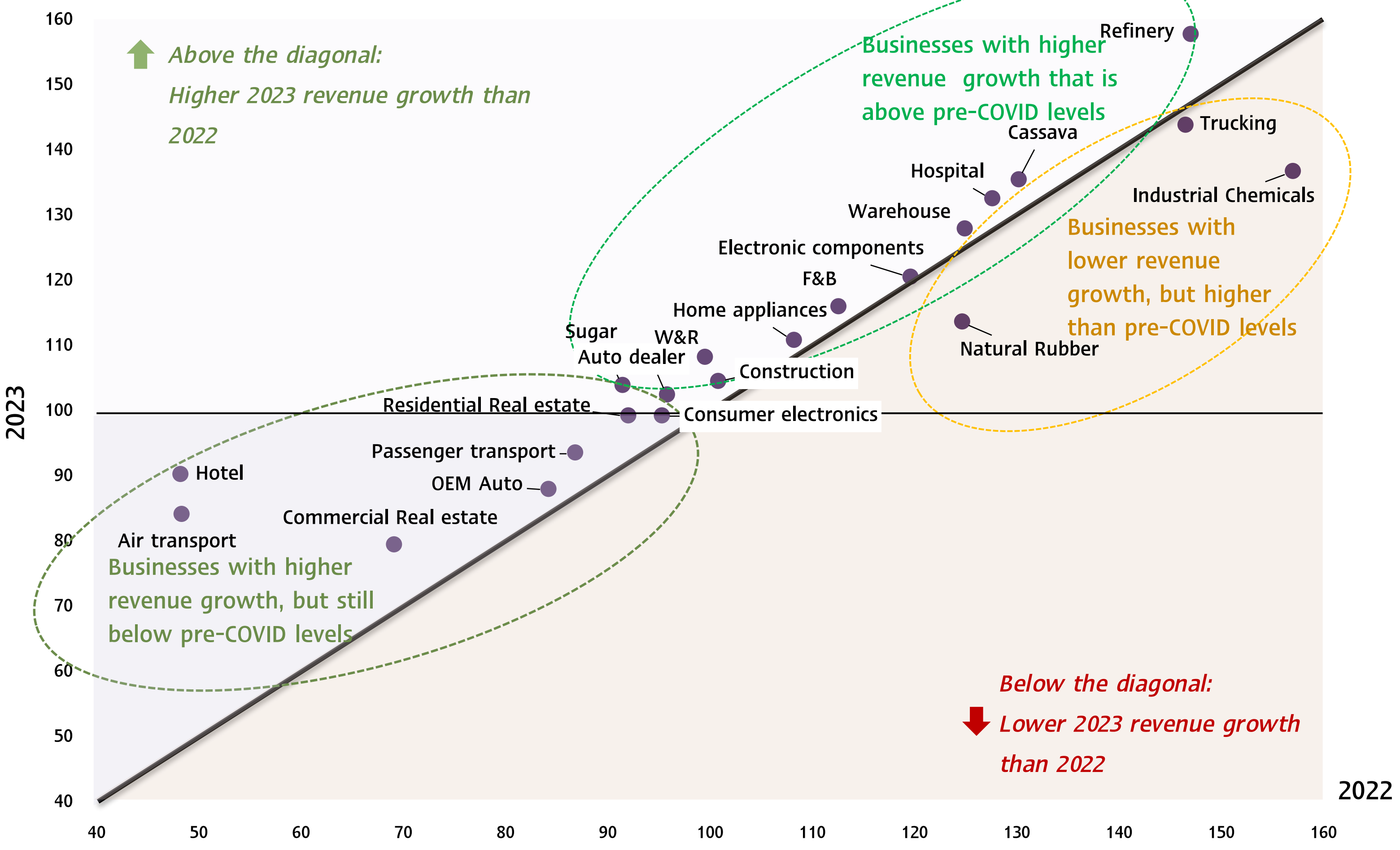
- **Construction of large projects continued,** and the total footprint of construction permits has picked up since 2021.
- **Several retail properties undergo renovation** in response to the rebound of spending power among Thai customers and foreign tourists.

Source: SCB EIC analysis based on data from NESDC and AREA.

Business revenue should improve, especially in travel-related service businesses. However, overall export growth should slow.

Expected change in business revenue in 2023 vs. 2022

Unit: Index 2019 = 100



Factors impacting business prospects in 2023

Recovery of the tourism sector

- Buoyantly recovering **tourism and related sectors:** hotels, retail, restaurants, hospitals, and commercial real estate in the retail sector
- **Passenger transport businesses** recovering from returning tourists
- **Residential real estate -** China's reopening urges condominium market growth

The global economy stalling at a slower than anticipated rate

- **Agricultural businesses i.e. rice, sugar, cassava, and F&B with high export shares, such as shrimp and tuna,** have higher demand from trading partners
- **Electronics, appliances, and automotive sectors** see slowing growth with risks from supply chain disruption
- Slowing **transportation sector** revenue from stalling exports and e-commerce activities

Parliament dissolution and the new election

- **Government construction businesses** continued to grow, though with risks from new government formation delays that will impact the approval of new projects

Inflationary pressure from slowing energy and commodities prices

Certain agricultural products i.e. rubber sees lower prices following declining global crude oil prices

- Lower **refinery sector** costs, but prices remain high from growing demand

Rising interests **impacting real estate and automotive sectors**

Source: SCB EIC analysis.

Labor market recovery amid high household debt

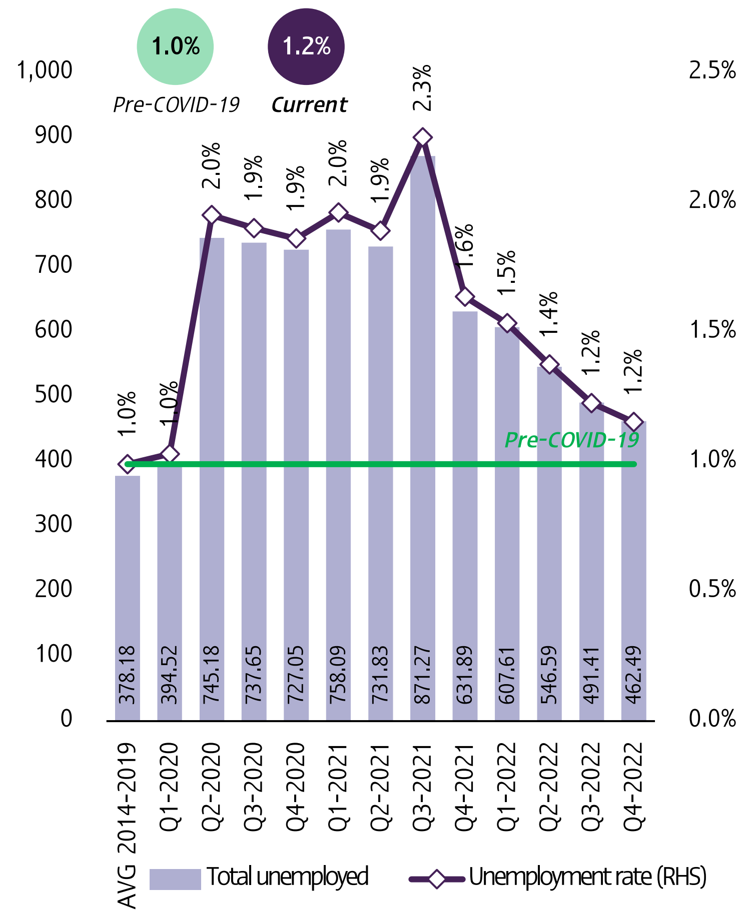
Thailand's labor market witnessed a buoyant rebound, backed by robust employment in the service sector and improving wages. Yet, household debt stood persistently high and will likely escalate further.

SCB Economic Intelligence Center

The labor market gradually regained its pre-pandemic pace as market fragility subsided on the back of an upbeat economic recovery and workers returning to the tourism and service sectors.

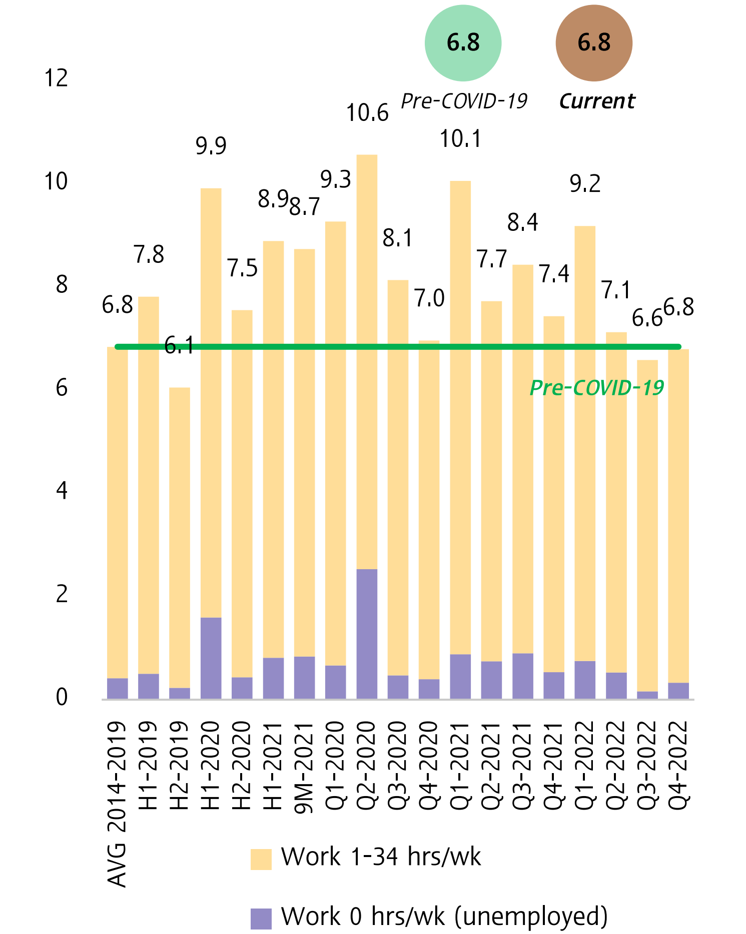
Number of the unemployed and unemployment rate

Unit: 1,000 persons | Unit: % of workforce



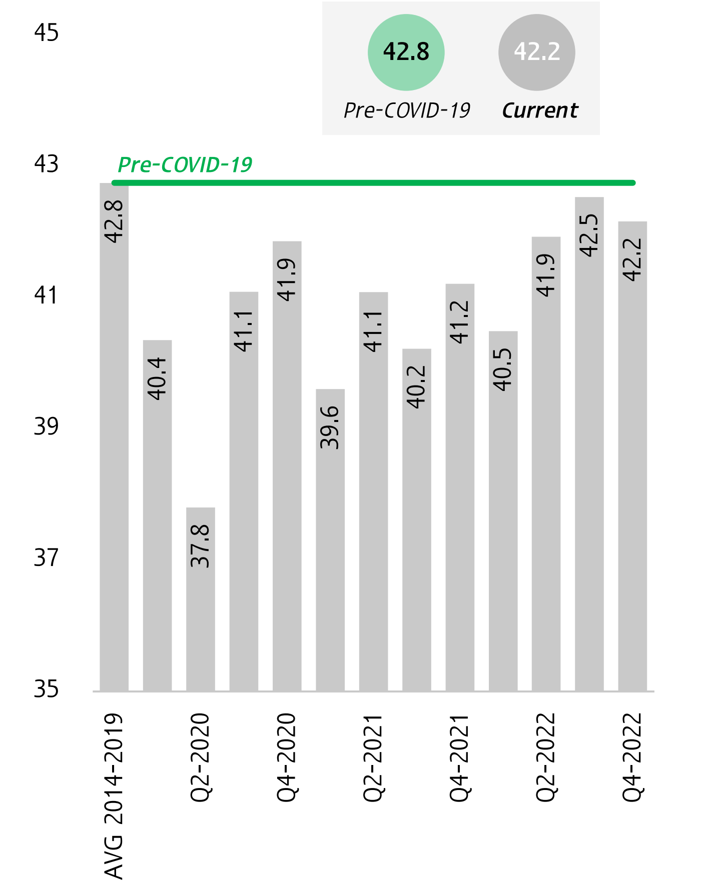
Number of the underemployed (work < 35 hours/ week)

Unit: Million persons



Average hours worked

Unit: Hours/ week

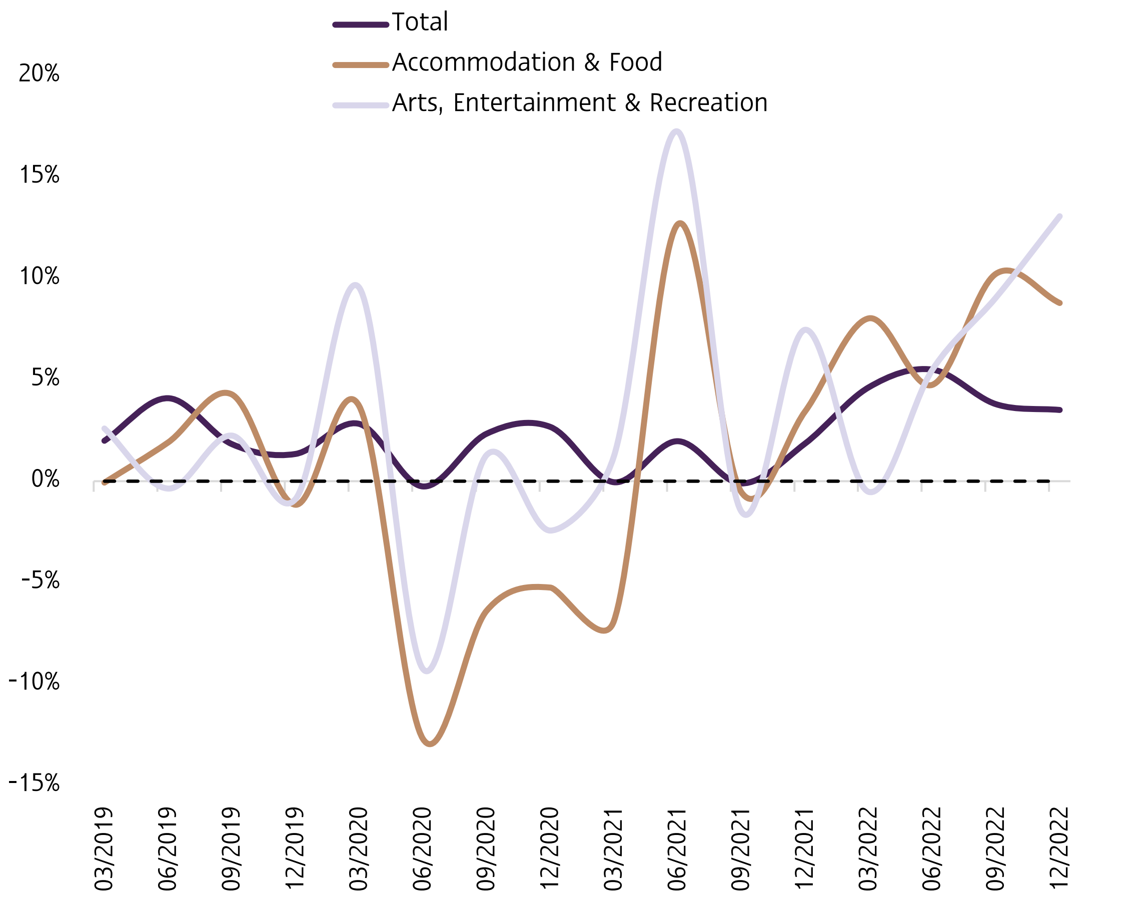


Source: SCB EIC analysis based on data from the Ministry of Labour and the National Statistical Office of Thailand.

Wages in the tourism industry are poised to increase, given a rebound in overall employment and rising labor demand in the tourism business.

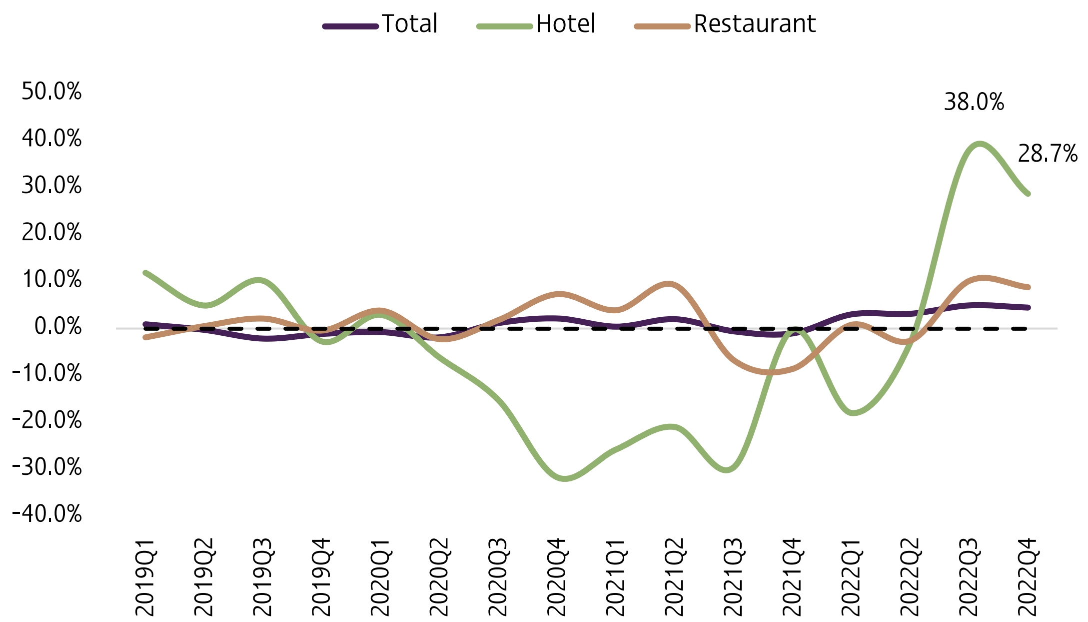
Wage in the tourism sector

Unit: %YOY



Number of labors in the tourism sector

Unit: %YOY



"Hotel, accommodation, restaurants, and shops currently call for ≈ 10,000 job openings in 60 provinces."

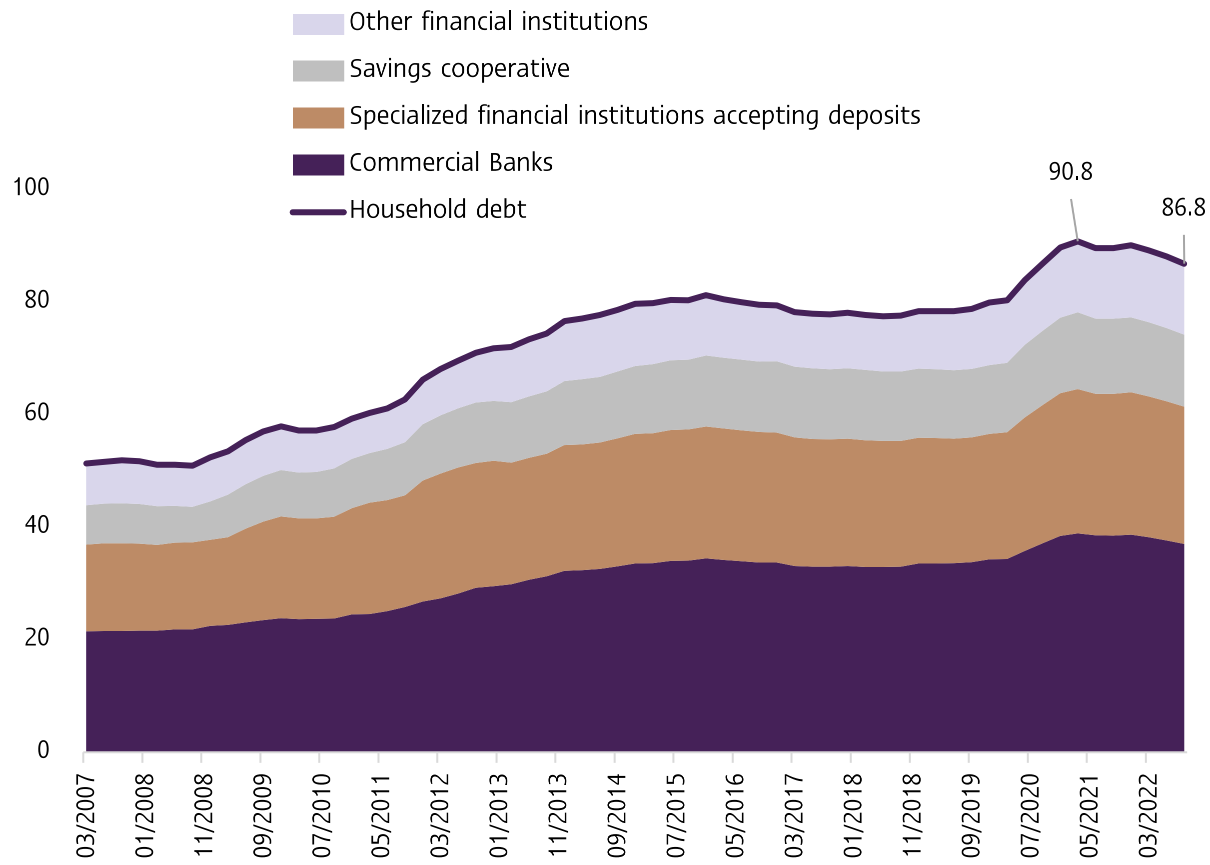
The Ministry of Labour and NESDC

Source: SCB EIC analysis based on data from the Ministry of Labour, the National Statistical Office of Thailand, NESDC, and CEIC.

Household debt to GDP ratio somewhat dropped, though the ratio remains high; the problem should be seriously addressed.

Household debt to GDP ratio gradually dropped, however the ratio remains high

Unit: %GDP



Government's effort to alleviate household debt

- **In the past, the government tried to alleviate household debt via various channels** i.e. creating awareness and promoting financial discipline, issuing regulations to supervise commercial bank lending, and assisting in debt restructuring and moratorium during COVID
- **Going forward, the government should seriously address the issue.** Moreover, the Bank of Thailand published a Directional Paper on Sustainable Solutions to Thailand's Structural Debt Overhang Problems in February.

BOT's guidelines on sustainable solutions to household debt

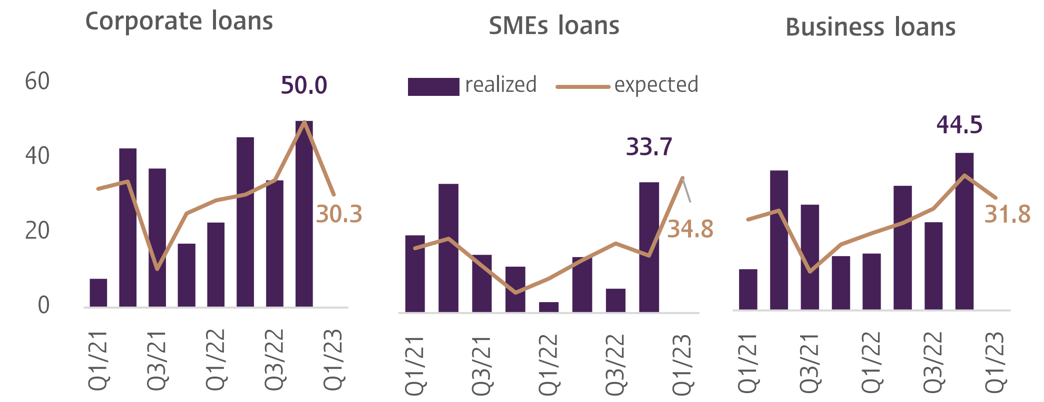
- **Current NPLs** - hasten debt restructuring, creditors to provide debt counseling and way out, appoint agents to provide debt counseling and mediation, and push for voluntary debt rehabilitation and bankruptcy laws.
- **Ensure new debt is quality debt** - issue responsible lending guidelines, set recommendations to ensure that debtors can repay the issued debt while having enough excess to spend on living expenses, encourage retail creditors to charge interest rates according to the debtor's credit risk, report the debtor's credit information, and arrange courses to create awareness.

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

Overall, loan demand rose in line with Thailand's economic recovery. Major lenders have tightened their credit standards due to growing concerns over SMEs and household debt service ability.

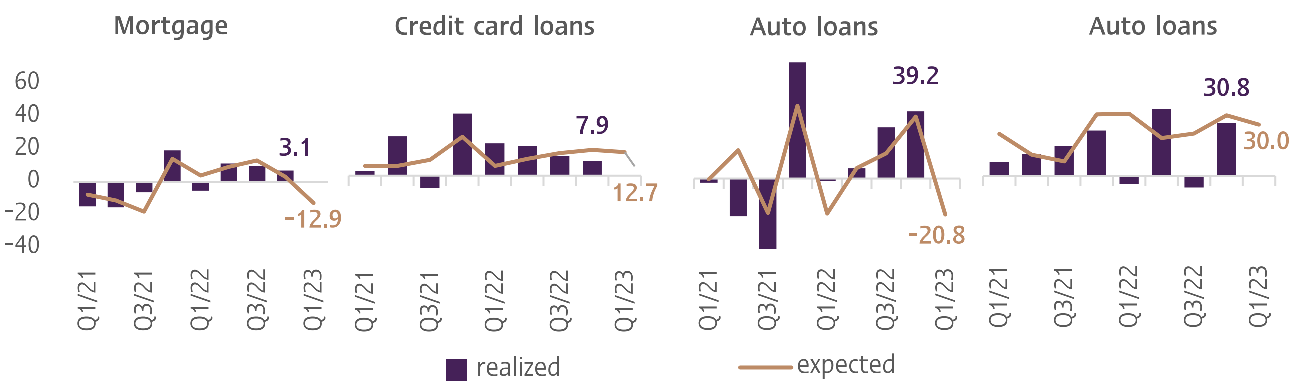
Loan demand was on the rise among Thai businesses

Unit: Index (> 0: higher loan demand from previous quarter)



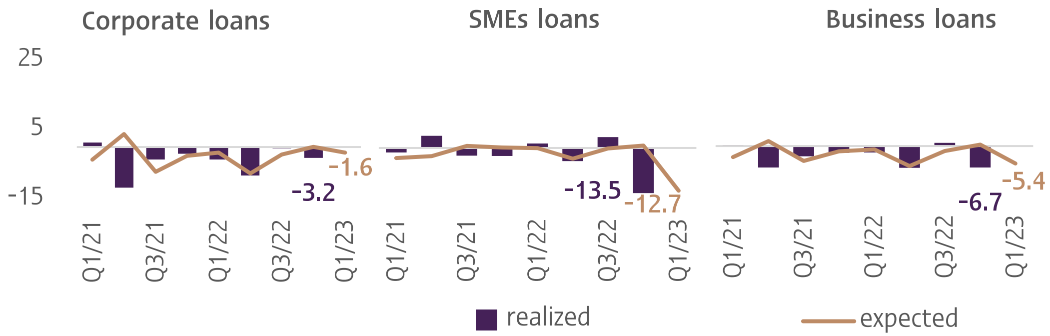
Household loan demand also increased, particularly in auto loans

Unit: Index (> 0: higher loan demand from previous quarter)



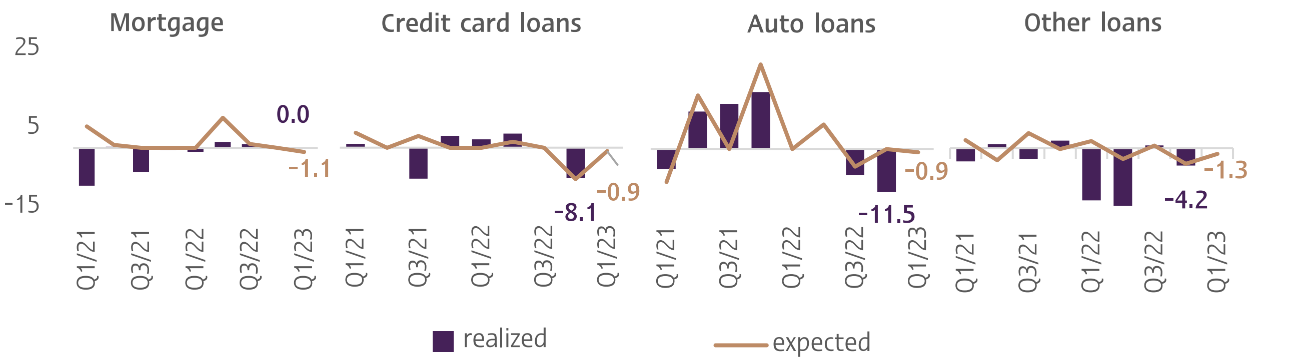
Credit standards have tightened, particularly SME loans

Unit: Index (< 0: tightening credit standards)



Credit standards of household loans tightened for auto, credit card, and other loans

Unit: Index (< 0: tightening credit standards)

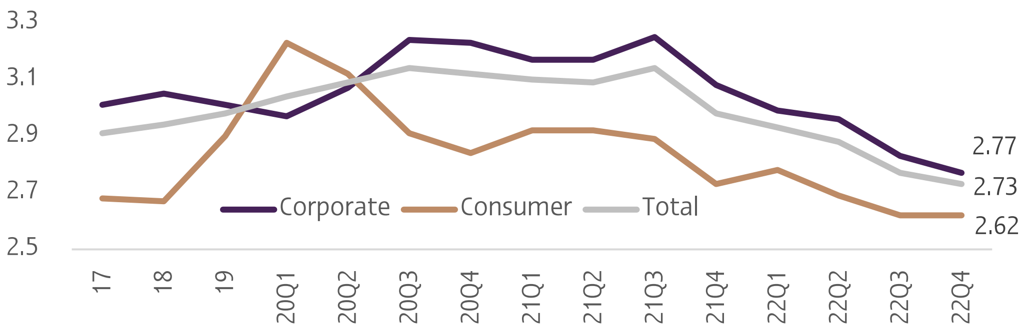


Source: SCB EIC analysis based on data from the Bank of Thailand.

The NPL ratio stayed steady from the previous quarter. NPLs in consumer loans saw an upward trend in most portfolios except for the mortgage.

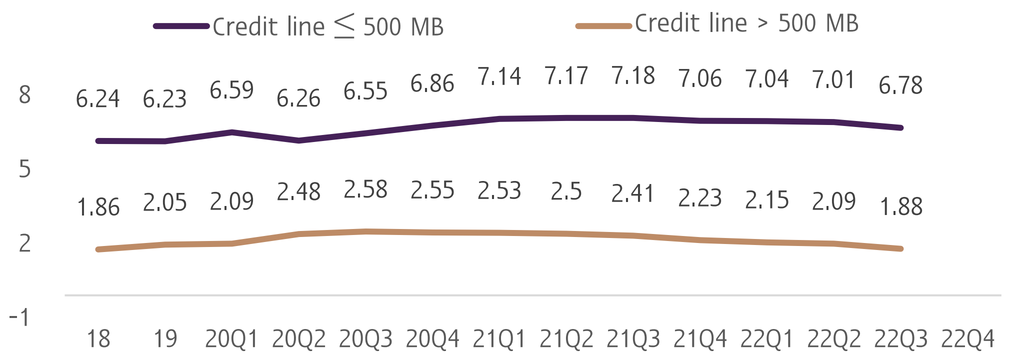
Stage 3 (NPL) by loan portfolio

Unit: %



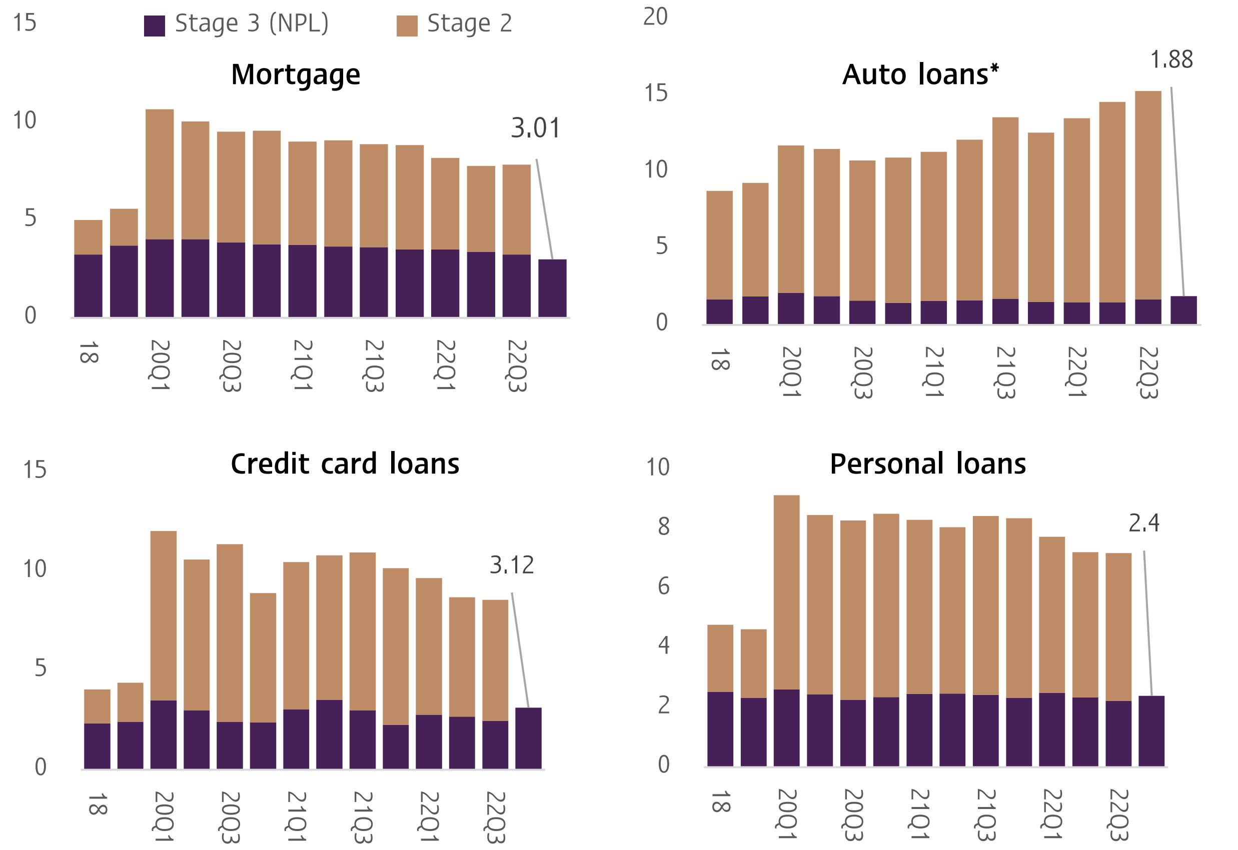
Stage 3 (NPL) in corporate loans, by size*

Unit: %



Stage 2 and Stage 3 (NPL) in consumer loans, by loan type

Unit: %



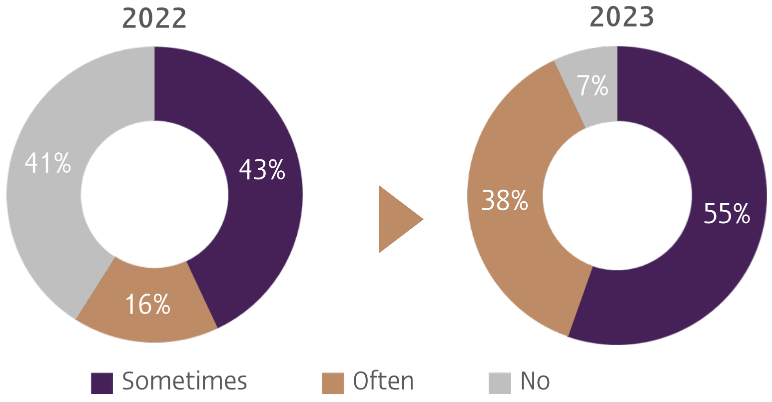
Note: *No available data for Q4/2022.

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

SCB EIC Consumer Survey showed that more households have been wrestling with insufficient income to cover expenses in the past six months, while a savings dilemma has been arising among low-income earners.

Households with insufficient income in the past six months rose sharply from 2022

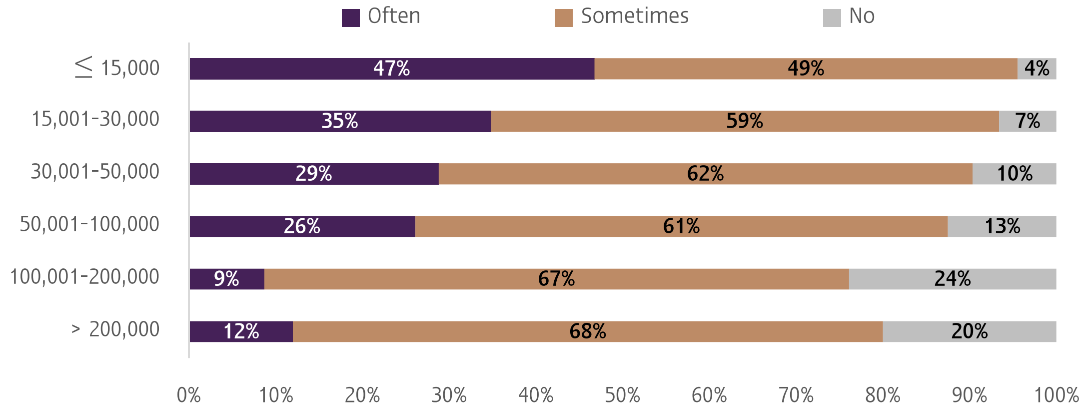
Unit: % of total respondents



90% of respondents reported insufficient income to cover living expenses

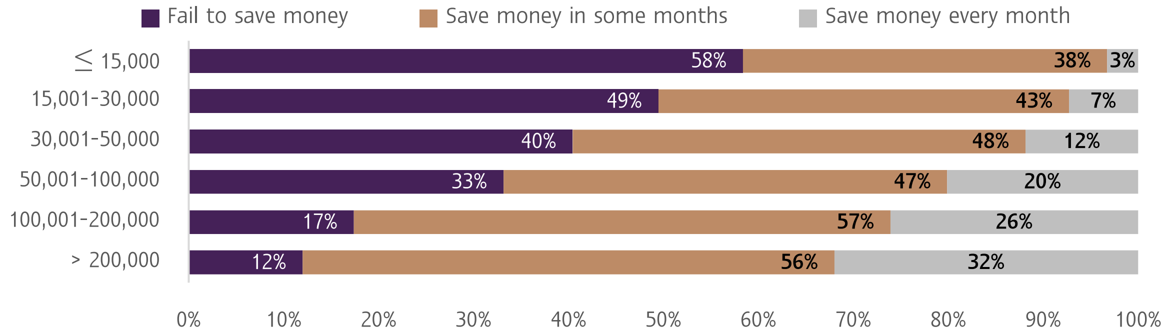
Respondents with insufficient income were more evident among low-income earners

Unit: % of respondents in each income level



Low-income earners struggled to save money in the past six months

Unit: % of respondents in each income level



- **For most respondents, their income stayed unchanged in the past six months,** but expenditure continued soaring—reflecting an inflation-driven cost of living. **As a result, the share of respondents reporting insufficient income rose significantly to 93%** in total and 96% in the low-income cohort.
- **Among respondents with insufficient income, 52% struggled to save money. Notably, out of those earning below THB 15,000 per month, only 3% managed to save every month,** whereas 58% used up their monthly income with none to spare.

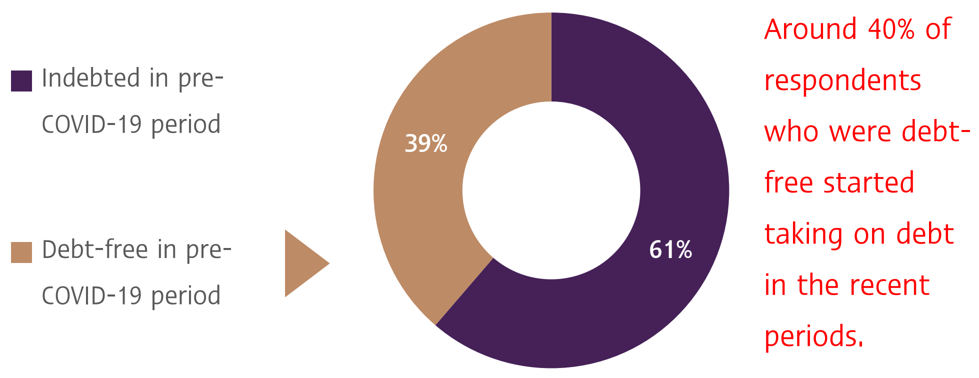
Note: Savings dilemma refers to failure to save money by monthly.

Source: SCB EIC analysis based on SCB EIC Consumer Survey during 20 January to 2 February 2023 with 2,969 respondents.

The number of new debtors increased since the COVID-19 crisis; new loans should continue to grow in the periods ahead to repay existing debt.

Increasing debt burden of indebted and debt-free persons in the pre-COVID-19 period

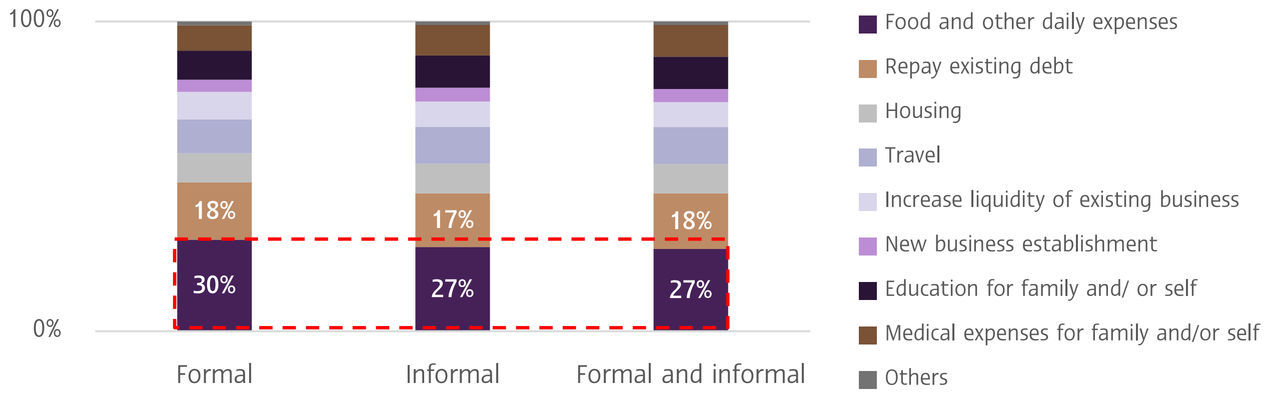
Unit: % of total respondents



- **Around 40% of respondents who were debt-free started taking on debt during the COVID-19 crisis** (40% increase in new borrowers), while those already indebted saw a 61% increase in debt since the COVID-19 crisis.
- **Since the COVID-19 crisis, most of the borrowings were made to increase liquidity and for use in daily expenses.** However, in the next 6 months, more borrowing is likely to be made to repay existing debt from formal channels, informal channels, or both.

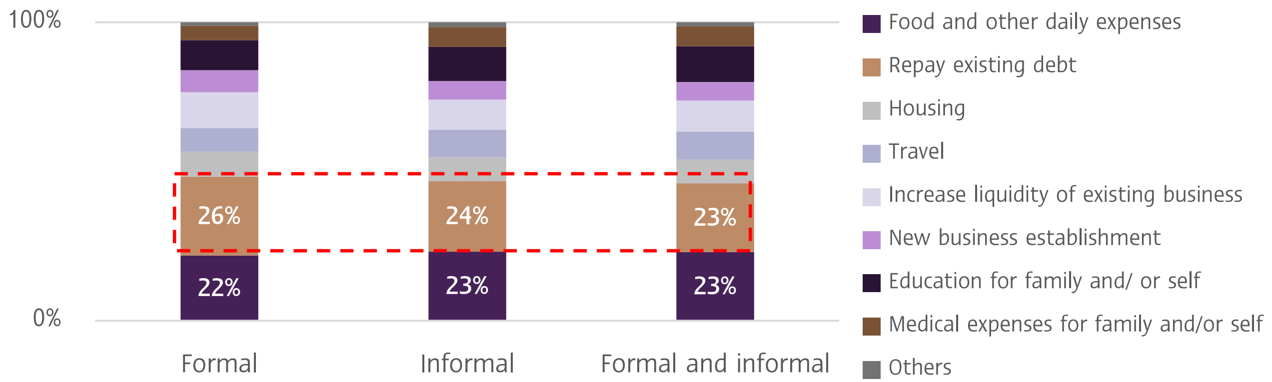
Q: What is the purpose of borrowing money since the COVID-19 outbreak began?

Unit: % of debt type



Q: In the next 6 months, what will be the purpose of borrowing money?

Unit: % of debt type

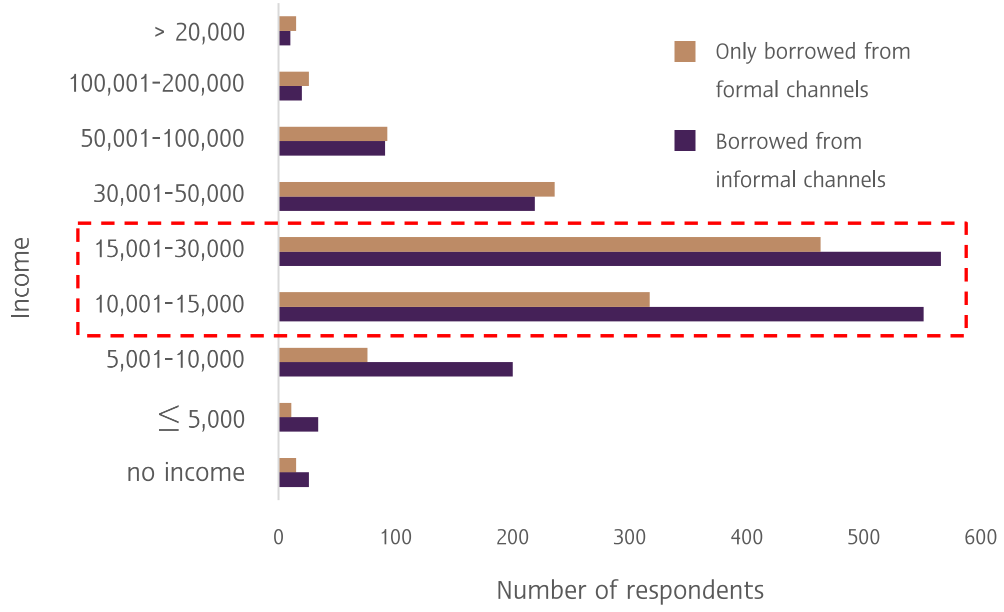


Note: Informal channels include borrowings from relatives, siblings, and acquaintances.
Source: SCB EIC analysis based on data from EIC Consumer Survey during 20 January to 2 February 2023 with 2,969 respondents.

Looking ahead, households banking on informal sources remain our top concerns as they will likely take on more debt and could fall into the debt trap.

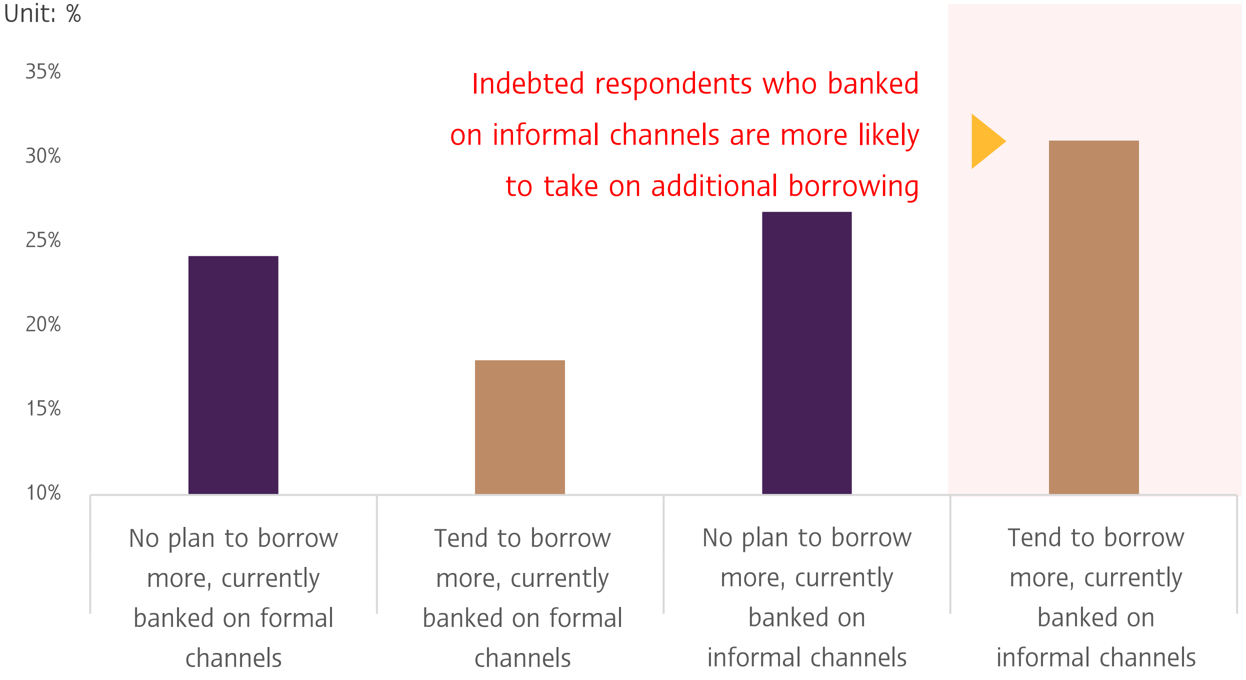
Income level of respondents (by current source of borrowing)

Unit: THB



Respondents that will likely borrow more in the next 6 months (by current source of borrowing)

Unit: %



Based on SCB EIC analysis:

- **There is a significant correlation between income and informal loans—the higher income, the lower informal debt.** This is partly because income is an important factor in access to formal sources of lending.
- **The share of respondents who tended to borrow more in the next six months was remarkably high among the informally indebted households, compared to those borrowed from formal sources.**

Source: SCB EIC analysis based on SCB EIC Consumer Survey during 20 January to 2 February 2023 with 2,969 respondents.

Election year

The election in 2023 could impact government spending depending on the speed of FY2024 Budget Act implementation

In the base case, the general election and the transition will have a limited impact on government spending in 2023. Budget disbursement will be lower somewhat under the acting government and during the transition, while the FY2024 Budget Act will be delayed by no longer than 3 months.

Forecasted political event timeline (Base case)

March 2023
PM dissolved the parliament.

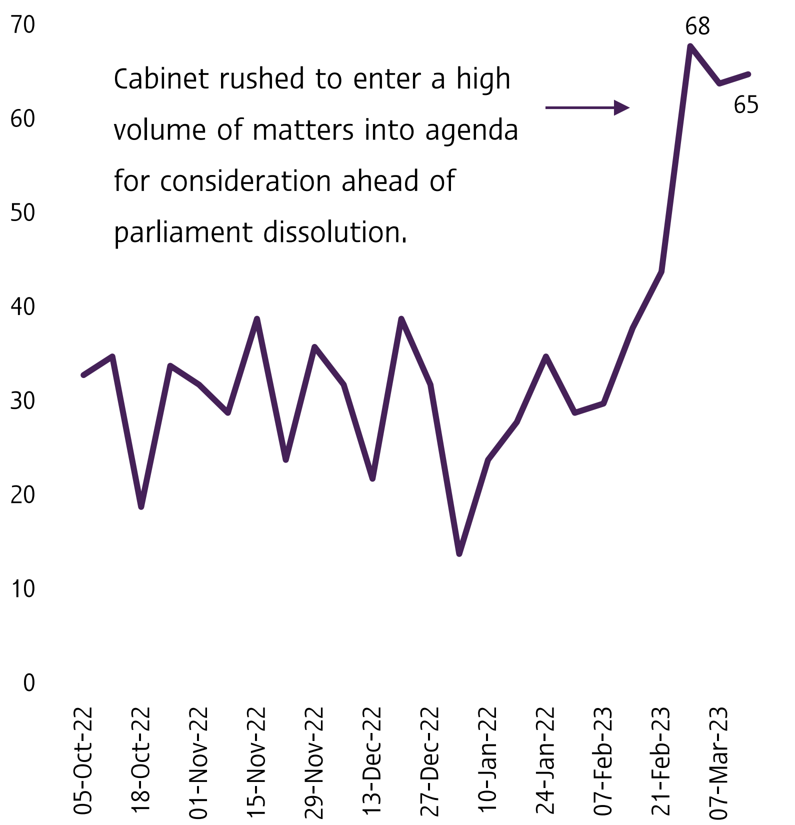
May 2023
General Election

July 2023
New PM appointed

August 2023
New cabinet assumes office

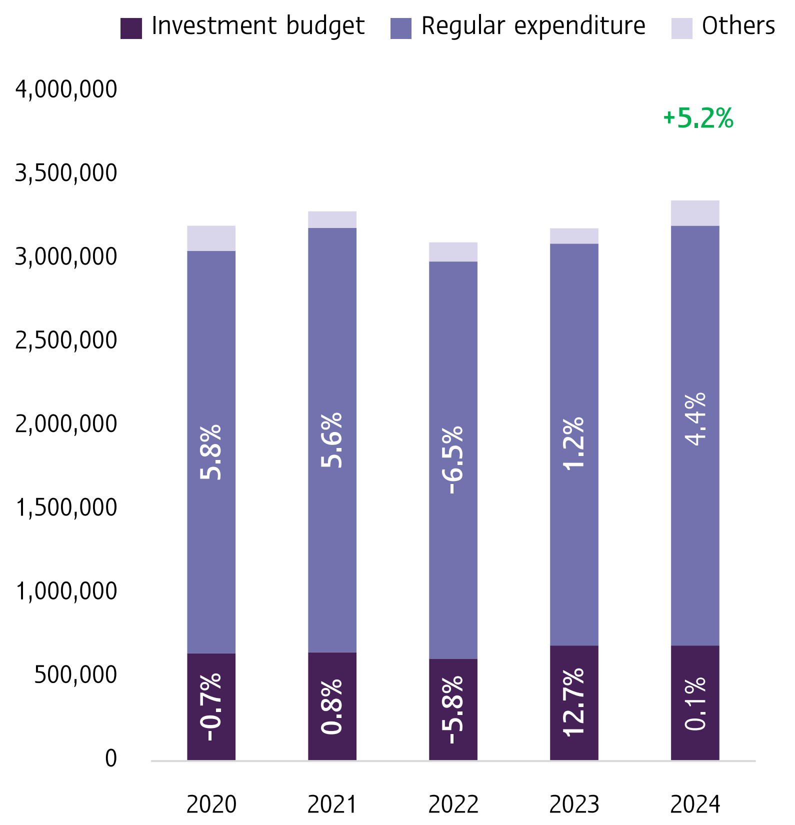
No. of matters submitted for the cabinet's consideration*

Unit: Matter



Investment budget disbursement in expenditure budget

Unit: THB million, fiscal year



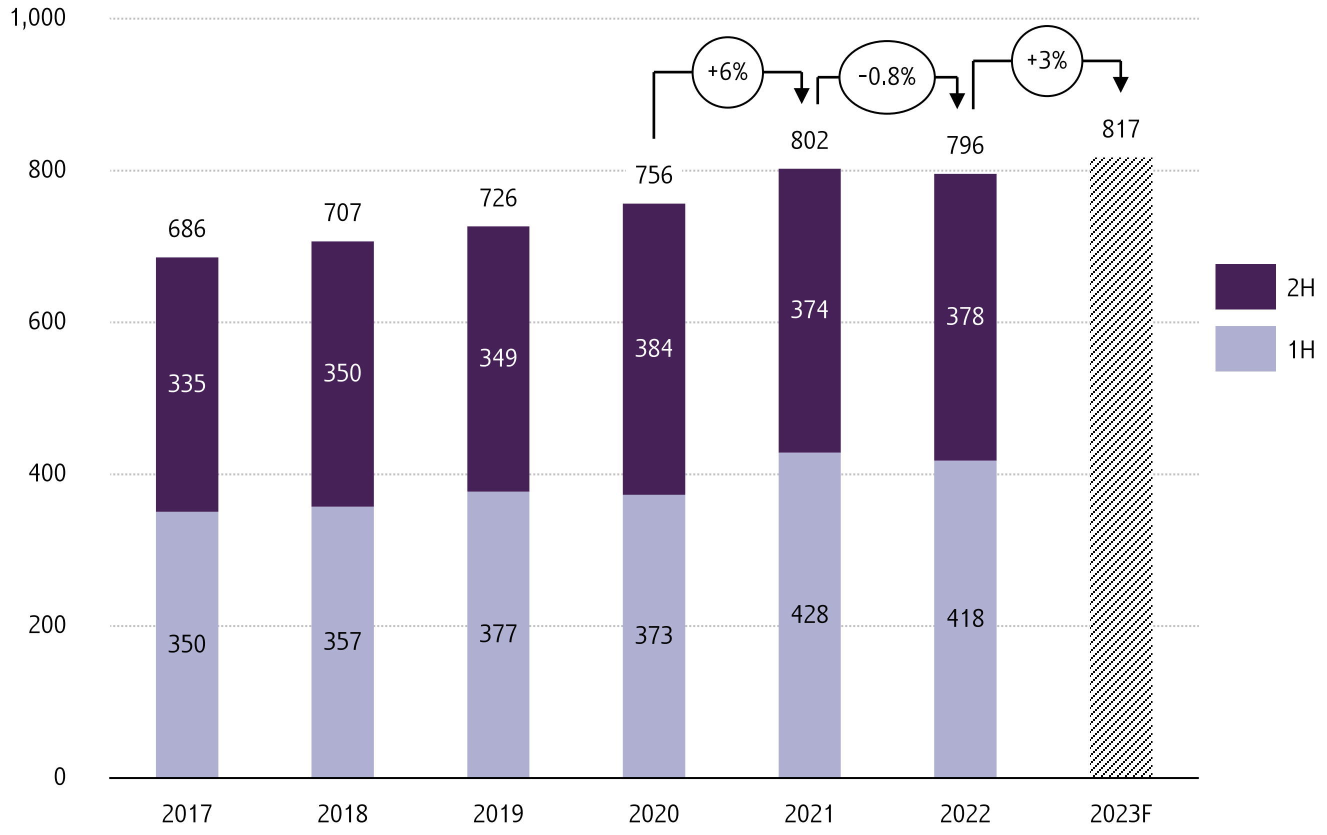
Note: *Excluding confidential, highly confidential and restricted matters, as well as data on ad hoc agenda that may be incomplete.

Source: SCB EIC analysis based on data from the government, Government House, Secretariat of the Cabinet, Ministry of Finance, Budget Bureau, BBC and The Standard.

Public construction is projected to expand in 2023 in line with the rising FY2023 investment budget and approved mega projects, but delays of new project approval after the parliament dissolution remains a challenge.

Value of public construction

Unit: THB billion



Supportive factors

General construction projects: FY2023 Investment budget which went up THB 27 billion (+6% YOY) will continue to be disbursed.

Mega projects :

- **Ongoing projects are progressing** e.g., Bangkok-Nakhon Ratchasima phase of Bangkok-Nong Khai High Speed Railway, Phase 1 Double Track Railway, Southern Purple Line MRT, 3rd Runway of Suvarnabhumi Airport, Northern Line and Northeastern Line Double Track Railway
- **Bidding and construction of newly approved mega projects which are likely to proceed** e.g., Phase 3, Stage 2 of Map Ta Phut Industrial Port

Risk factors

Delays in new public construction project approvals after the parliament dissolution and the formation of the new government following the general election in May 2023

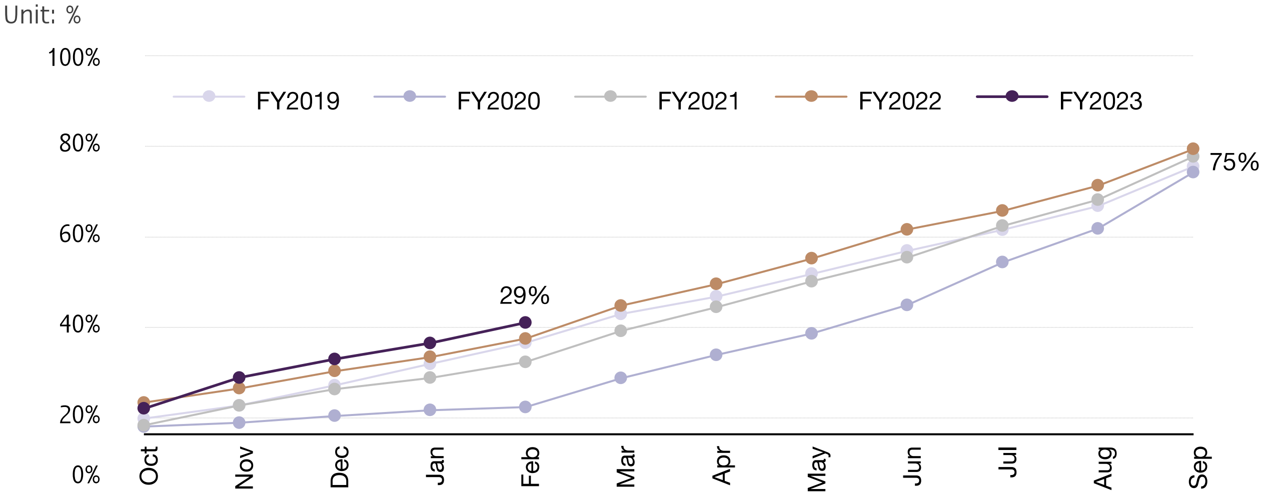
- **Delays in new construction project approvals** with high value
- **FY2024 budget announcement which may be delayed**

will impact the disbursement and commencement of public construction projects in FY2024.

Source: SCB EIC analysis based on data from NESDC.

Disbursement rate of the investment budget by the current government in early FY2023 is higher than in previous years; new public construction project approvals have been expedited ahead of the parliament dissolution announcement

Disbursement rate of government's investment budget the government expedited investment budget disbursement in FY2023 ahead of the parliament dissolution announcement



Agency with high investment budget	FY End (September)				End of February	
	2019	2020	2021	2022	2022	2023
Dept. of Highways	74%	77%	86%	90%	23%	31%
Dept. of Rural Roads	87%	82%	89%	91%	20%	21%
Royal Irrigation Dept.	81%	81%	82%	83%	27%	31%
Dept. of Public Works and Town & Country Planning	66%	65%	62%	47%	21%	19%

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

Supporting factors for public construction

- The disbursement rate of the FY2023 investment budget is higher than the previous years.
- The rush to approve new public construction projects, particularly transport projects.

Potential delay in FY2024 budget announcement will lead disbursement and growth in public construction value in Q4/2023 to slow before disbursement recovers in 2024.

Examples of projects that the government rushed to approve ahead of the parliament dissolution

- Chalong Rat Expressway Extension, Chatu Chot-Lam Lukka Road Section (THB 24 billion)
- Motorway No. 7, U-Tapao Airport Connection Extension (THB 4.4 billion)
- Parking and Ground Equipment Services, Ground Services and other related business of the 3rd Operator (Suvarnabhumi) (THB 1.6 billion)
- Warehouse Services of the 3rd Operator (Suvarnabhumi) (THB 1.3 billion)

Political instabilities may further delay the implementation of the FY2024 Budget Act from the base case, thus impacting government spending in 2023 – 2024, especially government investment.

Forecasted political events timeline (Worse case)

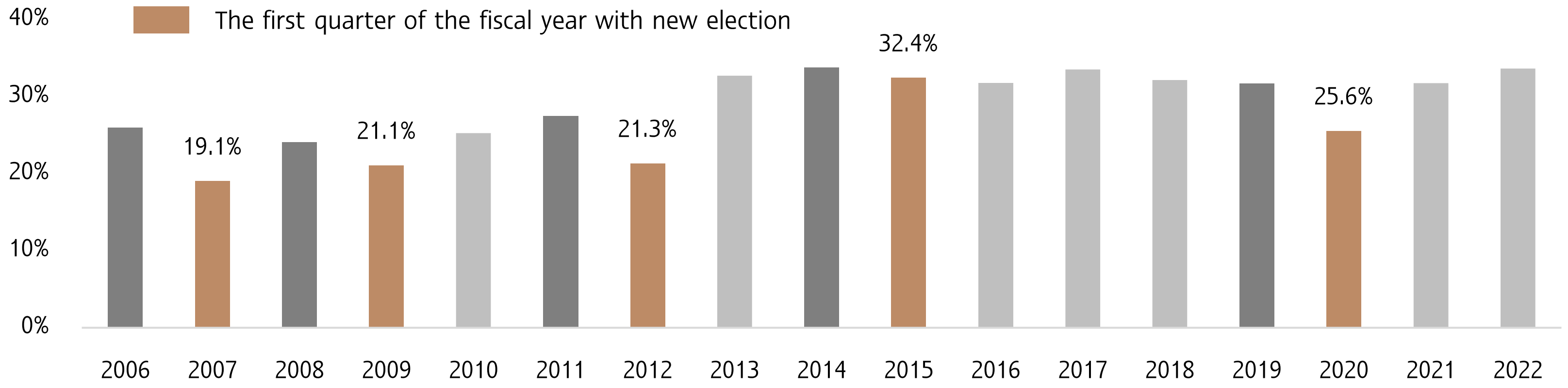
Acting government
(No full authority)
started performing duties
since the dissolution of the
House of Representatives

- **Base case: The FY2024 Budget Act will be delayed by no longer than 3 months.** In the meantime, government agencies can disburse according to the FY2023 Budget Act.
- **Investment budget disbursement in Q4 will not be high but will be hastened during the remainder of FY2024** after the Budget Act is enacted.

- **Worse case : The FY2024 Budget Act will be delayed by longer than 3 months.**
- **Government Agencies will not be able to disburse all the budget in the FY2024, especially in investment projects.**

The proportion of budget disbursement in the first quarter of the fiscal year is relatively low in years with new election

Unit: % of the total budget disbursement in each fiscal year



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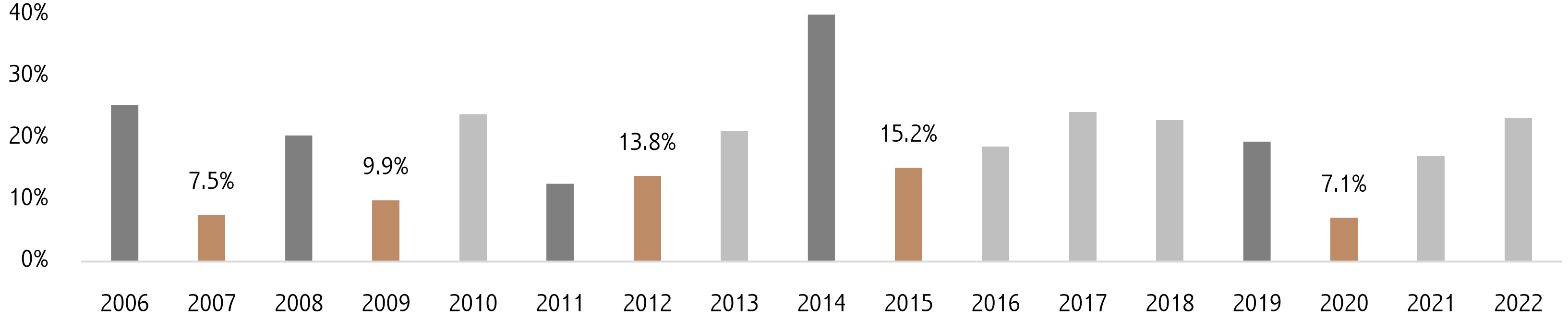
Unit: % of the total budget disbursement in each fiscal year



Source: SCB EIC analysis based on data from the Ministry of Finance, Office of the National Economic and Social Development Council, Office of the Council of State, BBC, and The Standard.

Financial market outlook

SCB EIC estimates that the MPC will continue to hike the policy rate to 2% during the first half of 2023. However, the policy rate passthrough to the financial system in this hiking cycle is lower than in the past.

SCB EIC views that the MPC will hike the policy rate by 25 BPS each time for 2 times in a row to 2% by May.

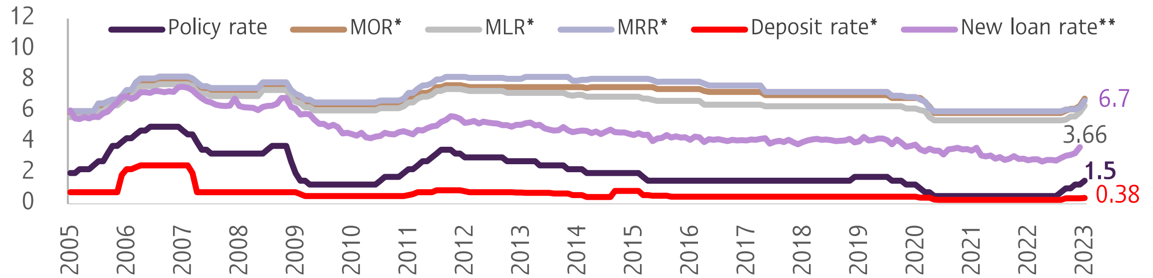
- **Inflation passed its peak** and should drop towards the target range this year.
- **Thai economic recovery prospects should remain strong** with support from China's sooner than anticipated reopening.
- **The monetary policy should normalize to levels suitable to Thailand's long-term growth.** SCB EIC views that the Thai economy will rebound to pre-COVID levels in Q2/2023 and the output gap will close in late 2024.

Cost of funds should increase

- **Since Aug 2022, the MPC continued to hike interests from 0.5%, the lowest rate.**
- **The passthrough mainly impacted the MLR (54.5%) and merely impacted the MRR (21.5%), different from the past.** Such change reflects assistance given to fragile business and retail debtors (excluding the expiration of the FIDF fee reduction scheme to 0.23% since early 2023 that instantly increased interests for all loans by 40 BPS).
- **The cost of funds in the bond market increased** according to BOT's interest direction. **The corporate bond spread dropped in line with adjusted risks,** including the continuous recovery of the Thai economy.

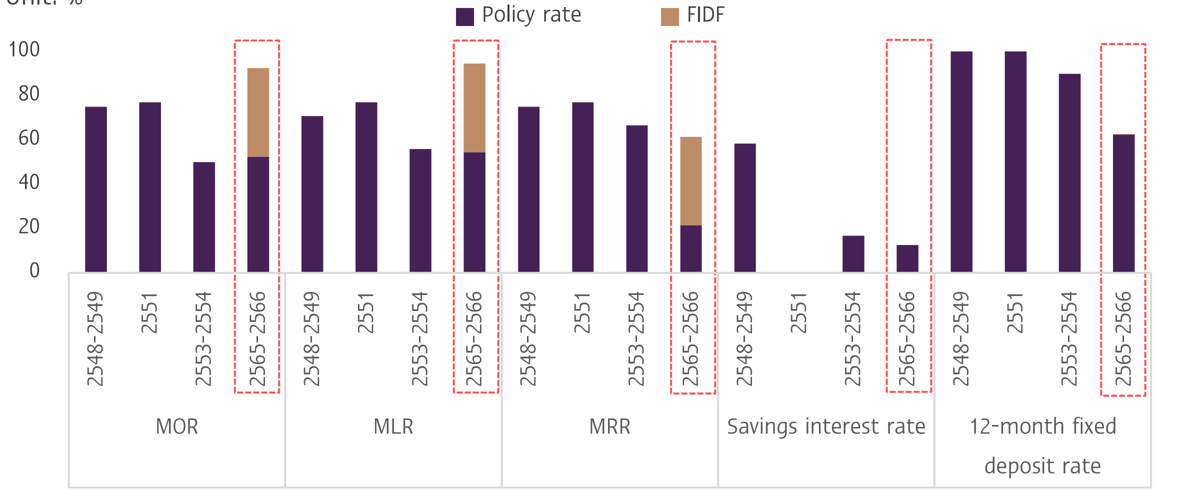
Thai loan market with rising cost of funds

Unit: %



The policy rate passthrough to the banking system in this hiking cycle is lower than in the past

Unit: %

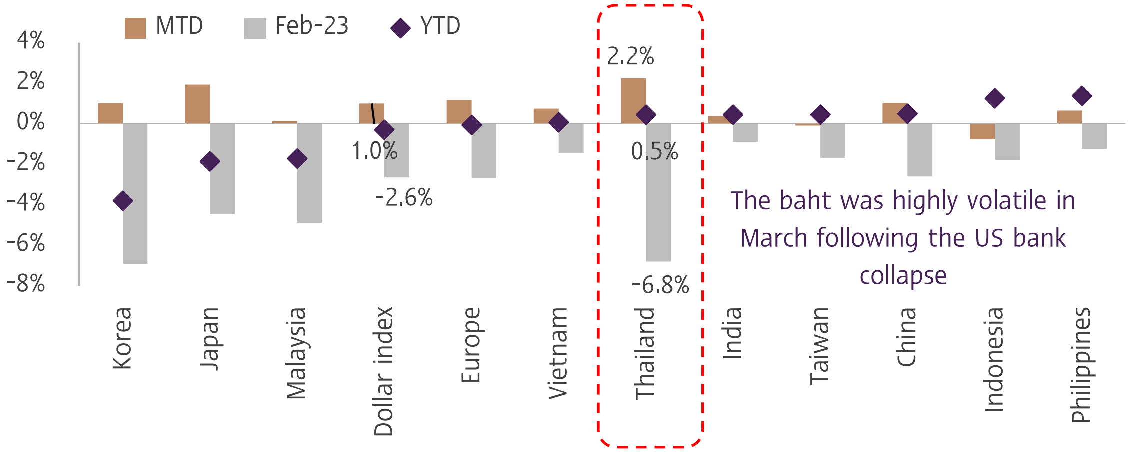


Note: *Average between the highest and lowest values, ** Weighted average interest rate by number of contracts.
Source: SCB EIC analysis based on data from Bank of Thailand and Bloomberg.

The baht exhibited high volatility in Q1/2023. In the short run, weakening pressure is expected to remain strong, causing the baht to fluctuate within a range of 35-36 baht/USD

Change in currency value against USD

Unit: % (data as of 14 Mar 2023)

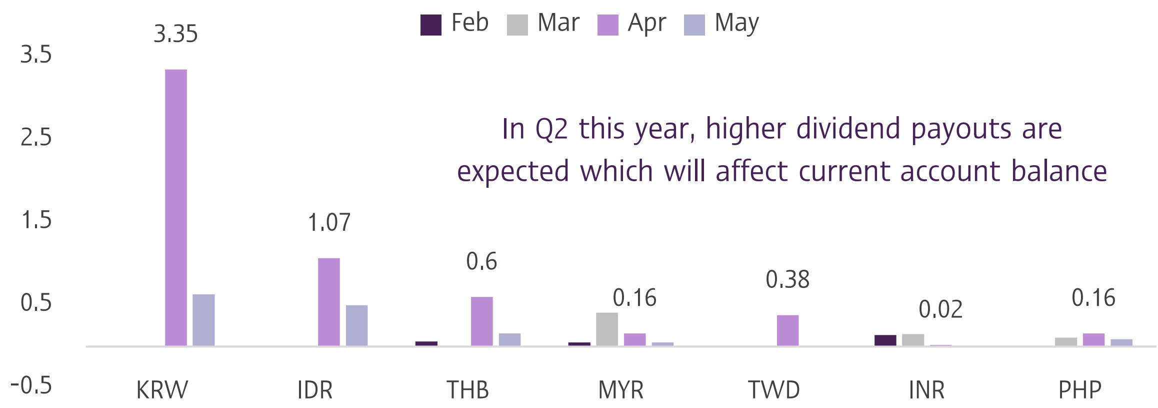


Factors causing the baht to continue weakening in Q1-Q2

- **Uncertainties surrounding the Fed's monetary policy** given inflationary pressures in the services sector which will lead to capital inflows to the US
- **Deteriorating investor confidence** with risk-off sentiment arising from rising financial institution stability risk after some banks in the US were shut down due to liquidity shortages
- **Dividend payout** which will lead current account to decline in Q2

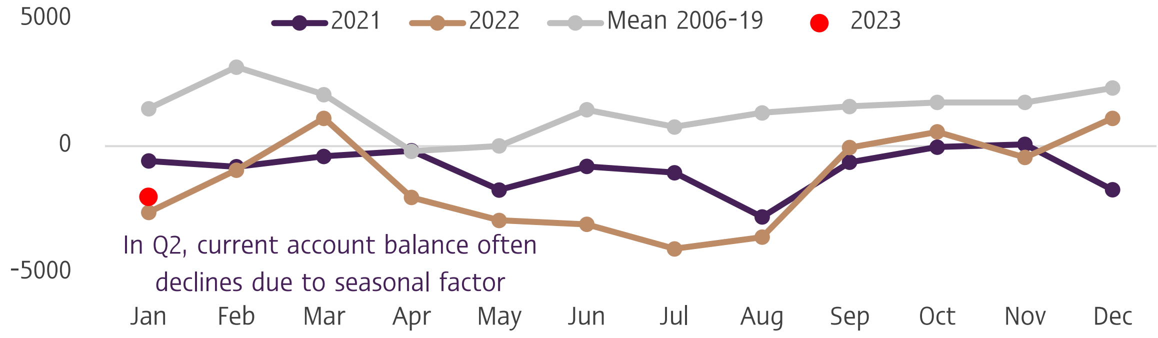
Forecasted dividend payouts to foreign investors of 20 largest firms in the SET

Unit: USD billion



Thailand's monthly current account balance relative to historical averages

Unit: USD million

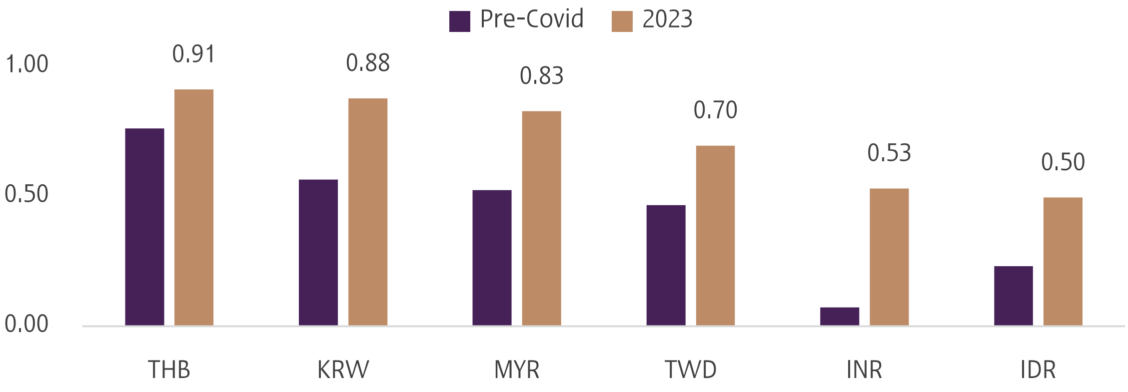


Source : SCB FX analysis based on data from Bloomberg and Bank of Thailand.

Going forward, the baht should strengthen following Thailand's economic recovery, better investor sentiment, and the depreciating US Dollar. As of the 2023 year-end, the exchange rate should stand at 32-33 THB/ USD.

Correlation between RMB and EMs currency

Unit: Coefficient

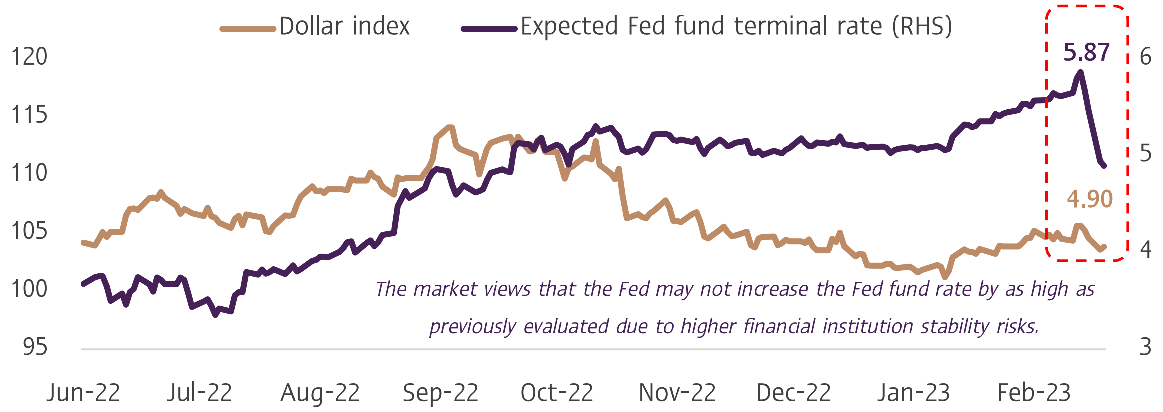


Factors that will strengthen the baht during the year-end

- **Thailand and China's economic recovery prospects -** China's economic recovery will improve investor sentiment towards the Thai market as the THB and RMB correlation increased.
- **The Fed should halt the Fed fund rate increase in H2** as the abrupt interest increase started to impair the stability of financial institutions in the US.
- **Financial market volatilities will lessen following lowering financial market uncertainties;** the Dollar position should drop further.

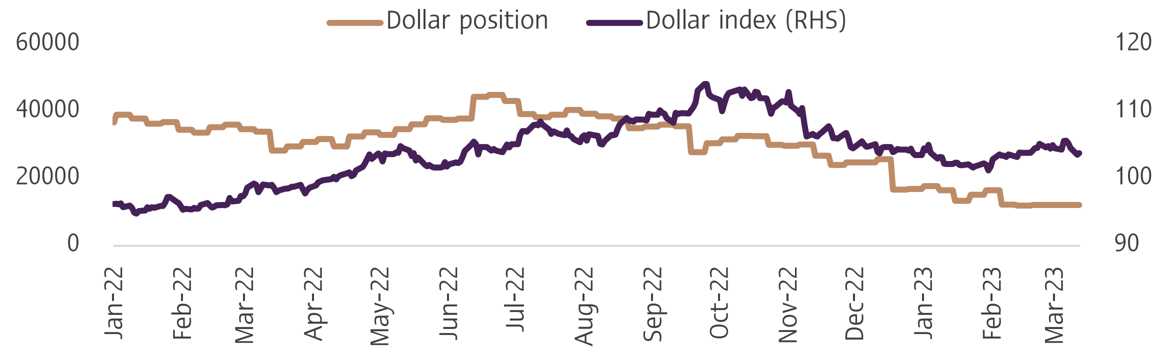
Expected Fed fund terminal rate and the US Dollar

Unit: Index (data as of 13 Mar 2023)



Dollar position and the US Dollar

Unit: Index (data as of 13 Mar 2023)



Source: SCB FX analysis based on data from Bloomberg.

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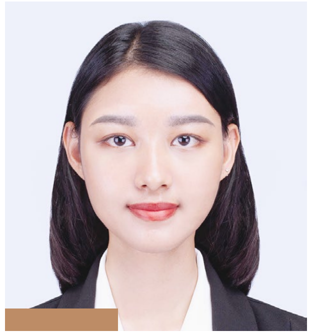

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