Q2/2023

SCB EIC

Outlook

Economic Outlook 2023
as of Q2/2023

SCB EIC kept Thailand's economic growth forecast steady at 3.9% in 2023. Private consumption and tourism witnessed a steady rebound, whereas exports remained bleak. The new government formation is slowly taking shape, yet on a rocky start.

How to use Interactive PDF

Click this icon to return to the contents page

Economic Outlook 2023
as of Q2/2023
page
1

Click this icon to go to articles

Outlook Q2/2023

Click this icon to view previous Outlook issues

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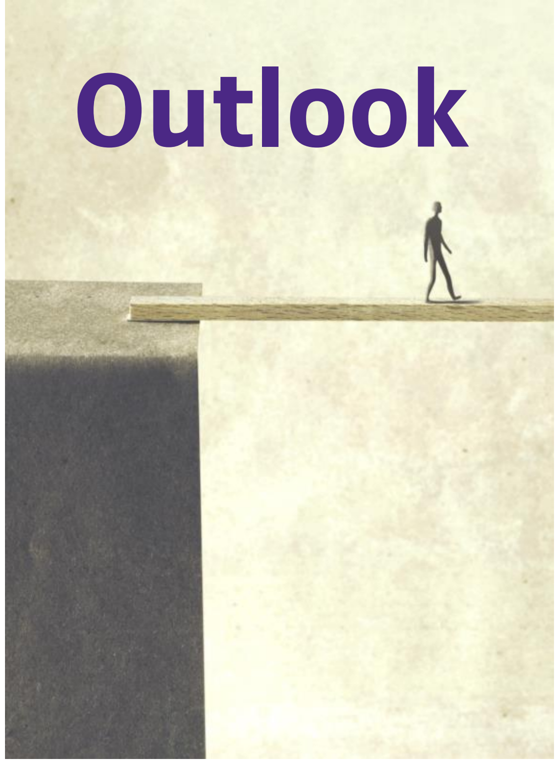
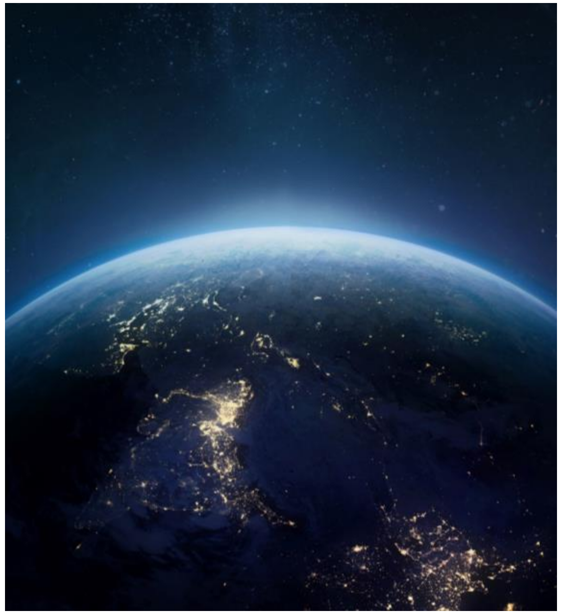
Contents

Outlook Q2/2023

Executive summary
page 4



Global Economy
page 11



Global tightening cycle is coming to an end, but lag effects remain. page 23

Thai Economy
page 29

Tourism sector continues to thrive, supporting the overall Thai economy. page 33

Thai economy after the election with awaiting uncertainties page 53

Thai Financial Market
page 64

Executive Summary

SCB EIC downgraded the global growth forecast to 2.1% in 2023, as the economy in Q2 performed worse than expected. There remained large divergences between improvements in the service and manufacturing sectors. Meanwhile, looming downside risks—such as tighter lending standards—could impair the global economy throughout the remainder of this year. **The central banks will likely deliver 1-2 more rate hikes in 2023 as the core inflation cools down more slowly, given a tight labor market.** Nonetheless, with a faster fall in headline inflation and real policy rates returning to a positive trajectory, we expect the rate hike cycle to be nearing an end. Still, a quantitative tightening among AEs will ripple global financial market liquidity and deter the EMs financial markets through capital flows and bond yields.

SCB EIC maintained the Thai economic growth forecast at 3.9% in 2023, backed by robust private consumption and the tourism sector. Thailand is expected to welcome 30 million international tourists and earn around THB 1.27 trillion in tourism receipts in 2023, as foreign tourism expenditure bounced back closer to the 2019 average. In contrast, **exports would be the key downside risks this year.** We thus downgraded the growth forecast for Thai export value to 0.5% in 2023 (from 1.2%), owing to the weaker impetus from the Chinese market and alarming downside risks in the global economy. On top of that, Thailand may confront the low-to-high impacts of El Nino in H2/23. This extreme weather could cause around THB 40 billion in damage to the agricultural sector. **Thailand's political uncertainties are also risks that warrant monitoring,** particularly the new government formation and key policies.

The headline inflation increase has been notably slower alongside domestic energy prices, yet there remained uncertainties from the government energy subsidies. **The core inflation will likely ease to 1.7% but stay above its past average.** This reflects a higher cost pass-through from Thai manufacturers to consumers and demand-pull pressures on the back of robust economic recovery.

As for the monetary policy, **SCB EIC expects the central bank to gradually raise its policy rate to the terminal rate of 2.5% in Q3,** given an upbeat Thai economic outlook. Inflation should fall back within the target range, but upside risks remain from higher cost pass-through and demand-pull inflationary pressures. Against this backdrop, Thailand's financial condition would become increasingly tightened. **In the short term, the Thai baht will face downward pressures** from a stronger greenback and a weaker Chinese yuan. We anticipate **the baht to strengthen to 32-33 THB/USD at year-end 2023,** backed by a buoyant Thai economic recovery, improving investor sentiment after political uncertainties ease off, and the weakening US dollar following the end of the Fed rate hike.

SCB EIC

Thai economic outlook for 2023

SCB EIC maintains the Thai economic growth in 20213 at 3.9% on the back of private consumption and tourism growth momentum, while exports remain key downside risk. The uncertainties regarding the establishment of the new government is an issue to keep an eye on.

Key forecasts

() Previous forecast

GDP
(%YOY)

2022	2023F
2.6	3.9 (3.9)

Tourism and private consumption will be main drivers for Thai economy throughout 2023, while exports is expected to grow only 0.5%. Headline inflation notably decelerates as domestic energy prices dropped, but there is some uncertainties about government subsidy. Core inflation is expected to slow down, while remaining elevated, inflecting a gradual transfer of producer costs to consumer prices and inflationary pressure stemming from the demand side amid Thailand's ongoing economic recovery. However, the political uncertainty is to be monitored, particularly regarding the government's polarization and the potential impact of its policies.

Policy rate (year-end)
(%)

2022	2023F
1.25	2.50 (2.00)

The monetary Policy Committee could further hike policy by 25 BPS per time for 2 more times in August and September meetings to the terminal rate of 2.5% in order to bring monetary policy to the level aligning with the economy's potential growth (normalization) and to ensure that the inflation rate remains within the target range of 1.-3%.

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

2022	2023F
34.6	32-33 (32-33)

In 2023, the baht is expected to appreciate supported by the recovery of Thai economy, improving investor confidence and the depreciation of US dollar after the Fed halted its interest rate hikes. As a result, the current account will return to surplus this year. The baht should stand within the range of 32-33 THB/USD by 2023 year-end.

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

Thai economic outlook for 2023

Positive factors

International tourist arrivals will reach 30 million, which is expected to generate revenue from international tourists around THB 1.27 trillion.

Unemployment rate fell close to pre-crisis level.

Cost of living slowdown

Negative factors

Exports likely slow down more than anticipated due to weak global demand.

Government stimulus spending tends to decrease during the establishment of the new government.

Thai agricultural sector will experience a mild to severe impact of El Niño in the second half of the year.

Risk factors

Politics will remain highly uncertain due to the formation of the new government and various policies.

Inflation may accelerate again and affect the cost of living and cost of doing business.

Risks of geopolitical issues remain, such as Russian-Ukraine war, China-Taiwan dispute, or US-China economic polarization. Which could affect global supply chains and Thai exports.

DEBT

Household debts start to accelerate again

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

Global economic outlook for 2023

SCB EIC revises down the global economic growth forecast in 2023 to 2.1% due to worsen economic indicators and additional downside risks.

Economic growth

SCB EIC revises down global GDP forecast in 2023 to 2.1% based on worsen economic indicators and with more downside risks. The global economy in the medium term is expected to expand 3%, lowest rate in 30 years.

Downside risks include tightening loan approval, declining business sector profitability, low confidence in the economy and weakening manufacturing sector due to low demand.

Inflation rate

Core inflation is expected to slow down at marginal rate as the labor market remains tight, while headline inflation rapidly decelerate. The real policy rate gradually return positive, making the rate hike cycle come close to an end.

Nevertheless, AEs Quantitative tightening will continue to reduce liquidity in the global financial system and is expected to impact EMs financial markets through capital flows and bond yields.

Monetary policy direction

Fed will likely raise Fed fund rate at least once, potentially in July, to 5.25-5.5% and maintain this level throughout this year.

ECB will likely make 2 rate hikes to 3.75%, while BOE may raise 3 rate hikes to 5.25%, as EU is experiencing more severe inflationary than in UK.

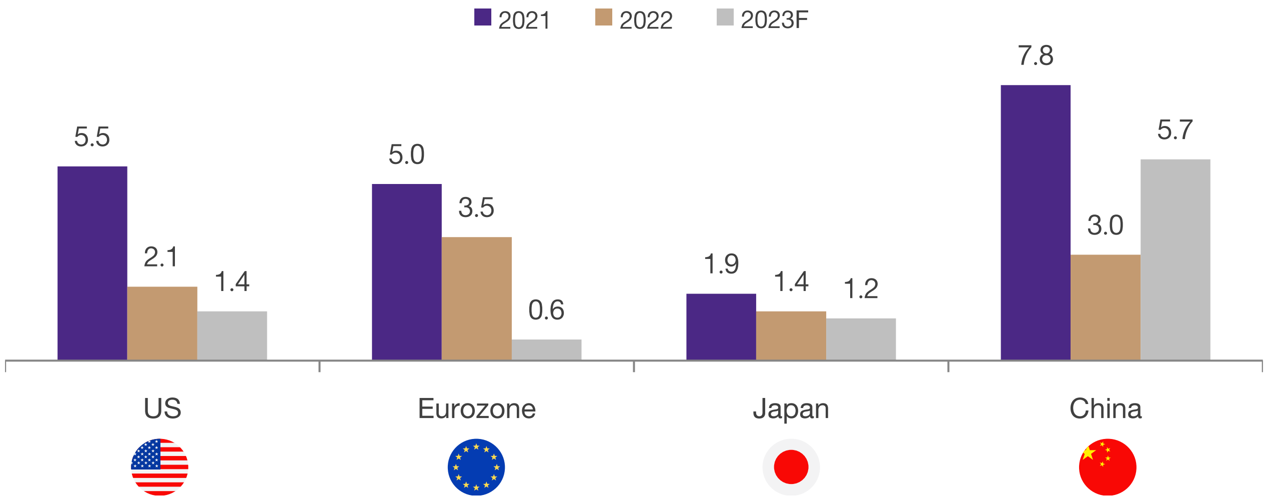
PBoC will continue its accommodative stance in 2023 as the economy has not recovered fully and inflation rates remain low. Meanwhile, the real estate sector keeps declining in both sales and constructions.

BOJ may make further adjustment to YCC policy in July, expected to shift to control short-term bond yields.

Source: SCB EIC analysis

Global economic growth in 2021 2022 and 2023

Unit: %YOY



Supporting factors

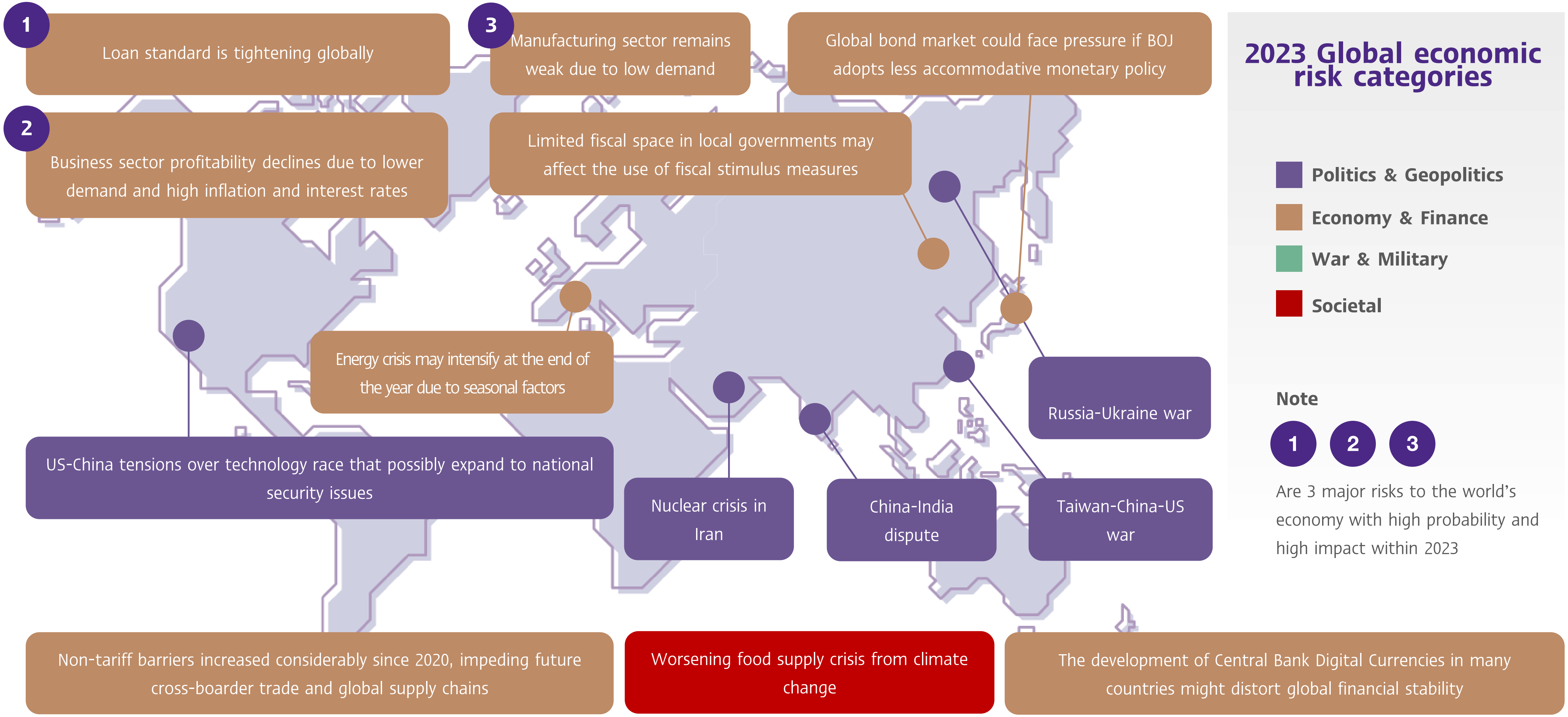
- Ongoing recovery in service sector
- High flexibility in the labor market, supporting consumption
- Declining commodity prices, which helps reducing price pressure that affects consumers' purchasing power.

Risk factors

- Tightening loan approval
- Declining business sector profitability amid low confidence in the economy
- Weakening manufacturing sector due to low demand
- Slow decline in core inflation adding pressure to Central Banks to raise policy rates further for longer period
- Less economic supports from EMs
- Prolonged geopolitical conflicts

Source: SCB EIC analysis

Global economic risk map for 2023



Source: SCB EIC analysis

Major events for the Global economy in 2023

Watch list

June 15	**BOE meeting with Monetary Policy Report**	Bank of England (BOE) holds a monetary policy meeting and releases England's monetary policy report.
July 27	**ECB meeting with Macroeconomic projections**	European Central Bank (ECB) holds a monetary policy meeting and releases Eurozone economic growth forecast.
July 27-28	**BOJ meeting with Outlook Report**	Bank of Japan (BOJ) holds a monetary policy meeting and releases Japanese economic growth forecast.
August 3	**BOE meeting with Monetary Policy Report**	Bank of England (BOE) holds a monetary policy meeting and releases England's monetary policy report.
September	**BIS Quarterly Review**	The bank of International Settlements (BIS) issues performance reviews of the global banking system and financial markets.
September 14	**ECB meeting with Macroeconomic projections**	European Central Bank (ECB) holds a monetary policy meeting and releases Eurozone economic growth forecast.
September 19-20	**FOMC meeting with Macroeconomic projections**	US Federal Reserve (Fed) holds a monetary policy meeting and releases US economic growth forecast.
October 26	**ECB meeting with Macroeconomic projections**	European Central Bank (ECB) holds a monetary policy meeting and releases Eurozone economic growth forecast.
October 30-31	**BOJ meeting with Outlook Report**	Bank of Japan (BOJ) holds a monetary policy meeting and releases Japanese economic growth forecast.
November 2	**BOE meeting with Monetary Policy Report**	Bank of England (BOE) holds a monetary policy meeting and releases England's monetary policy report.
December	**BIS Quarterly Review**	The bank of International Settlements (BIS) issues performance reviews of the global banking system and financial markets.
December 12-13	**FOMC meeting with Macroeconomic projections**	US Federal Reserve (Fed) holds a monetary policy meeting and releases US economic growth forecast.
December 14	**ECB meeting with Macroeconomic projections**	European Central Bank (ECB) holds a monetary policy meeting and releases Eurozone economic growth forecast.

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

Global Economy

Fragile Global Economy
amidst looming downside risks.

SCB EIC downgraded the global GDP growth forecast to 2.1% in 2023, given looming downside risks and economic outturns that performed worse than consensus. The global economy is expected to grow 3% in the medium term—the lowest in 30 years.

Global Economic Growth Forecast by SCB EIC

Unit: %YOY

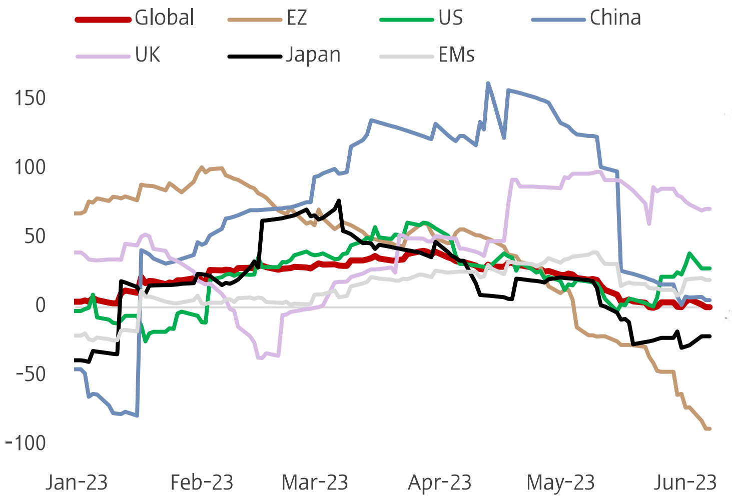
GDP growth	2022	2023 Forecast	
		Mar	Jun
Global	3.0%	2.3%	2.1%
US	2.1%	1.6%	1.4%
Euro	3.5%	0.8%	0.6%
Japan	1.4%	1.2%	1.2%
China	3.0%	5.5%	5.7%
India	6.7%	6.0%	6.4%
CLMV	6.4%	5.4%	4.6%
ASEAN4	6.0%	-	4.5%
Latin America	3.5%	-	1.5%

Upside

- **Continued recovery in the service sector**
- **Highly resilient labor market should bolster consumption.**
- **Commodity prices will likely subside,** thus lowering price pressures on consumer purchasing power.

Citi Economic Surprise Index

Unit: Index < 0 = actual economic indicators worse than forecasts (as of June 7, 2023)

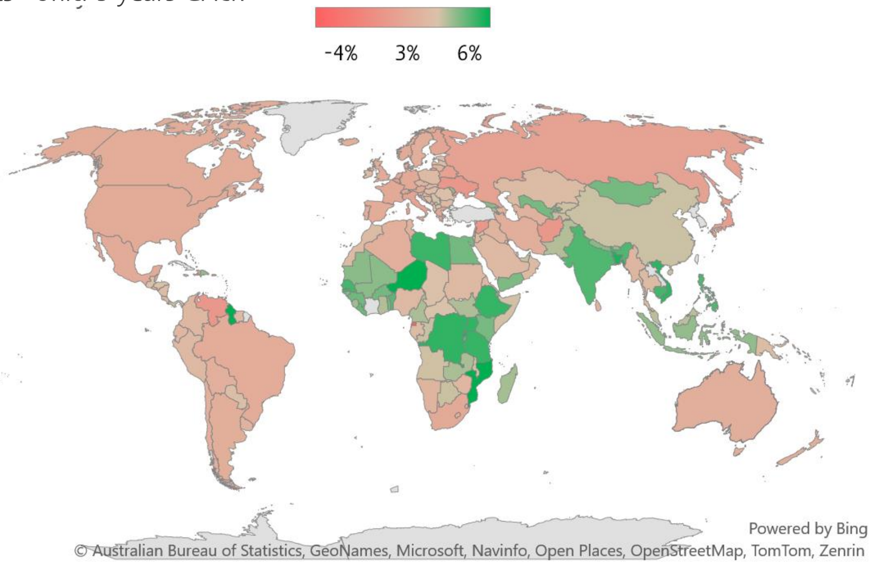


Downside

- **Lending standards became increasingly stringent.**
- **Deteriorating corporate profitability** and low economic sentiment.
- **Weak manufacturing** amid a somber demand.
- **Core inflation fell back slowly,** prompting central banks to continue the rate hikes and keep their policy rates high for an extended period—thus leading to tighter liquidity conditions.
- **Weaker impetus from the EM economies.**
- **Ongoing geopolitical conflicts.**

Global Medium-term GDP Forecast by IMF

Unit: 5 years GACR



Stagnant medium-term growth

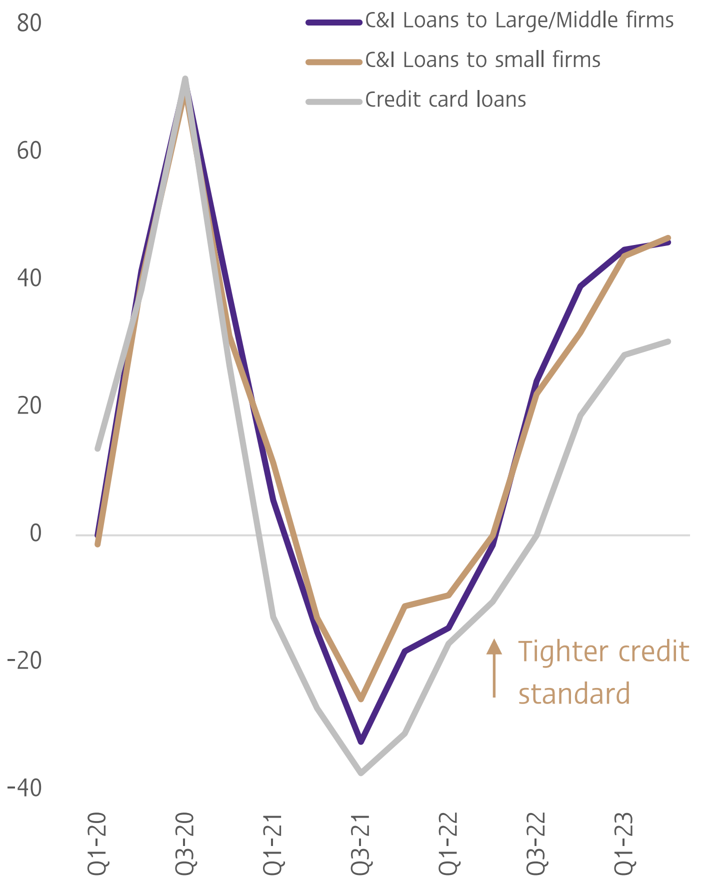
- **Economic decoupling** could deter the global supply chain.
- **Slower growth expected among large EM economies,** such as China and South Korea.
- **Weaker growth in the labor force** alongside a shrinking world population.
- **Economic scars from the COVID-19 crisis.**
- **IMF forecasted the medium-term (5-year) global GDP growth at 3%, the lowest since the forecast began in 1990** and far below the pre-pandemic (2010-2019) average of 4.1%.

Source: SCB EIC analysis based on data from Bloomberg.

Credit standards are likely become more tightened causing household consumption and business investment, which used to be key driver of the global economy in previous period, to slow in tandem.

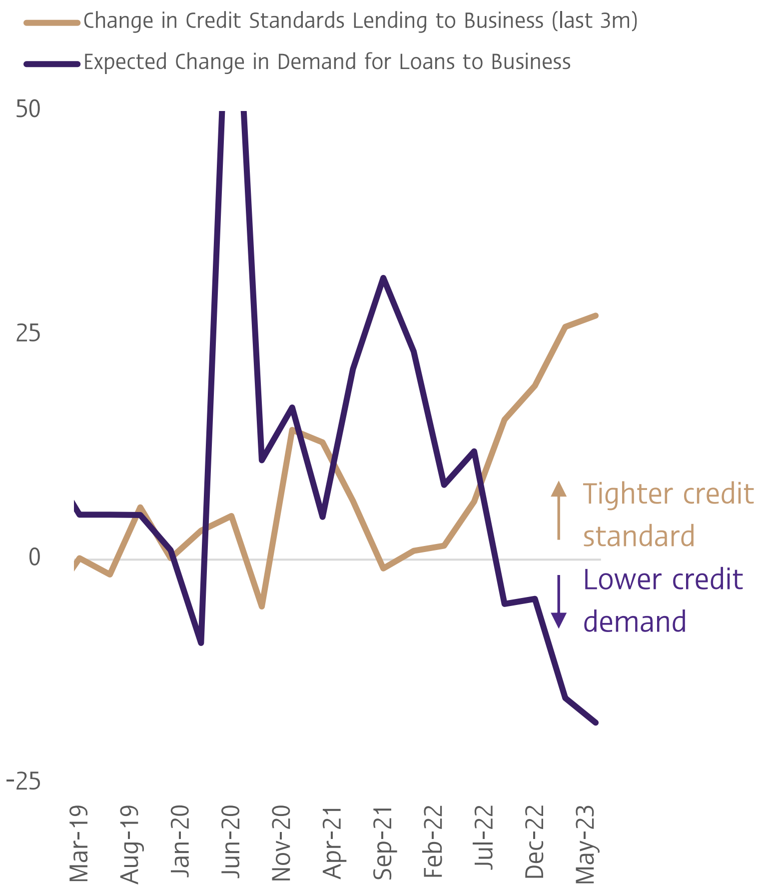
US banks are tightenin up their credit standards

Unit: Index (C&I = Commercial and industrial loans)



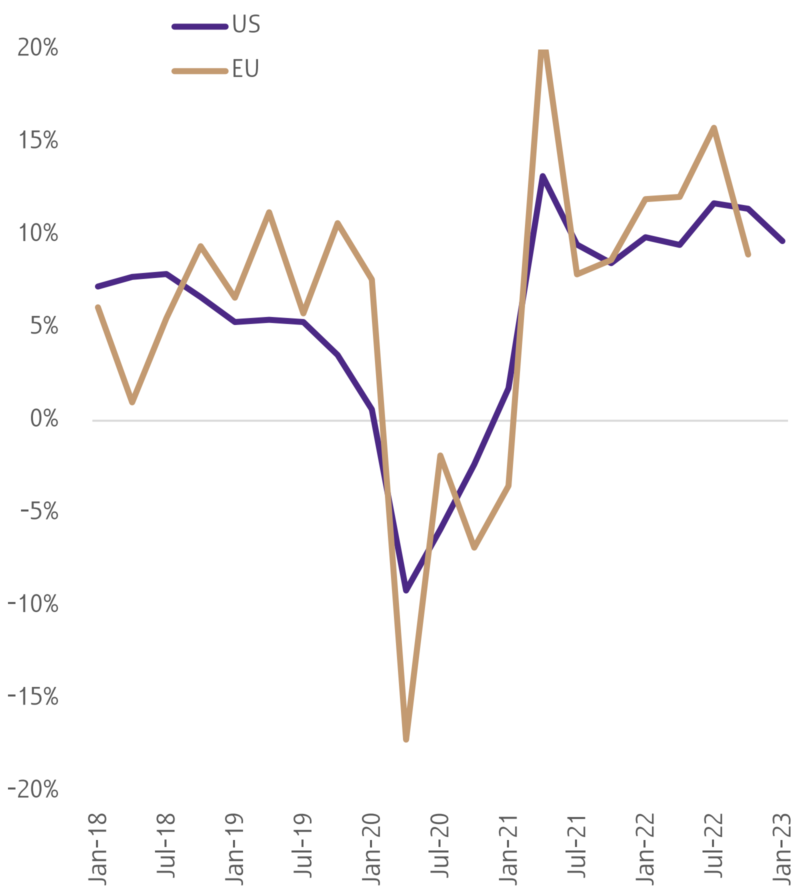
Credit standards and business loan demand in EA

Unit: Net Percent



Private Nonresidential Fixed Investment

Unit: %YOY



Note: C&I loans = Commercial and industrial loans

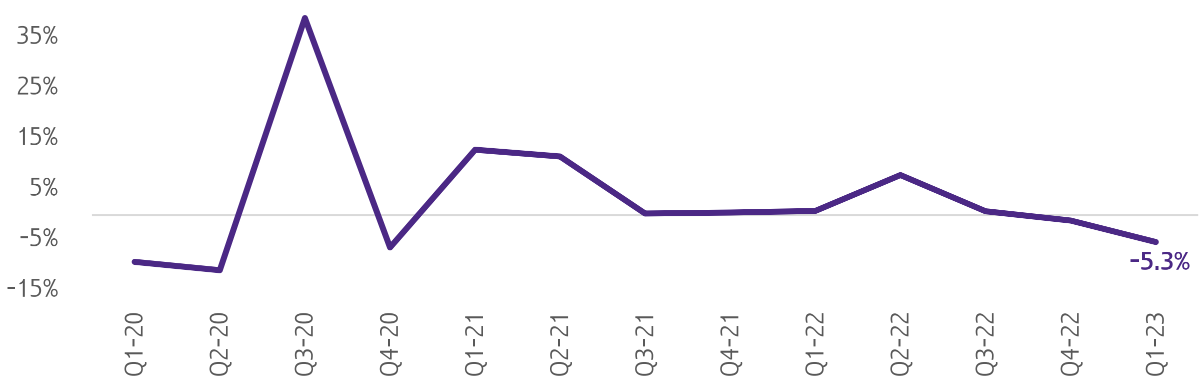
Source: SCB EIC analysis based on data from CEIC, Fed, and Bloomberg.

SCB EIC

Shrinking demand, elevated inflation, and high interest rates remain headwinds to corporate profitability. Worsening economic sentiment will rattle the global growth outlook in the latter half of 2023.

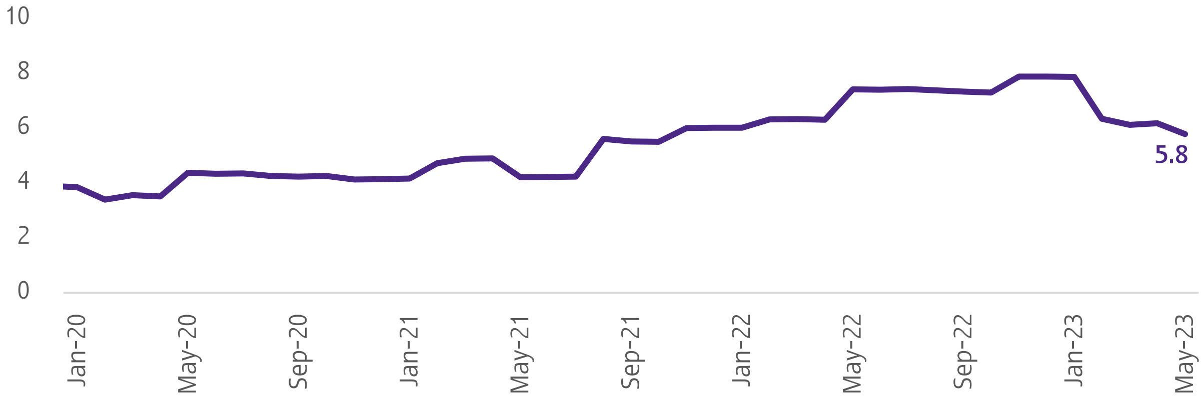
US Corporate Profit (excluding the financial sector)

Unit: %QOQ



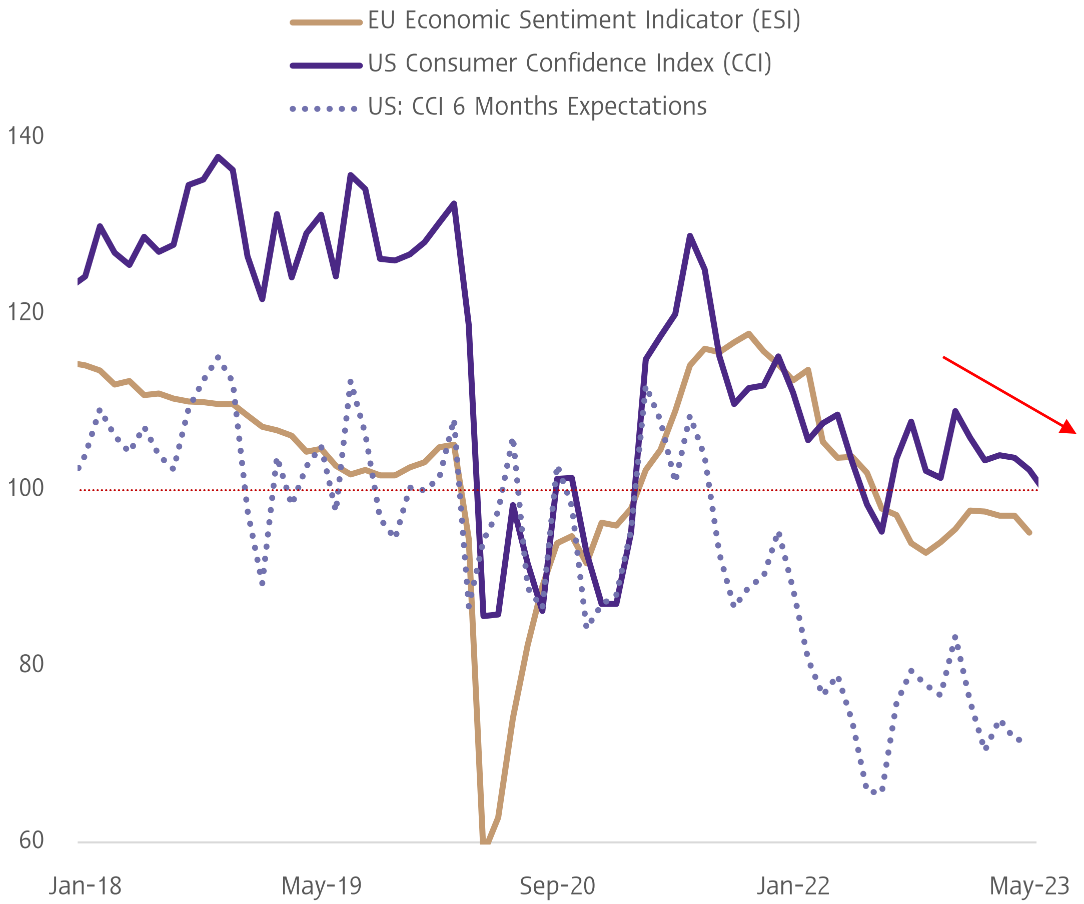
MSCI EU Corporate Profit (excluding the financial sector)

Unit: %



Economic Sentiment Index in the US and EU

Unit: Index, EU: 100 = LT average, US: 1985=100

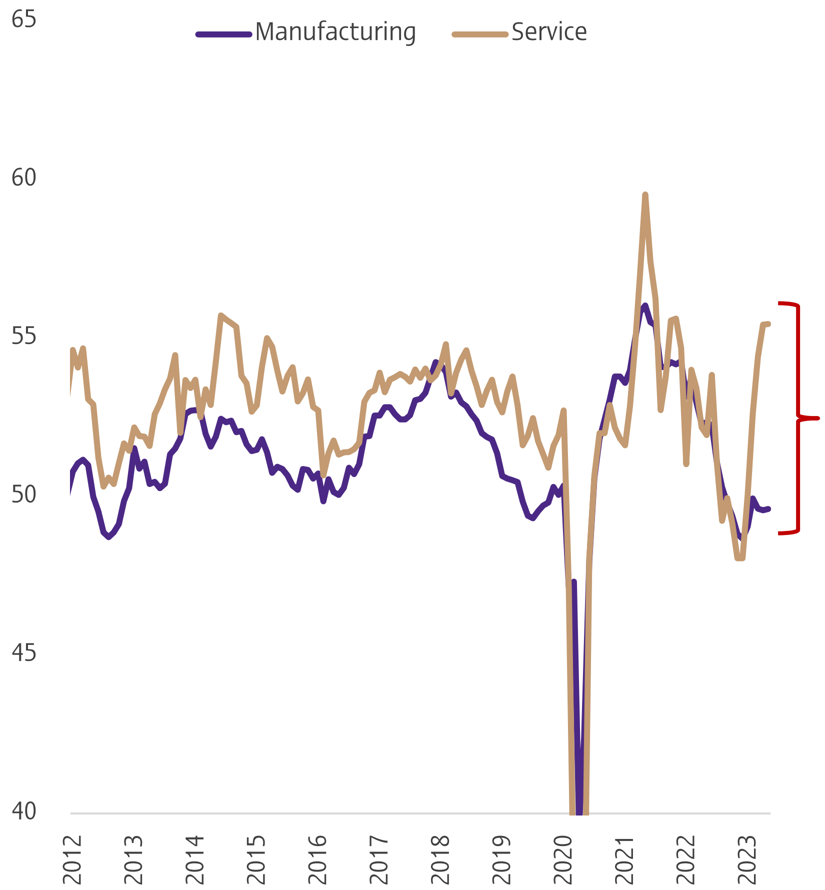


Source: SCB EIC analysis based on data from CEIC, Fed, Bloomberg, J.P. Morgan, The Conference Board, and ECB.

Recent data still showed large divergences between the rebounds in the service and manufacturing sectors. **Demand for service activities and tourism have been buoyant, whereas demand for goods continued to shrink.**

Global Purchasing Managers Index

Unit: Index > 50 = improvement, seasonally adjusted



Global Purchasing Managers Index by sector

Unit: Index > 50 = improvement, seasonally adjusted

	2018 avg	2019 avg	2022					2023				
			Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
All industry PMI	53.6	51.6	49.3	49.6	49.0	48.0	48.2	49.7	52.1	53.4	54.2	54.4
Manufacturing PMI												
Output	53.1	50.3	49.4	48.7	48.7	47.8	48.5	48.9	50.7	50.6	50.8	51.5
Suppliers' delivery times	45.6	49.5	44.8	45.7	46.5	47.3	47.8	49.0	51.0	52.6	53.3	53.5
New orders	52.9	49.8	48.2	47.7	46.9	46.7	46.4	47.7	49.3	49.5	49.4	49.3
Export orders	50.8	48.8	47.0	45.9	46.2	46.2	46.2	47.4	48.3	47.7	48.4	47.3
Service PMI												
New business	54.4	52.4	50.3	50.5	49.9	48.2	48.2	50.6	52.0	53.7	54.6	55.4

Overall economic recovery continued, backed by upbeat service activities despite the weak manufacturing sector.

Supply chain bottleneck inched back closer to the pre-pandemic level.

Demand for goods remained far below the pre-pandemic level & continued to shrink.

Demand for services on the upswing & outperformed the pre-pandemic era.

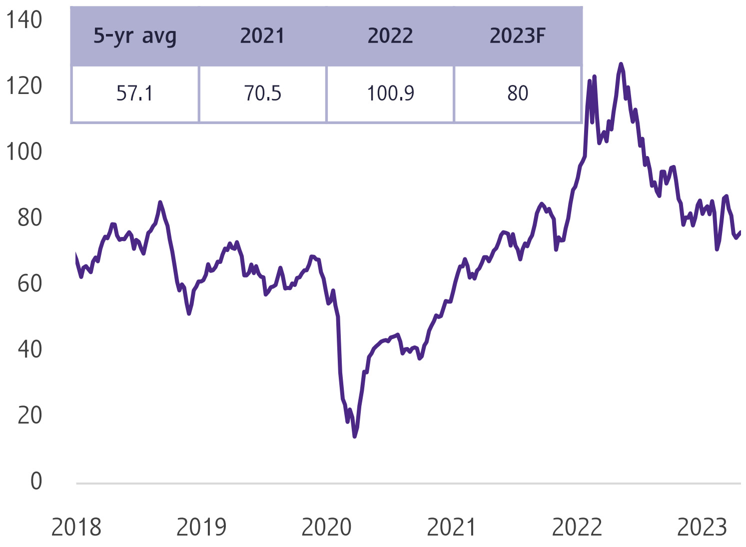
Source: SCB EIC analysis based on data from J.P. Morgan.

Moreover, global energy prices will be increasingly pressured by recession concern and slower-than-expected recovery in China's manufacturing sector amid OPEC+ efforts to cut oil production further.

Brent crude price

Unit: USD/Barrel

5-yr avg	2021	2022	2023F
57.1	70.5	100.9	80



- **OPEC+ extended the deadline for voluntary production cut of 1.66 million USD/Barrel to 2024** (previously 2023).
- However, **global economic uncertainty will remain a key pressure on global crude demand.**

Aramco's LPG price

Unit: USD/Ton

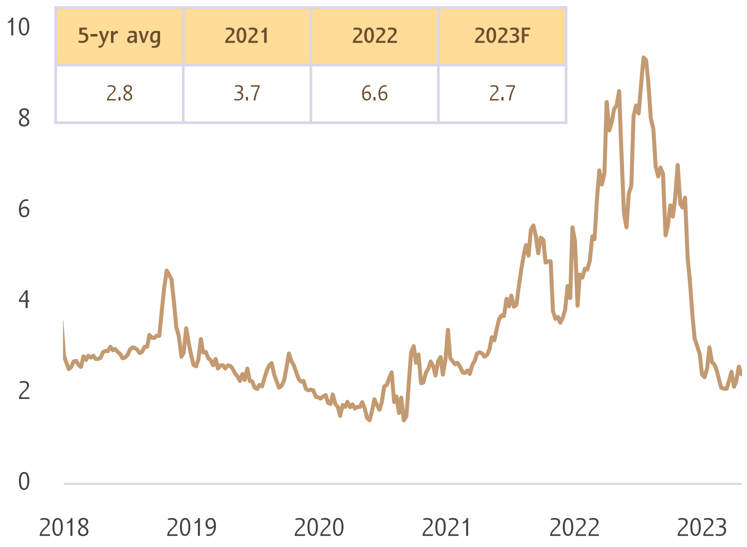
5-yr avg	2021	2022	2023F
429.7	645.5	713.5	637

- Saudi Aramco has cut propane prices in June by 105 USD/Ton month on month to 450 USD/Ton given ample supply in the Middle East and US and **lower-than-expected demand for petrochemicals from China owing to slow recovery of China's industrial sector.** China's Manufacturing PMI fell to its lowest level in 5 months at 48.8 in May 2023 from 49.2 in April, missing the market expectation of 49.4.
- However, the rise of PDH plants, which use propane as raw material and given their plans to increase production significantly this year, will cause propane prices to climb back to the high level in the second half of this year.

Henry Hub's natural gas price

Unit: USD/MMBtu

5-yr avg	2021	2022	2023F
2.8	3.7	6.6	2.7



- **Natural gas market is expected to continue easing** from the beginning of this year driven by recession concern. The price will likely rise somewhat in Q3/2023 due to an increase in demand from countries that cut imports the previous year as price was too high, and from China's manufacturing sector. The price however is still lower than the expectation.
- Nevertheless, **as winter starts in Q4/2023, price will begin to rise again** driven by gas storage filling in preparation for the cold weather. The price is expected to be in the range of 3.5-4 USD/mmbtu (should the weather become colder than expected, the price could rise further).

Note: 5-year period = 2015-2019; data and analysis of the situation as of June 2023.

Source: SCB EIC analysis based on data from Bloomberg, TradingView, Goldman Sachs, US EIA, JP Morgan, and news agencies.

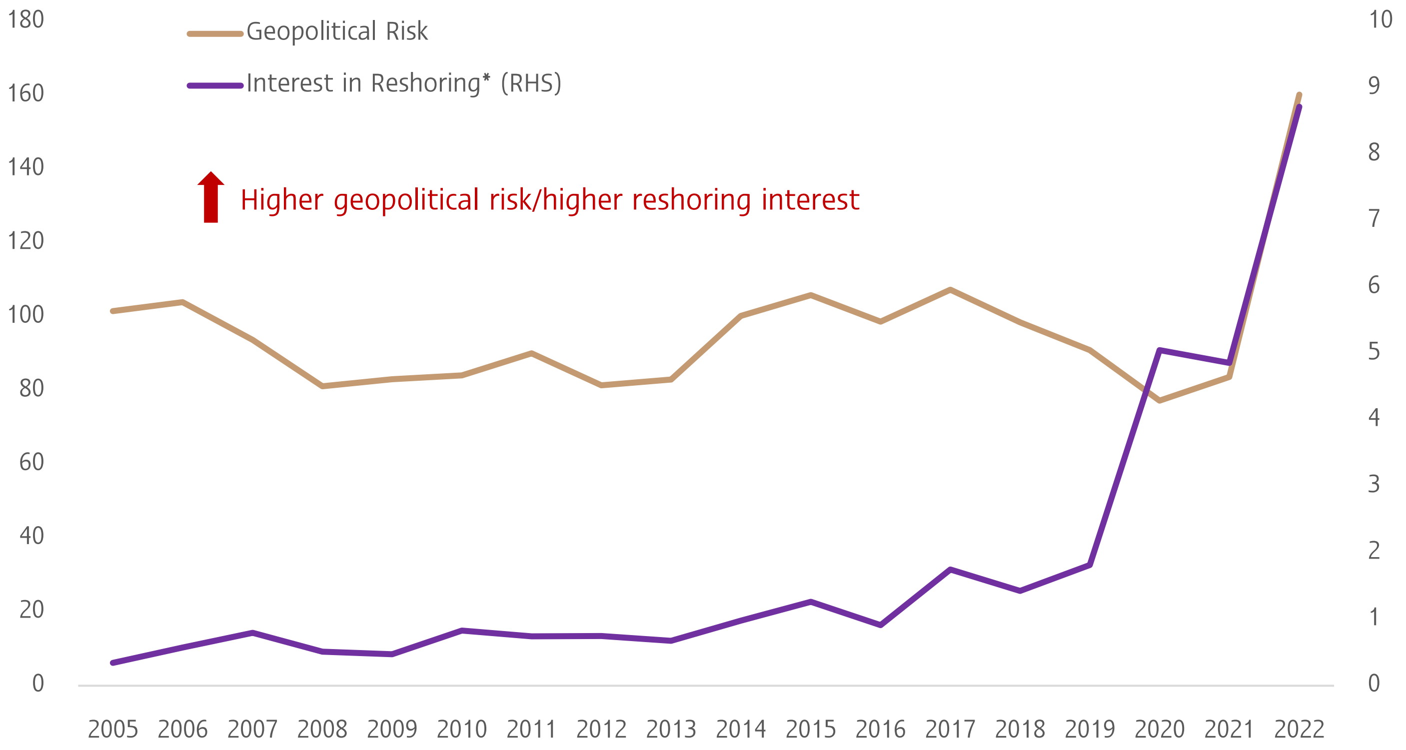
SCB EIC

The latest G-7 summit anticipated escalating geopolitical tensions, which could pressure politically-neutral countries.

Geopolitical Risk Index and Interest in Reshoring

Unit: Index

Unit: Frequency of mentions of reshoring in firms' earnings calls



Note: *The interest in reshoring measures the frequency of mentions of reshoring, friend-shoring, or near-shoring in firms' earnings calls.

Key Takeaways & Implications on Future Policy

- **G-7 agreed to intensify pressure on Russia and reduce their reliance on Russian-produced energy.** These are collective efforts to limit the revenue streams and Russia's ability to wage its war against Ukraine. G-7 also stated that Russia should compensate for damages caused to Ukraine.
- **G-7 countries addressed their heavy reliance on China,** especially in trade. G-7 will thus implement **the de-risking measures by reinforcing their supply chains to substitute major imports from China,** such as minerals and semiconductors. Another action is to **enhance digital infrastructures** to prevent hacking and technology leakage to China.
- **China retorted** by urging the G-7 members not to join the US' "accomplice in economic coercion" and "stop ganging up to form exclusive blocs." In the meantime, China continued to deepen its ties with other countries, such as hosting the summit with Central Asian nations.
- **The recent G-7 summit might aggravate the ongoing geopolitical tensions,** which could later become pressure on politically-neutral countries.

Source: SCB EIC analysis based on data from International Monetary Fund (IMF) WEO April 2023, BBC, and Center For Strategic & International Studies (CSIS).

Geopolitical tensions have disrupted FDI distribution. Recent figures showed rising FDI flows among countries with geopolitical policy alignment.

Given higher Foreign Direct Investment (FDI) flows among geopolitically-aligned economies, supply chains would become less vulnerable to geopolitical tensions.

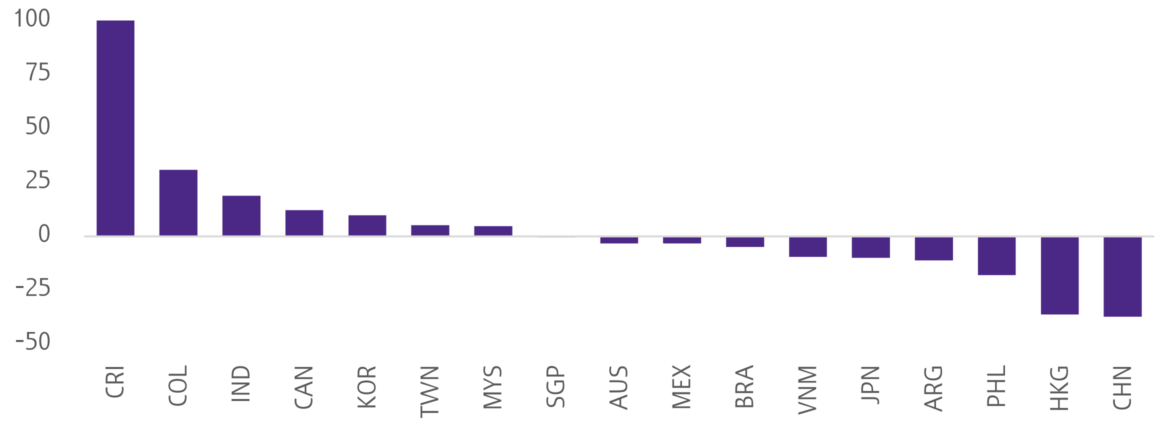
Unit: % deviation from aggregate change, 20Q2-22Q4 vs. 15Q1-20Q1

Source regions \ Destination regions	United States	Americas excl. US	Advanced Europe	Emerging Europe	Asia excl. China	China	Rest of the world
Rest of the world	26.4	7.1	5.3	11.4	–3.7	–24.7	18.6
China	–22.1	–6.9	–17.8	–31.3	–44.3		–31.9
Asia excl. China	–3.2	–8.7	–11.7	–2.4	–23.7	–49.2	–4.4
Emerging Europe	27.6	2.9	9.9	18.1	–22.3	13.9	–11.5
Advanced Europe	7.5	–11.7	9.3	–0.9	–9.8	–19.7	8.6
Americas excl. US	18.6	27.3	14.9	34.0	5.9	–13.3	27.6
United States		9.2	0.6	19.4	2.3	–40.6	21.6

- **We observed lower FDI flows to some countries with notably different political preferences.** FDI inflows in China, especially in the semiconductor industry, have been declining as the US imposed controls to impede China's access to advanced technologies.
- **This emerging FDI fragmentation will threaten many countries, especially the EMs and developing economies** that could face constraints from economic decoupling among advanced economies—their primary FDI sources.

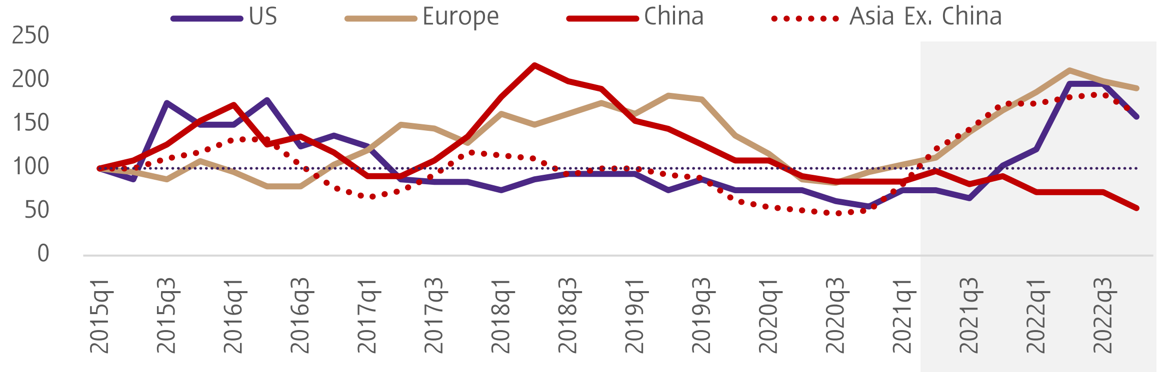
The US' FDI has increasingly concentrated in geopolitically-aligned countries.

Unit: % deviation from aggregate change, 20Q2-22Q4 vs. 15Q1-20Q1



FDI in the semiconductor industry (by country)

Unit: Index (4Q moving average, 2015Q1 = 100)



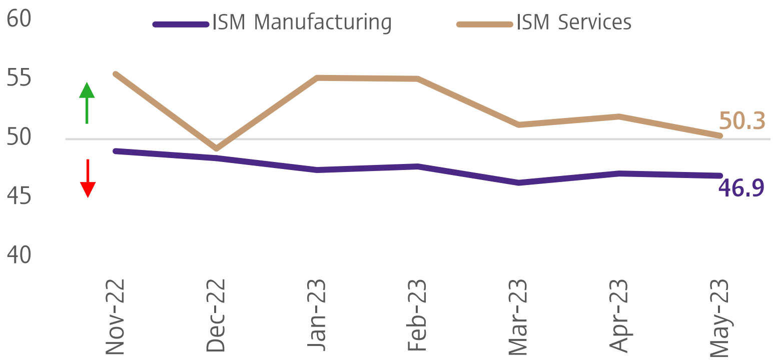
Source: SCB EIC analysis based on data from International Monetary Fund (IMF) WEO April 2023.

SCB EIC

SCB EIC revises down its growth forecast for the US economy in 2023 to 1.4% (previously 1.6%) as credit conditions could be tighter than expected. Nevertheless, the US economy is still expected to achieve a soft landing.

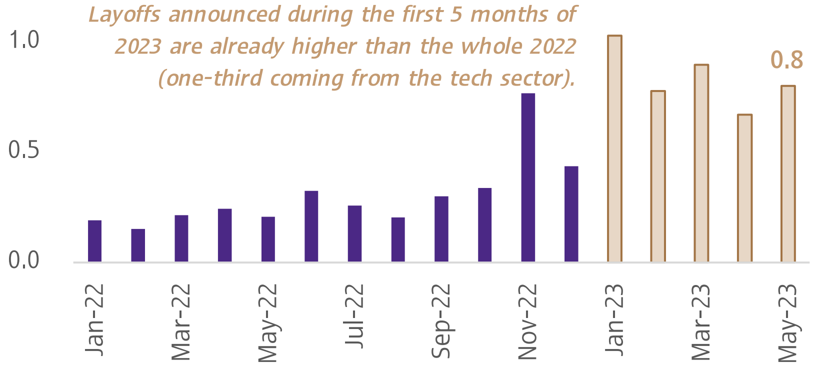
Purchasing Managers' Index reflects a slowdown in the economic activity.

Unit: Index (above 50 means expansion from the previous month)



U.S. Challenger Job Cuts are rising

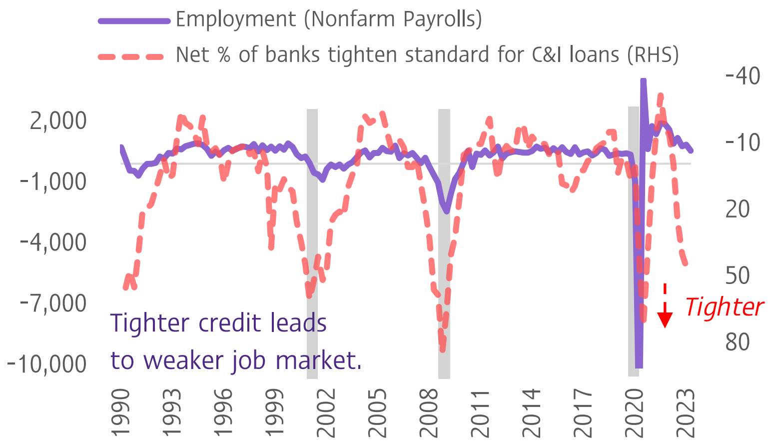
Unit: hundred thousand positions



Tighter credit standards are often followed by a weak labor market

Unit: thousand positions

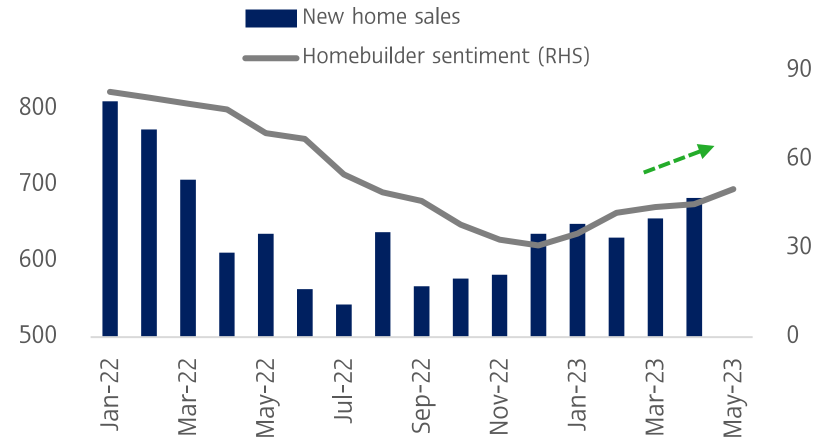
Unit: %



Housing market started to stabilize and is expected to have bottomed out.

Unit: thousand units

Unit: Index



U.S. economy in 2023H1

- **The US economy was driven by continued growth of spending and income,** which helped offset the weaker growth in business investment and real estate sector.
- **Consumer spending will remain a growth driver in Q2** propelled by high growth of income amid tight labor market.

U.S. economy in 2023H2

- **Banking stress situation** is getting back to normal, but the stress that had occured will still lead to **tightening credit conditions which will be a key pressure to the US economy in H2/2023.**
- **Tighter credit and financial conditions as well as a decline in savings will result in a slowdown in consumer spending and business investment. However, the US economy would still achieve a soft landing.** Inflation will likely fell, while the economy would still expand slightly for the remainder of this year.

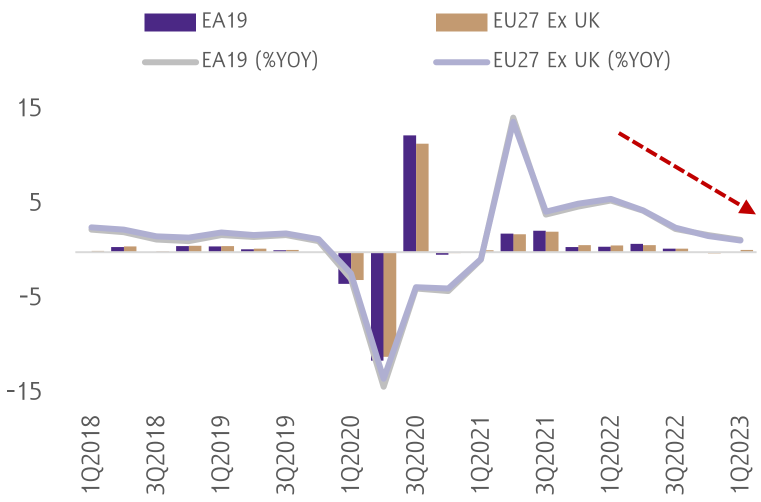
Source: SCB EIC analysis based on data from Bloomberg and ISM

SCB EIC

SCB EIC revises down its GDP forecast for the eurozone to 0.6% (previously 0.8%) due to lower-than-expected Q1 GDP outturn. Key economy like Germany has already entered a technical recession, while manufacturing sector has not yet bottomed out. The economy in H2/2023 will slow down from H1/2023.

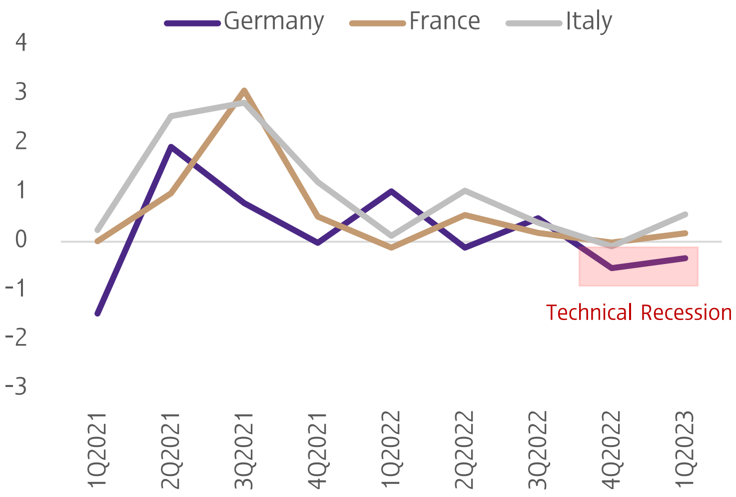
Economic growth in EU

Unit: %QOQ



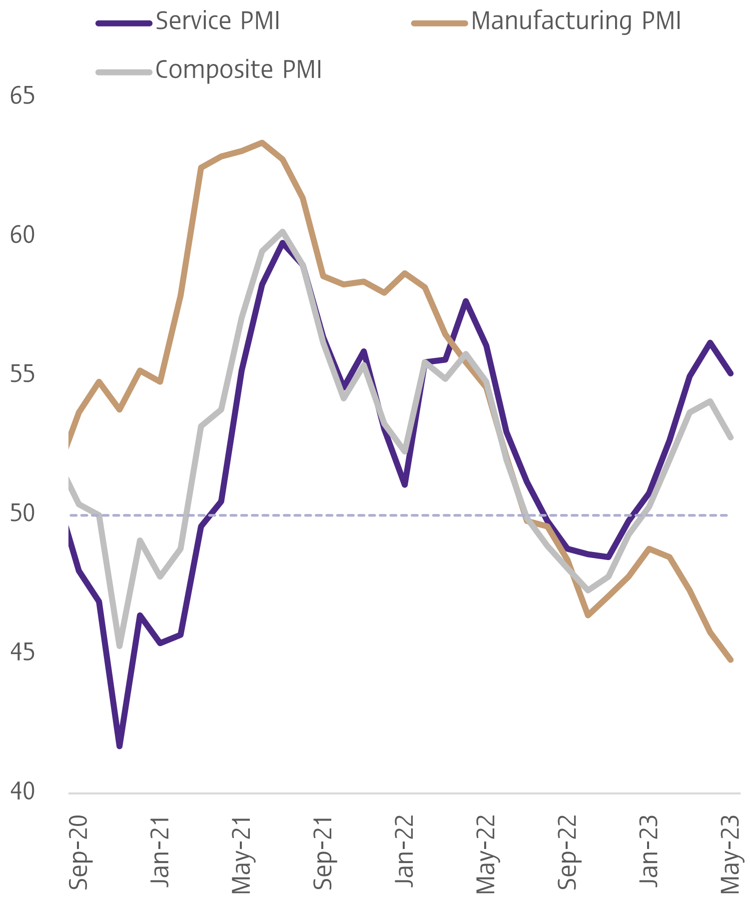
Growth of key economies in EU

Unit: %QOQ



European Purchasing Managers' Index

Unit: Index, > 50 = expansion, SA



Eurozone economy will grow at a much slower rate in H2/2023 compared to H1/2023

- **Manufacturing sector continues to contract more severely** without any supporting factors looking ahead (Demand has not yet recovered, while supply disruptions have largely eased and thus would not have much impact going forward).
- **Energy shortage situation may intensify in Q4** driven by seasonally higher demand, while supply will remain tight.
- **Supporting factor for growth will come from tourism** which will enter a peak season in Q3.
- **Although the economy is very weak, technical recession is not expected this year** as the economy is highly resilient and thus able to avoid a technical recession during periods where the economy becomes more fragile than at present (3Q2022-4Q2022).

Source: SCB EIC analysis based on data from Bloomberg, S&P Global's PMI, and Eurostat.

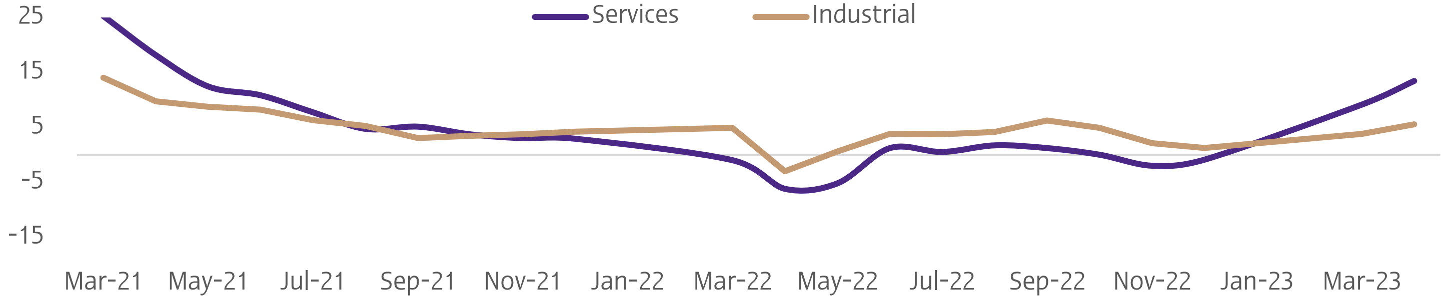
SCB EIC revises up its growth forecast for China to 5.7% (previously 5.5%) thanks to the continued recovery of services sector. However, other sectors remain fragile, reflecting an uneven recovery.

China exhibits a stronger growth mainly driven by recovery in services sector

China's economic indicators (top figure) and Service and Industrial Production Indices (bottom figure)

Unit: %YOY (Unless otherwise specified)

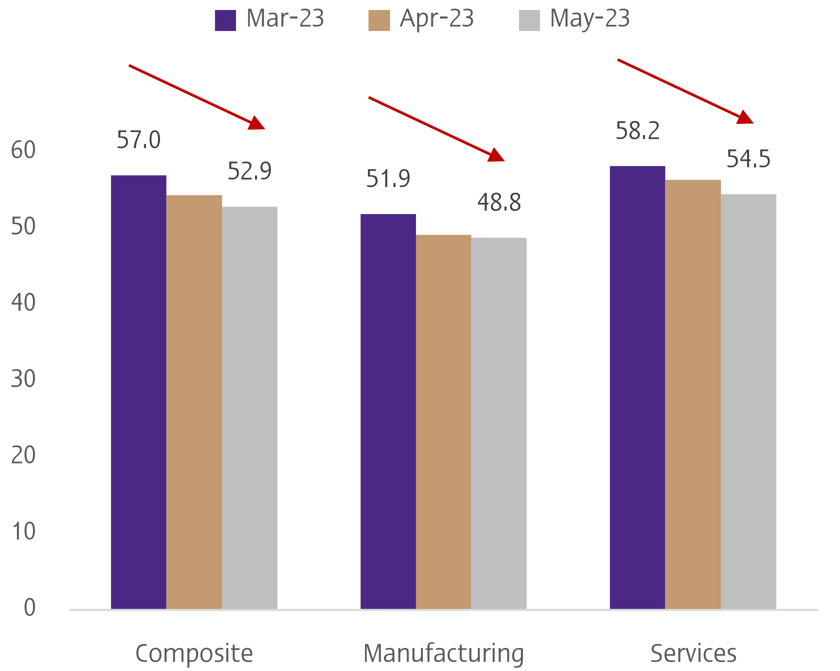
Indicators	2022 (avg.)	Jan-23	Feb-23	Mar-23	Apr-23
Unemployment rate (%)	5.6%	5.5%	5.6%	5.3%	5.2%
Consumer confidence (index)	95.0	91.2	94.7	94.9	[redacted]
Retail sales	-1.6	[redacted]	[redacted]	10.6	18.4
Exports, USD	7.8	-10.7	-1.6	14.3	8.0
Fixed asset investment	5.7	5.5	5.5	-0.7	-17.4
Real estate: floor space started	-36.9	-9.4	-9.4	-29.0	-28.3
Real estate: floor space sold	-23.5	-3.6	-3.6	-3.5	-11.8



Momentum from country reopening began to show signs of waning

PMI of the National Bureau of Statistics

Unit: Index (>50 reflects an expansion from the previous month)



SCB EIC assesses that the Chinese economy will likely exhibit a stronger growth of 5.7% this year driven by recovery in the services sector which has benefited from pent-up demand. Meanwhile, manufacturing sector is still affected by a demand slowdown. Going forward, recovery will likely be slow as momentum from country reopening began to show signs of waning while there are risks to economic activities including unemployment among young workers, limitations facing fiscal policies in stimulating the economy, and contraction in the real estate sector. However, Chinese economy would still register a high growth this year given a very low base during last year's lockdown.

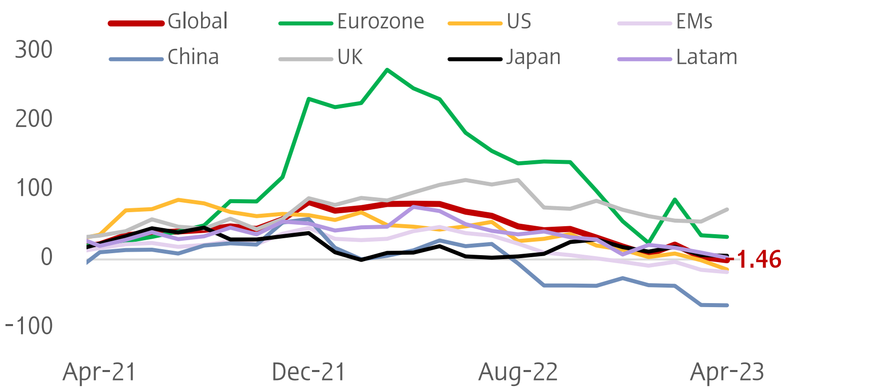
Source: SCB EIC analysis based on data from CEIC and China National Bureau of Statistics

Global tightening cycle is coming to an end,
but lag effects remain.

Central banks will likely raise policy rate 1-2 more times this year as core inflation has been falling slowly amid tight labor market. Tightening cycle is coming to an end as inflation declined faster than expected while real policy rates are gradually turning positive.

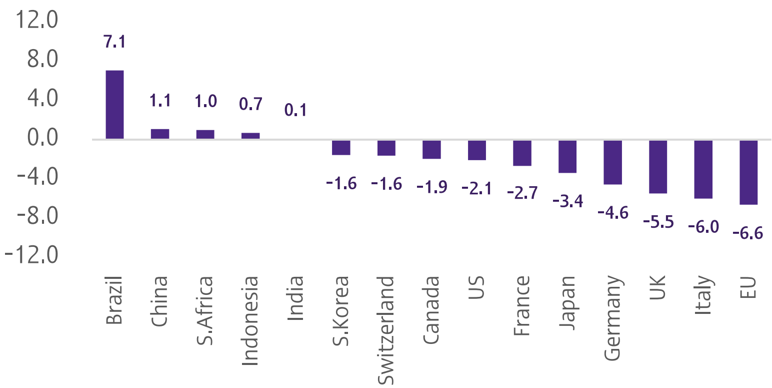
Citi Inflation Surprise Index below expectation for the first time in 29 months

Unit: Index < 0 = inflation outturn comes out lower than market expectation



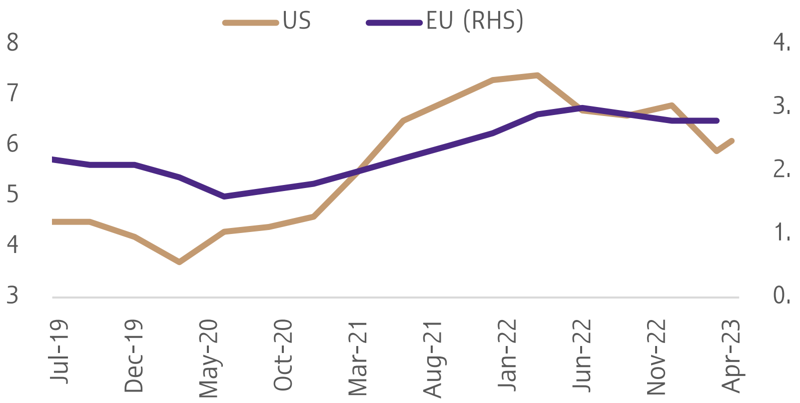
Real policy rates*

Unit: % Data from Apr – 12 May 2023



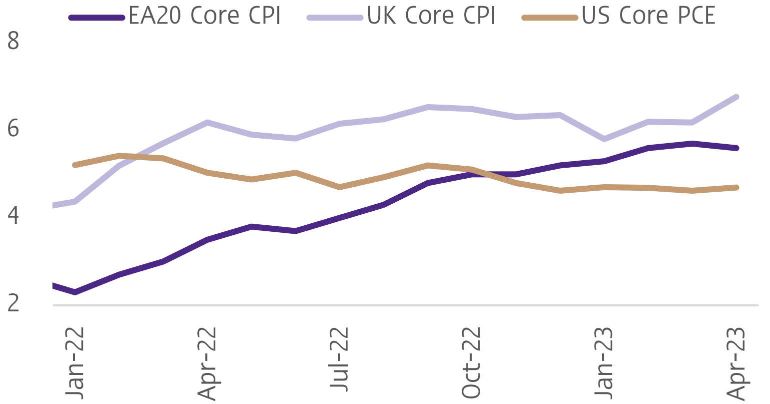
Job opening rate

Unit: %



Core inflation in the US, EU and UK

Unit: % YOY



Tightening cycle is closer to end

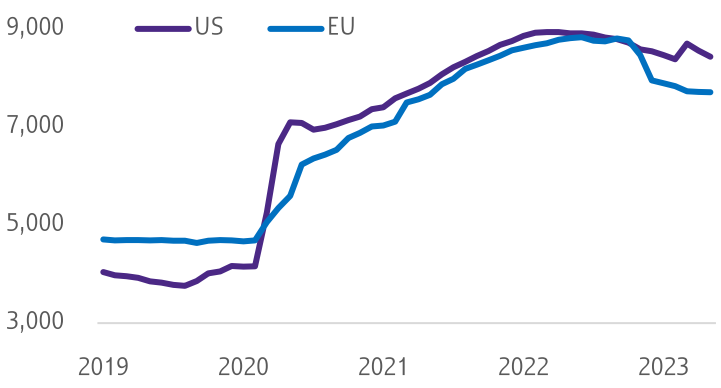
- **Fed is likely to raise policy rate one more time, with an expected increase in July to 5.25-5.5%, and keep it unchanged throughout the year as core inflation has still decelerated slowly and much above the Fed's target of 2%.** Although the latest dot plot shows a chance for 2 more hikes, EIC expects the inflation to decelerate faster during H2, resulting in the Fed not continuing to raise its Fed funds rate to 5.5-5.75%.
- **ECB is likely to raise policy rate 2 times to 3.75%, while BOE may raise policy rate 3 times to 5.25% as EU is facing greater inflation pressures than the US.** Although headline inflation fell rapidly in line with energy prices, core inflation continues to rise given wage increases amid tight labor market. Moreover, real policy rate remains highly negative.

Note: *Real policy rate is calculated based on 12-month rolling headline inflation.
Source: SCB EIC analysis based on data from Bloomberg, CEIC, St Louis Fed, and Eurostat.

Liquidity in the global financial system is likely to decline driven by Quantitative Tightening, although tightening cycle is coming to an end. This will affect financial markets in EMs via lower capital inflows and high bond yields.

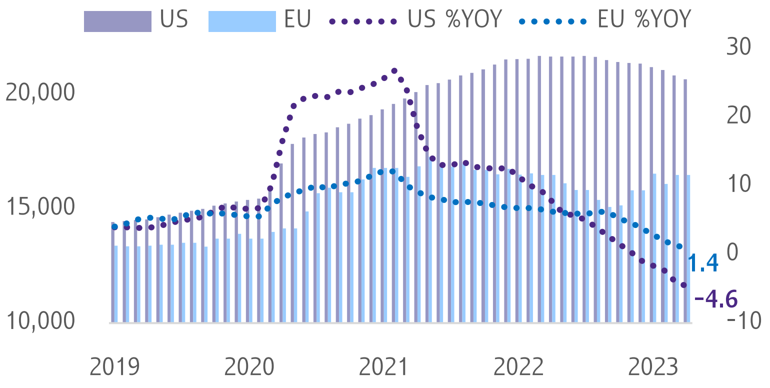
Balance sheet of the Fed and ECB: Total assets

Unit: USD Billion, EUR Billion



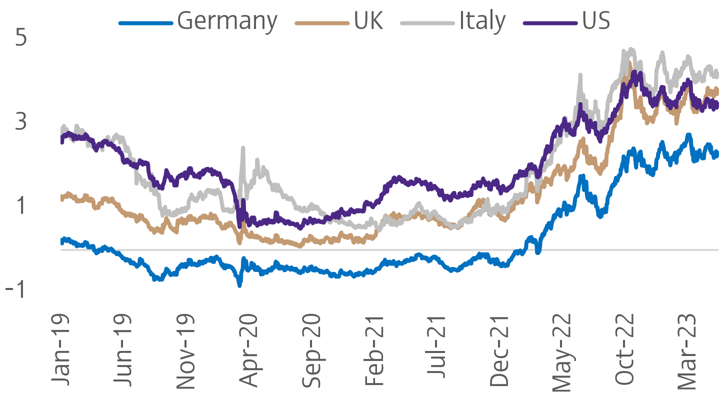
Money supply (M2) of the US and EU

Unit: USD Billion



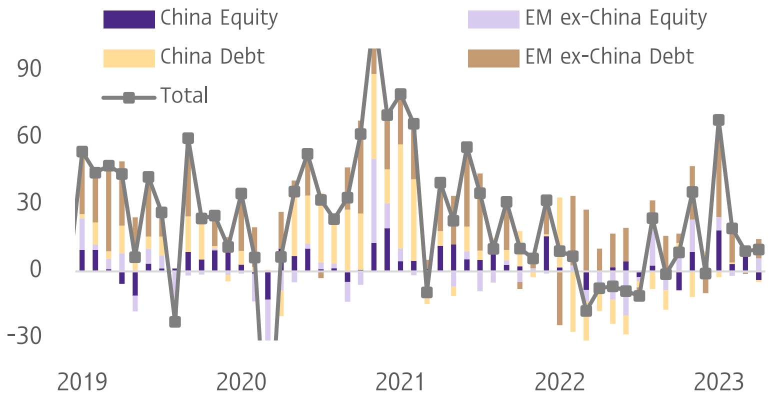
10-year government bond yields

Unit: %



Capital flows into financial markets in EMs

Unit: USD Billion



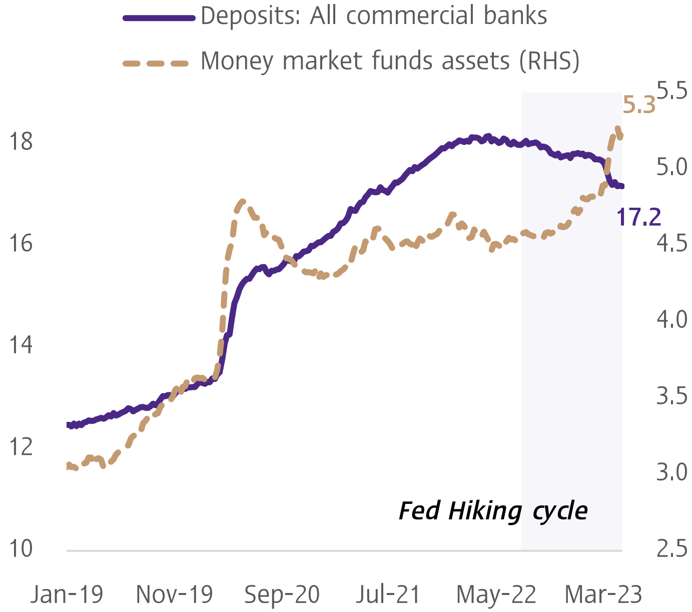
- **Liquidity in the US and EU started to decline since 2022Q4** owing to tightening monetary policy through Quantitative Tightening (QT), resulting in a decline in money supply growth (contraction seen in the US).
- **Reduction in global liquidity resulted in tighter financial conditions, mainly affecting investment in risky assets.** EMs will be affected via lower capital inflows to financial markets in EMs.
- **Bond yield will likely remain** high in line with global monetary policy directions, **which will affect funding costs of the government and businesses.**

Source: SCB EIC analysis based on Bloomberg, CEIC, St Louis Fed, and The Institute of International Finance (IIF).

Deposits in AEs' banking system will likely continue falling due to spending following city reopening, high living costs, and central banks' policy rate hikes which make returns of other financial assets becoming more attractive.

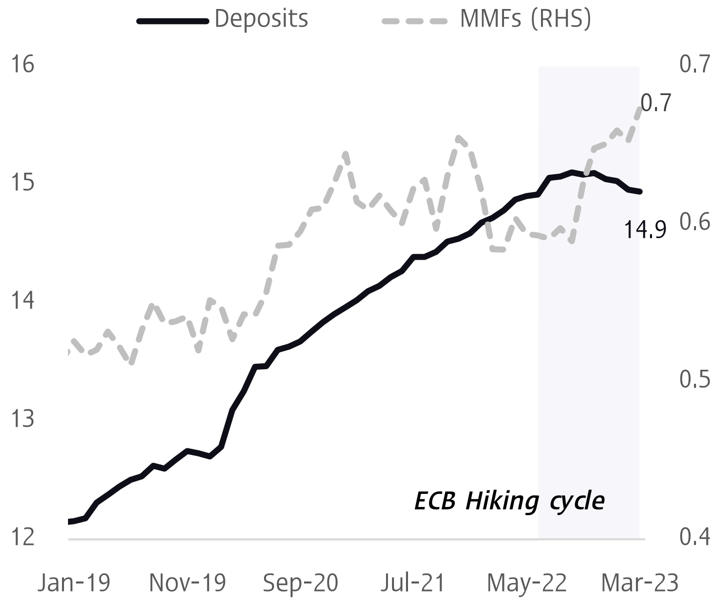
U.S. bank deposits and U.S. money market funds

Unit: USD trillion



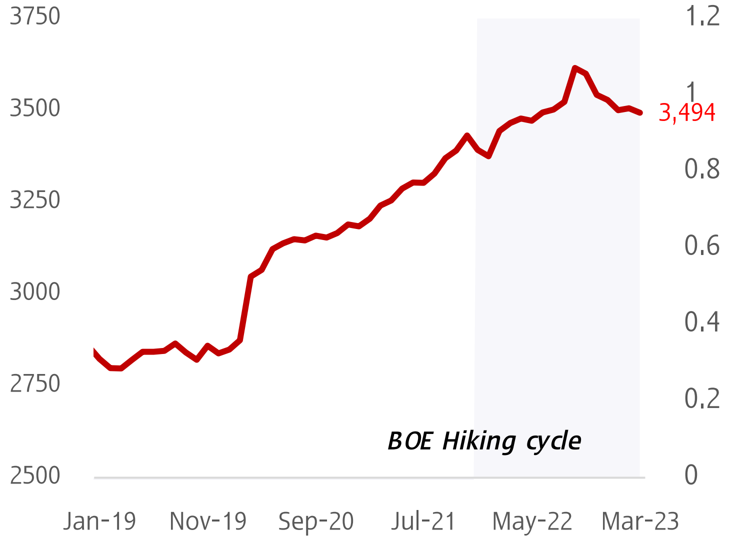
Euro Area banks deposits and MMFs

Unit: EUR trillion



UK Bank Deposits

Unit: GBP billion



- **Excess savings in the US is likely to decline which may affect consumption looking ahead.** US consumers started to spend their excess savings to support consumption following the city reopening at an average of USD 30,000 per month since Q3/2021. The average spending has risen to USD 100,000 per month in 2022. Excess savings are expected to remain at around USD 500 billion, which should be sufficient to support consumption at least until the end of this year.
- **Deposits in the US banking system started to increasingly flow to MMFs since 2022** due to 1) relatively higher yields (Average yield of US MMFs is at 4.7%, the highest in 50 years and compared with 0.02% in Jan 2022, resulting in high yield gap of 4%), and 2) banking stress situation (stability, liquidity, and yield), resulting in greater deposit outflows.
- **Euro area and UK do not face as much deposit outflows as the US given their financial market structure where there are not as many investment options.** Moreover, market sizes of other assets especially MMFs are very small relative to value of deposits in the system (EA 4% vs US 30%). Nevertheless, deposits have started to decline mainly due to the city reopening and rising living costs.

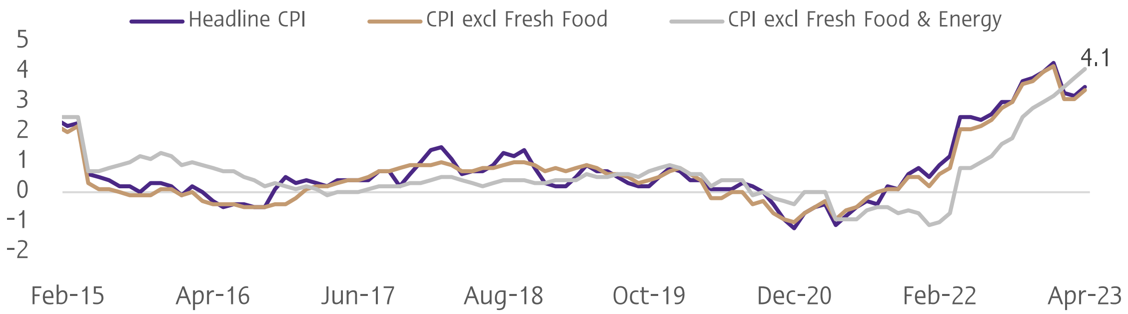
Source: SCB EIC analysis based on data from CEIC, Fed, ECB, and BoE.

SCB EIC

Global bond markets may face additional pressures should BOJ adopt a less accommodative monetary policy in H2/2023 as Japanese investors who play a major role in the global markets could move funds back to the Japanese bond market.

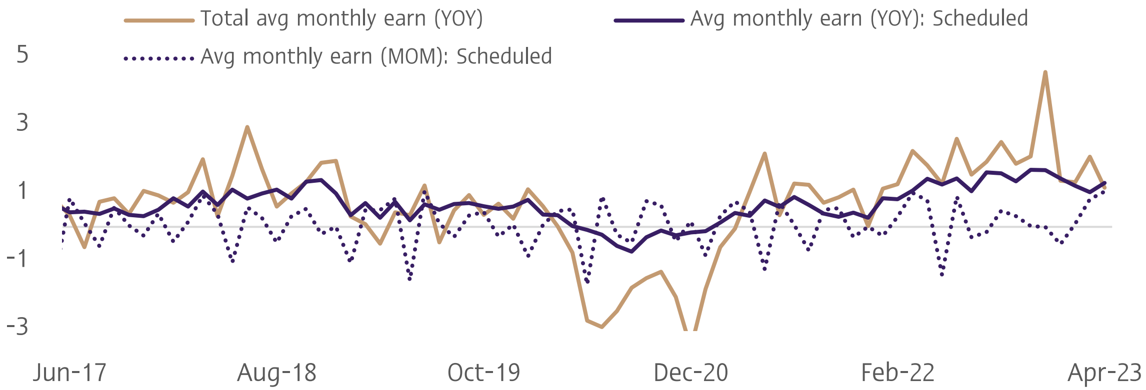
Inflation in Japan slowed slightly, but core inflation still accelerate. This reflects demand recovery, increasing opportunity that inflation will sustain within BOJ's target of 2%

Unit: %YOY



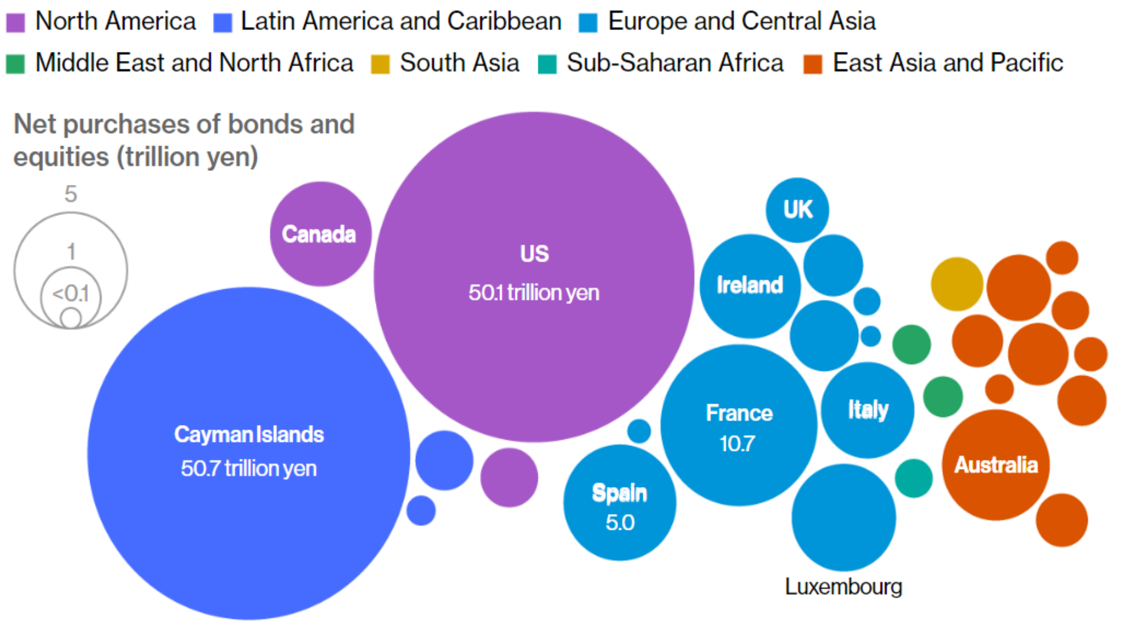
Wage growth in Japan has moderated overall, but growth of salary, an important basic pay, continues to expand (both %MOM and %YOY)

Unit: %YOY, %MOM



Value of financial asset holdings abroad of Japanese investors during Kuroda's governorship

Unit: % market size by country (April 2013 to Dec. 2022)



Should BOJ adopt a less accommodative monetary policy in the second half of this year, global financial markets could face additional impact as Japanese investors could move funds out of the global bond markets led by **the US bond market** where Japanese investors are the largest bond holders.

Financial markets in Australia, the Netherlands, and New Zealand could also face a severe impact as share of investment from Japanese investors to domestic financial market value in these countries are among top 3 in the world.

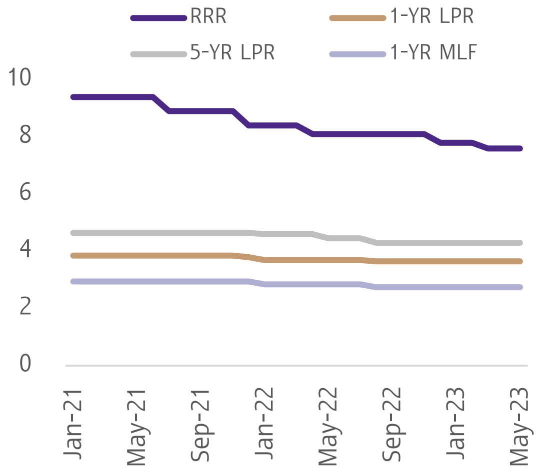
Source: SCB EIC analysis based on data from Bloomberg, CEIC, Fed, ECB, and BoE.

China's monetary and fiscal policies will remain accommodative this year to support the economic recovery that is still highly fragile and began to show signs of waning. However, the ability to implement stimulus measures becomes increasingly limited due to several factors.

China's monetary policy

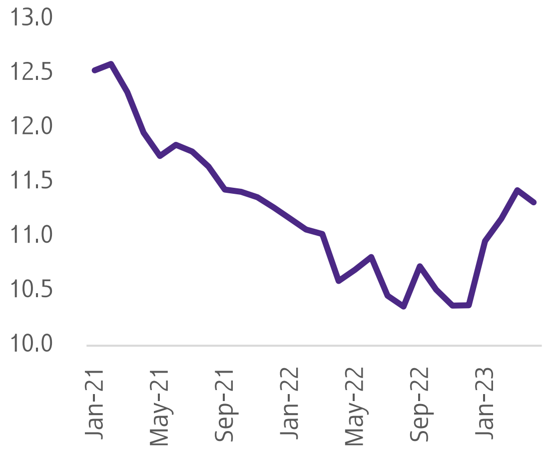
China's key policy rates*

Unit: %



China's credit outstanding growth

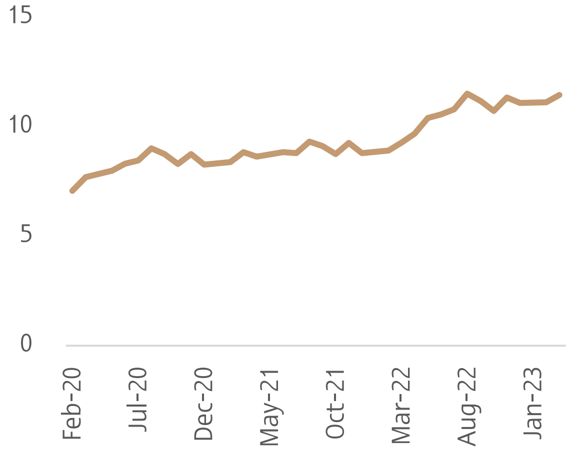
Unit: %YOY



China's fiscal policy

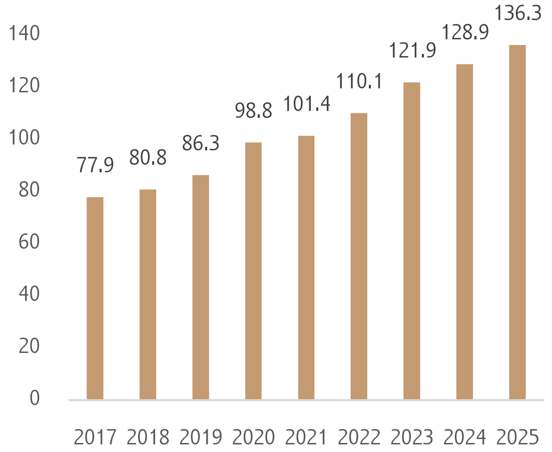
Ratio of local government debt to fiscal revenue

Unit: % (12 month moving average)



Public debt forecast by IMF (including LGFV)**

Unit: % of GDP



- **China's key policy rates will remain accommodative** as the economy has not fully recovered and inflation is still low. Meanwhile, real estate sector continue to contract both sales and construction.
- **The monetary policy effectiveness in stimulating credits is limited** as demand for investment in China remains subdued partly as industrial profits continue to contract while confidence is still recovering.
- **Large banks in China cut their deposit rates.** This is expected to help stimulate lending, while it may also signal that the central bank will cut its policy rates going forward.

- **Chinese government will use fiscal policy to stimulate the economy** by promoting infrastructure investment and measures to support easier access to funding for both homebuyers and real estate developers.
- **China's fiscal space is declining** as local governments, who disburse the budget, have much higher debt levels and therefore high debt burdens. This will cause limitations in issuing measures.
- **Going forward, China's fiscal policy will remain accommodative** through targeted measures for the vulnerable segment including stimulus measure for the real estate sector.

Note: *RRR = required reserve ratio, LPR = loan prime rate, MLF = medium-term lending facility **LGFV = Local Government Financing Vehicle
Source: SCB EIC analysis based on data from CEIC, PBOC and IMF

Thai Economy

Thai economic momentum continues despite unpromising exports.

SCB EIC

SCB EIC maintains the Thai economic forecast for 2023 at 3.9% on the back of private consumption and tourism growth momentum, while exports remain key downside risk. Headline inflation decelerated as domestic energy prices dropped. Going forward, inflation remains uncertain due to energy price subsidies.

Gross Domestic Product (GDP) forecast

Economic Forecast (Base case)	Unit	2021	2022	2023F As of Mar 2023	2023F As of Jun 2023
GDP	%YOY	**1.6**	**2.6**	**3.9**	**3.9**
Private consumption	%YOY	0.6	6.3	3.9	4.3
Government consumption	%YOY	3.7	0.0	-1.5	-2.2
Private investment	%YOY	3.0	5.1	3.0	2.4
Public investment	%YOY	3.4	-4.9	2.2	2.2
Goods exports value (USD BOP basis)	%YOY	19.2	5.5	1.2	0.5
Goods imports value (USD BOP basis)	%YOY	27.7	15.3	0.9	0.7
Foreign tourist arrivals	Million persons	0.4	11.2	30.2	30.2
Headline inflation	%YOY	1.2	6.1	2.7	2.1
Core inflation	%YOY	0.2	2.5	2.4	1.7
Crude oil price (Brent)	USD/Bbl.	70.5	100.9	77.8	80.7
Policy rate (Year-end)	%	0.5	1.25	2.0	2.5
Exchange rate (Year-end)	THB/USD	33.2	34.6	32-33	32-33

Supporting factors

- China's rapid economic recovery from low-base.
- Continued recovery in consumption.
- Competitor countries' export restrictions and controls.

Domestic risk factors

- The formation of the new government and political uncertainties.
- Household debt accelerated.

External risk factors

- The impact of global economic slowdown on exports.
- Geopolitical issues intensified, affecting Global supply chain and exports.
- Global financial stability issue.
- Prolonged monetary policy tightening.

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

The Thai economy continued to recover from strong tourism and private consumption growth momentum. However, many sectors slowed or contracted, especially merchandise exports and industrial manufacturing.

Thai economy	Unit	2022	Q4/22	Q1/23	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	YTD
Gross domestic product (GDP)	%YOY	**2.6**	1.4	2.7								**2.7**
Demand-side												
Private sector consumption	%YOY	8.4	5.2	5.5	6.9	2.4	4.8	4.8	6.7	7.6		4.7
Domestic vehicle sales	%YOY	15.1	-3.0	-6.1	-4.8	-3.9	-5.6	-3.9	-8.4	-6.1		-6.1
Private sector investment	%YOY	2.6	-1.9	-0.2	-1.5	-4.2	-2.7	0.1	1.8	0.0		-0.2
Exports ex. gold (Customs data)	%YOY	4.4	-8.3	-2.3	-5.1	-13.9	-4.4	-2.5	-0.4	-9.3		-4.0
Consumer Confidence Index	100 = stable	43.9	47.9	52.7	47.9	49.7	51.7	52.6	53.8	55.0	55.7	53.8
Business Sentiment Index	50 = stable	49.0	48.5	51.1	49.4	48.4	49.8	50.6	52.9	50.1	49.7	50.6
Supply-side												
Farm income	%YOY	13.7	16.0	6.8	15.7	11.9	6.2	13.6	1.3	3.8		6.2
Manufacturing Production Index	%YOY	0.4	-6.0	-3.7	-5.3	-8.5	-4.8	-2.4	-3.9	-8.1		-3.9
Capacity utilization sa	%, SA	62.8	60.1	60.5	60.4	59.3	60.0	61.4	60.1	59.5		60.3
Foreign tourist arrivals	thousands	11153.3	5465	6478	1748	2241	2145	2114	2219	2182		8660
Domestic trips	%YOY	182.4	83.4	35.1	69.0	35.5	41.4	31.6	32.2	27.7		33.1
Hotel occupancy rate	%	47.2	62.6	70.3	63.3	70.0	71.4	69.9	69.5	70.1		70.2
Labor market												
Unemployment rate	%	1.3	1.2	1.1								1.1
Youth unemployment rate	%	6.6	6.1									
Unemployment rate under SSO	%	2.1	1.8	1.8	1.8	1.7	1.7	1.6	1.9	1.9		1.8
Private sector hours worked	hours/week	45.7	46.3									

Thai economy continued to recover

- **Domestic demand improved, contrasting with worsening external demand.** Private consumption continued to expand, while private investment slowed in Apr in line with returning merchandise export contractions.
- **Supply-side economy expanded from the service and agriculture sector, though with the industrial sector contracting.** The recovery momentum of tourism and related services remained strong. Similarly, the agriculture sector improved following higher output.
- **The labor market recovered.** In Q1/2023, the unemployment rate recovered and returned to pre-COVID levels, especially in the service sector.

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

Tourism sector continues to thrive, supporting the overall Thai economy.

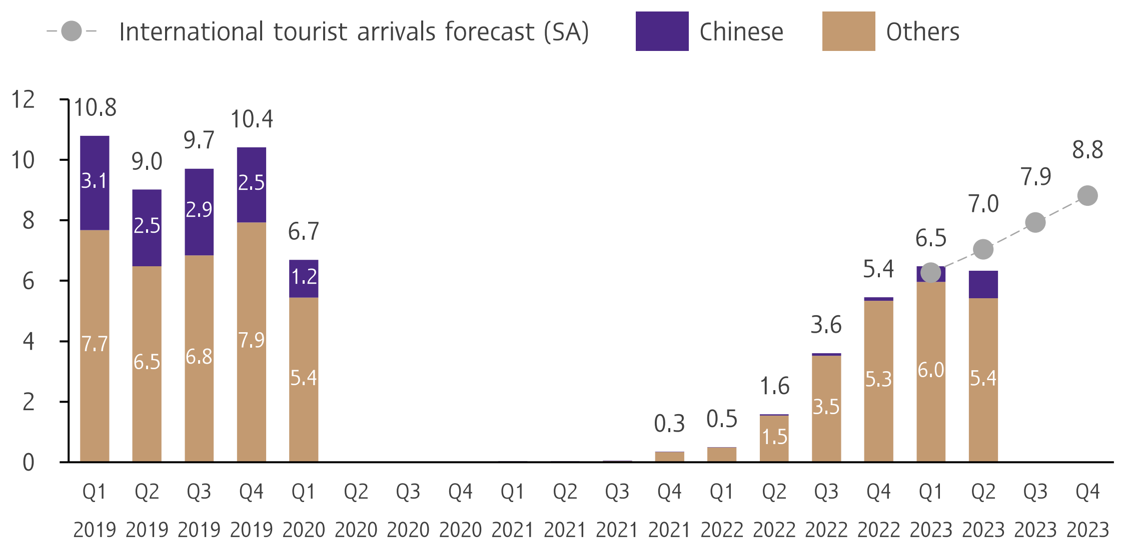
From a strong rebound in foreign tourist arrivals and rising domestic traveling activities, with a strong sign of recovery in many provinces.

SCB EIC

International tourists visiting Thailand in 2023 recover close to 30 million forecast, which is expected to generate revenue from foreign tourist expense around THB 1.27 trillion.

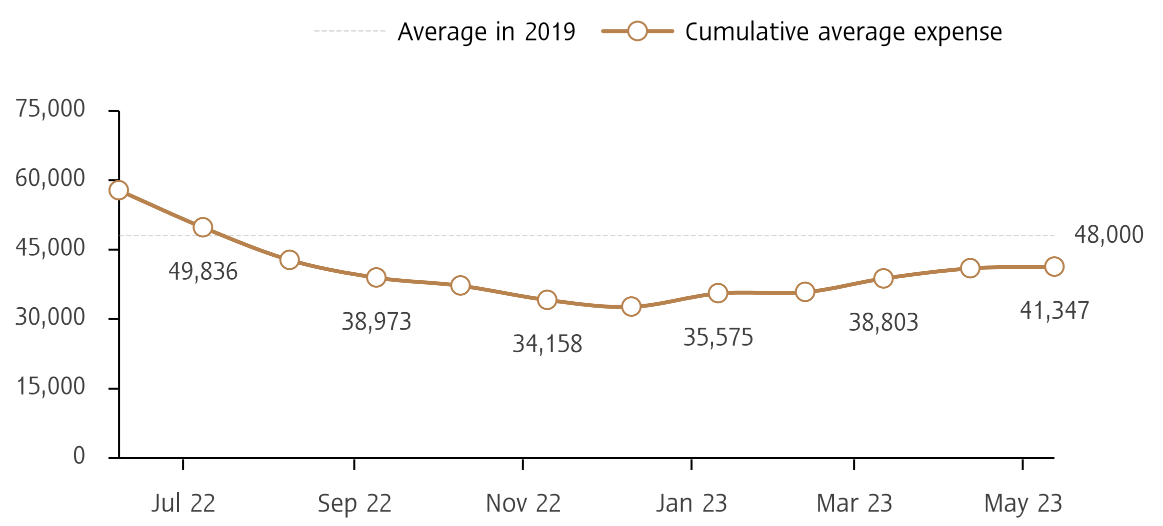
International tourist arrivals to Thailand

Unit: Million persons



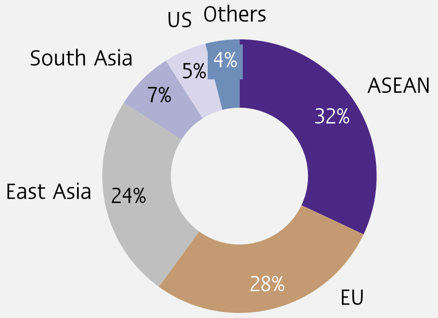
Average foreign tourist expense*

Unit: THB/person/trip



Proportion of cumulative international tourist arrivals in 2023

(11.4 Million persons as of June 11, 2023)



- **Asian tourists remain the key groups traveling to Thailand.** The highest arrivals to Thailand in June were Malaysian, Chinese, Indian, South Korean, and Vietnamese.
- **The number of Chinese tourists will accelerate in the second half of the year** from increasing more flights per week during summer schedule. Starting in June, the number of flights from China to Thailand increased to 430 per week, comparing to 152 flights per week in May. Currently, more than 1.23 Chinese tourists have traveled to Thailand (data as of June 11, 2023)
- **Tourist receipts potentially reaches THB 1.27 trillion** or about 66% comparing to the figure in 2019 as foreign tourist spending is increasing closer to 2019 average.

Note: *Estimated from the cumulative international tourism receipts and the cumulative international tourist arrivals in each period.

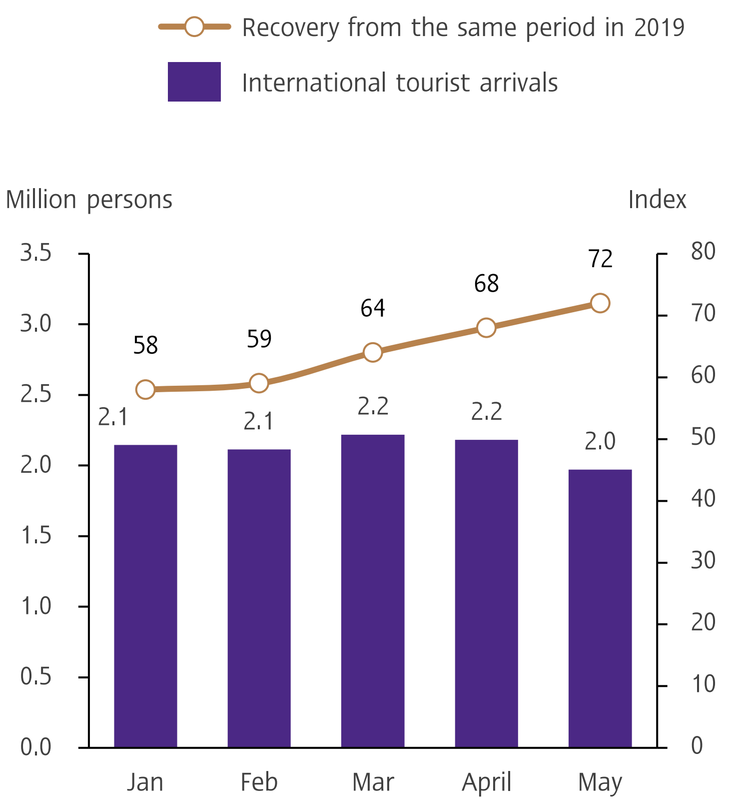
Source: SCB EIC analysis based on data from Ministry of Tourism and Sports and AOT.

SCB EIC

The number of foreign tourists, especially from ASEAN, have resumed strongly, in line with the recovery in international air ticket bookings in each region.

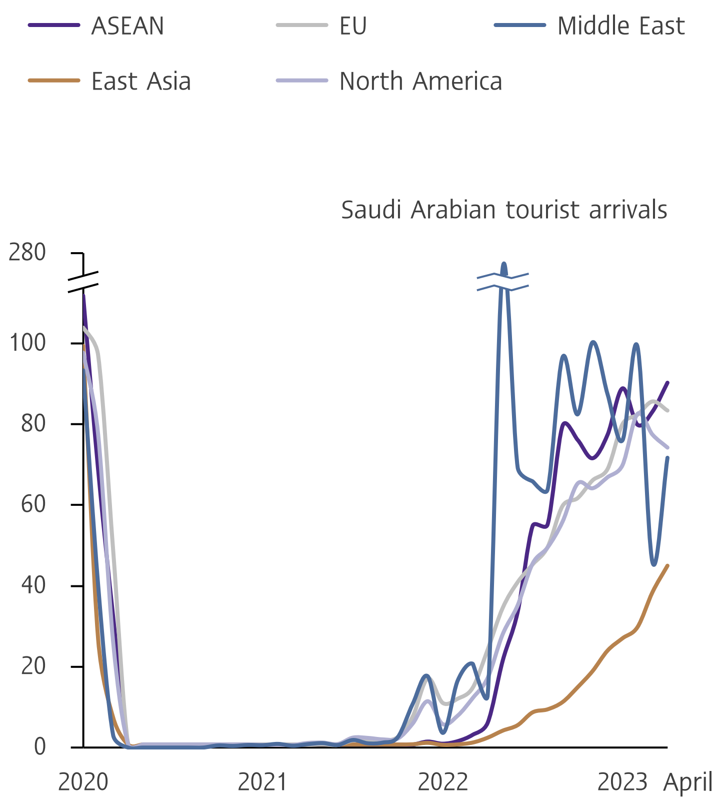
International tourist arrivals to Thailand in 2023

Unit: Million persons, Index (2019=100)



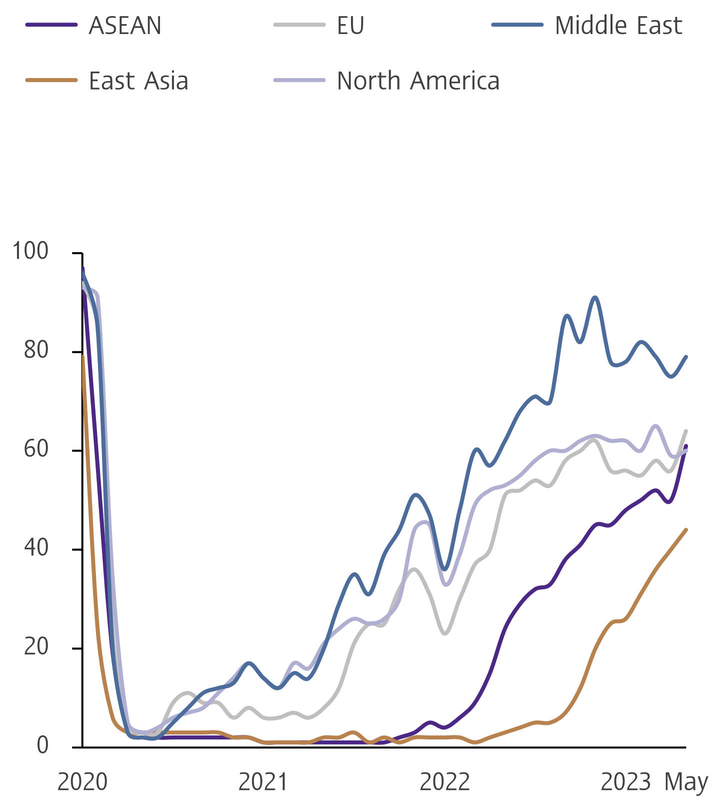
The recovery of international tourist arrivals to Thailand

Unit: Index (2019=100)



The recovery of international flight bookings

Unit: Index (2019=100)

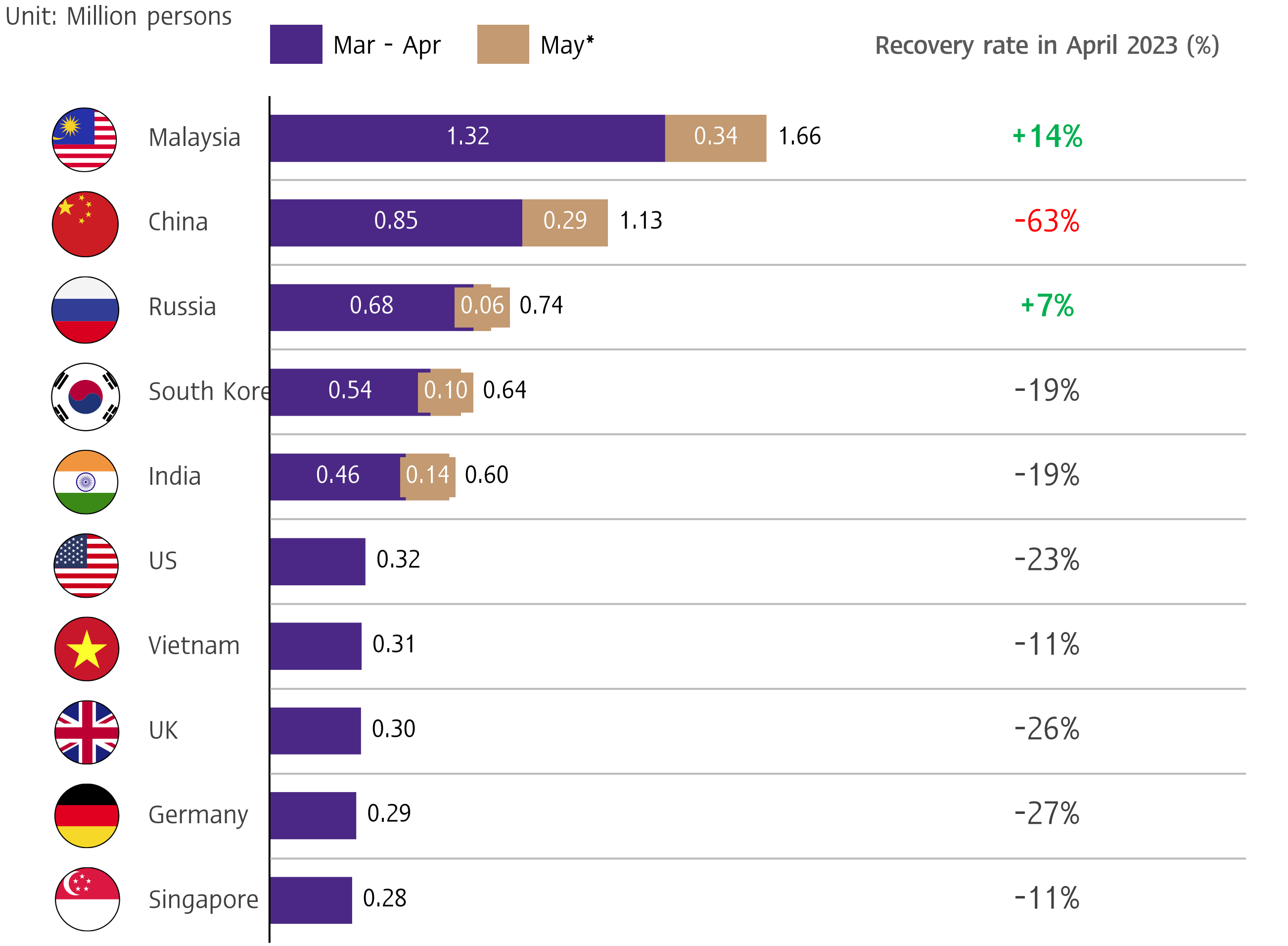


Source: SCB EIC analysis based on data from ForwardKeys and Ministry of Tourism and Sports.

SCB EIC

Malaysians are currently the main tourists, but Chinese tourists will rapidly increase from additional flights from China and more convenient VISA application process.

Top 10 International tourist arrivals to Thailand

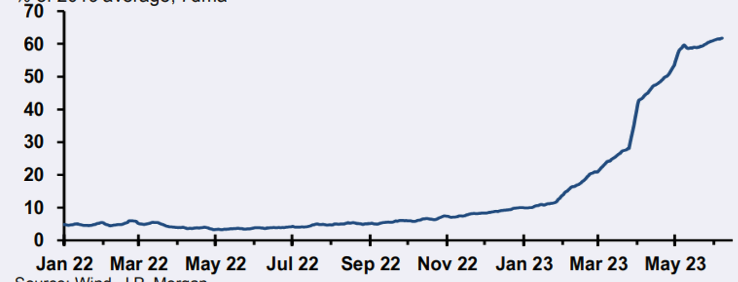


Note: *Ministry of Tourism and Sports reported only top 5 international tourist arrivals to Thailand as of May 2023.
Source: SCB EIC analysis based on data from Ministry of Tourism and Sports and J.P. Morgan.

The number of Chinese tourist continues to increase.

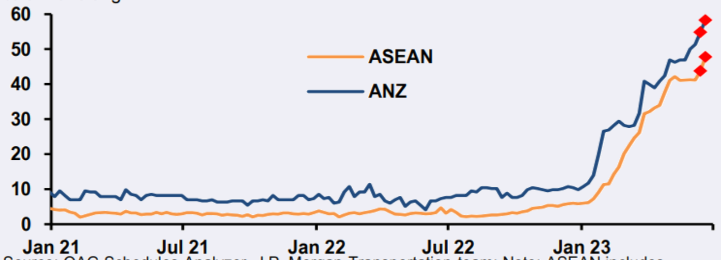
- **Chinese demand for international travel continues to accelerate,** especially to UK and Italy, where flights numbers are expected to reach 2019 levels this month.
- **Chinese tourists travel to ASEAN region more** as VISA application process is less complicated and appointments have not been fully booked as Schengen and US VISA.

Figure 3.2: Mainland China flights execution to overseas (int'l)
% of 2019 average, 7dma



Source: Wind, J.P. Morgan

Figure 3.5: China's scheduled flights to ASEAN and ANZ
% of 2019 avg

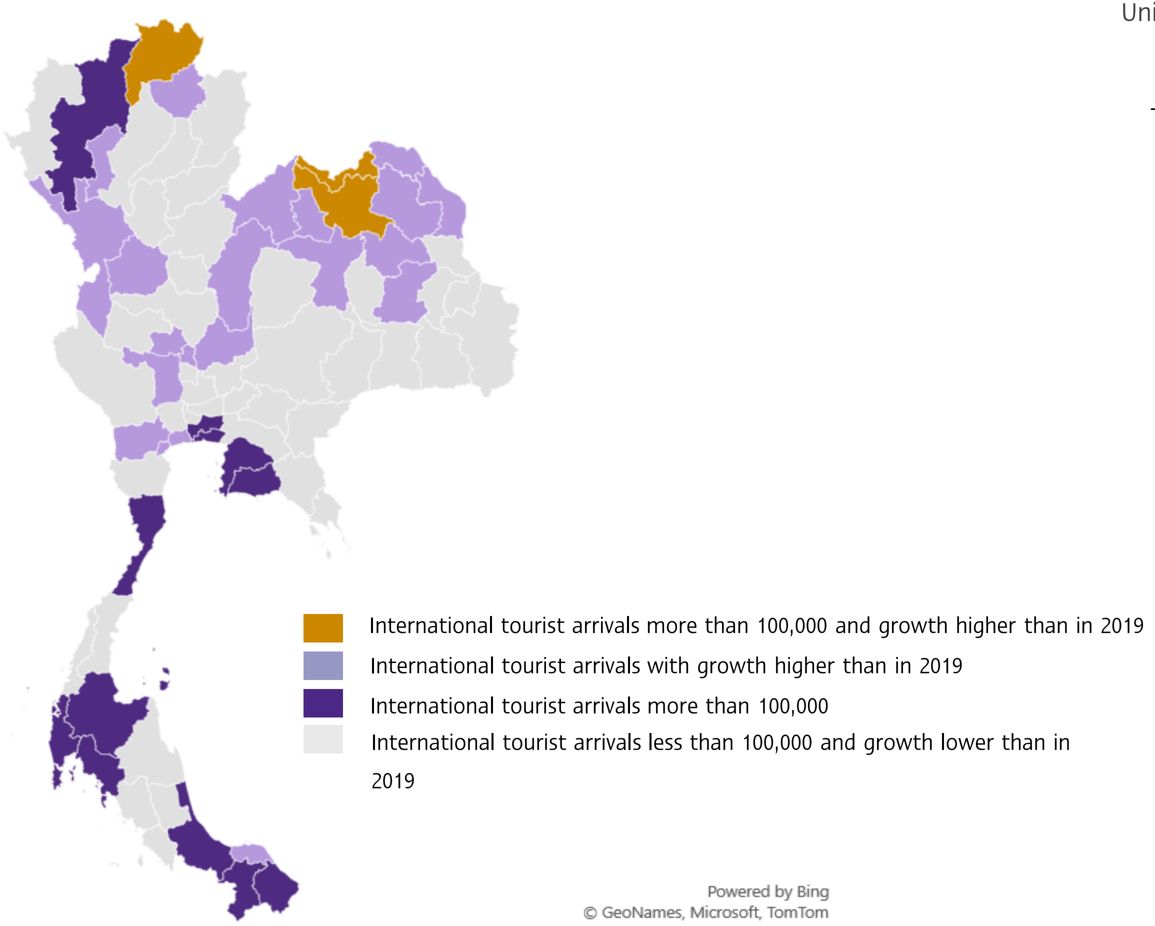


Source: OAG Schedules Analyzer, J.P. Morgan Transportation team; Note: ASEAN includes ID, MY, PH, SG, TH and VN. Red markers for the coming 4 weeks as of June 20.

SCB EIC

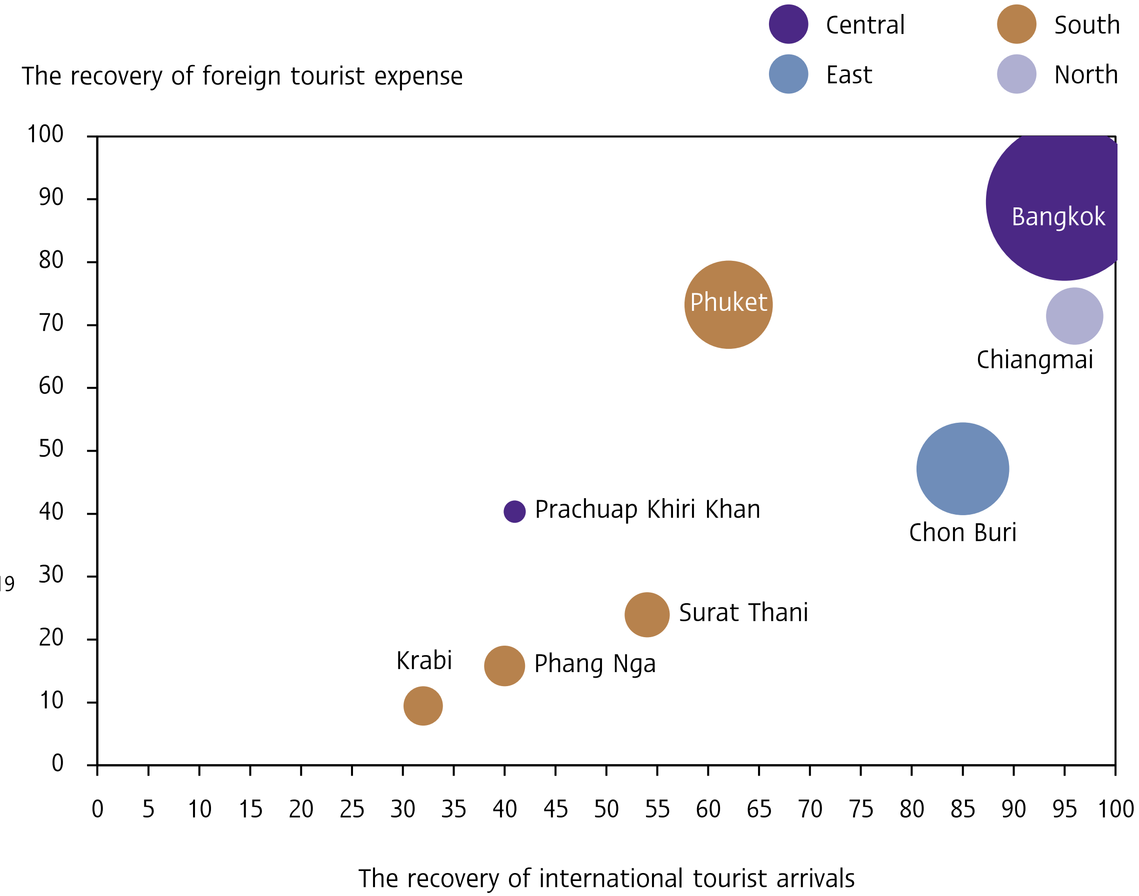
Foreign tourists travel to more destinations, with main tourist attractions gaining popularity, while secondary provinces starting to see stronger growth compared to 2019.

International tourist arrivals by province in Jan – Apr 2023



The recovery of international tourist arrivals in major tourist provinces in Jan – Apr 2023

Unit: Index (2019=100)



Note: The size of the circle reflects the number of international tourist arrivals.
Source: SCB EIC analysis based on data from Ministry of Tourism and Sports.

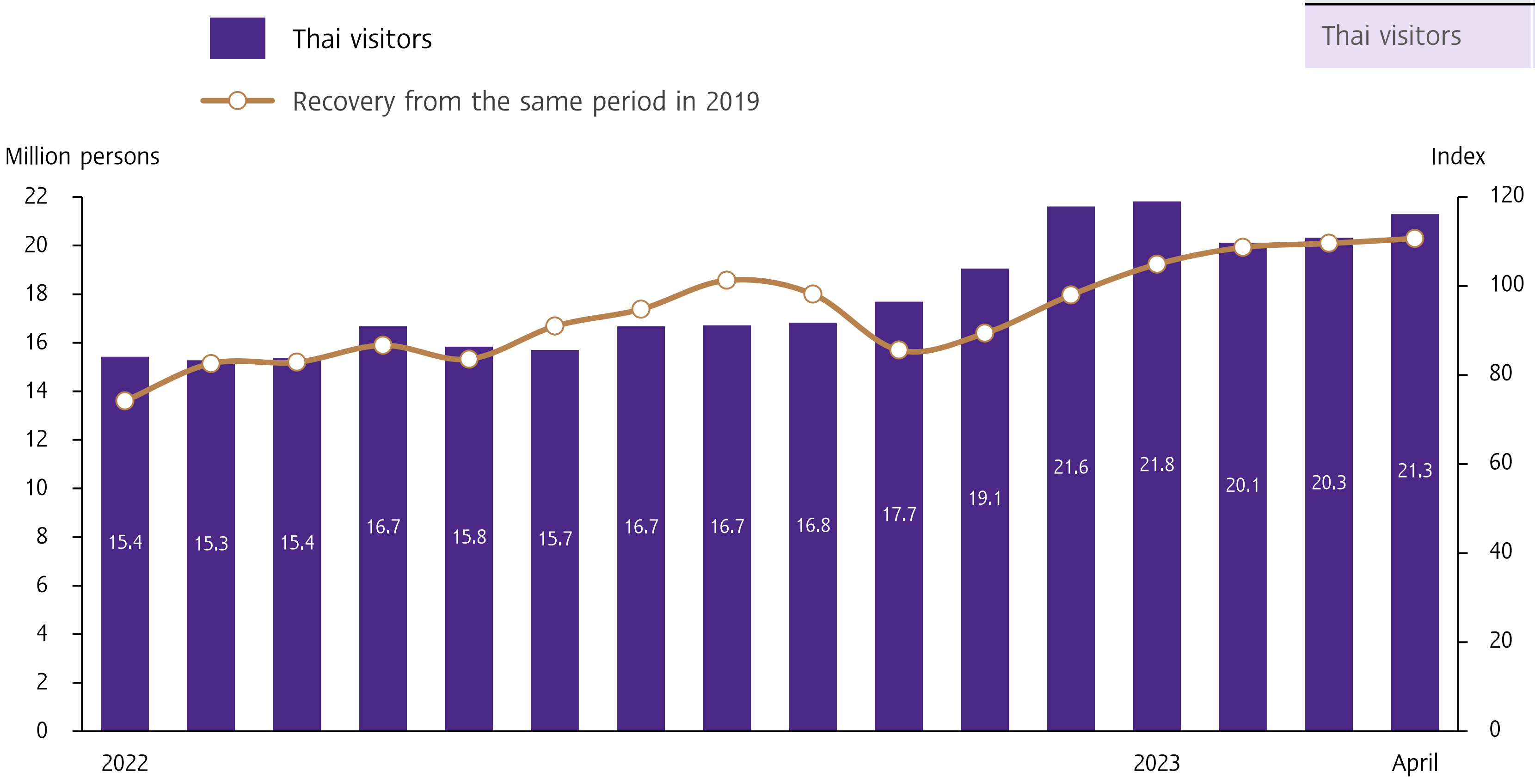
SCB EIC

The number of Thai visitors has grown well closer to pre-covid level. However, Thai tourist expenditure is still below 2019 number, reflecting economic and inflationary pressures.

Number of Thai visitors

Unit: Million persons, Index (2019 = 100)

Year	2019	2020	2021	2022	2023F
Thai visitors	229.4	123.2	72.0	202.4	229.5

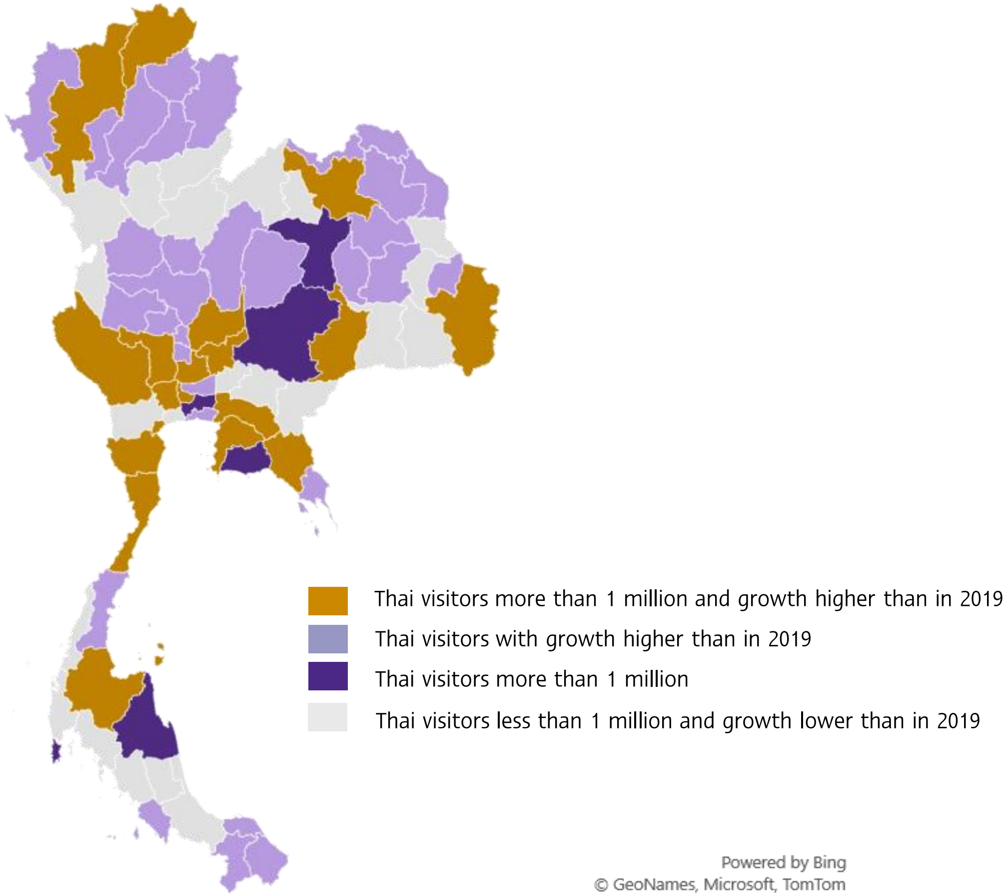


- **Most Thai visitors still limit travel budget.** In the first 4 months, an average travel expense of Thai visitors was around THB 3,130 per person per trip, which was -34% lower than in 2019.
- **Domestic travel may face a slowdown** as the situation is returning to normal and some traveling abroad more.

Note: *Estimated from domestic tourism receipts and the number of Thai visitors.
Source: SCB EIC analysis based on data from Ministry of Tourism and Sports.

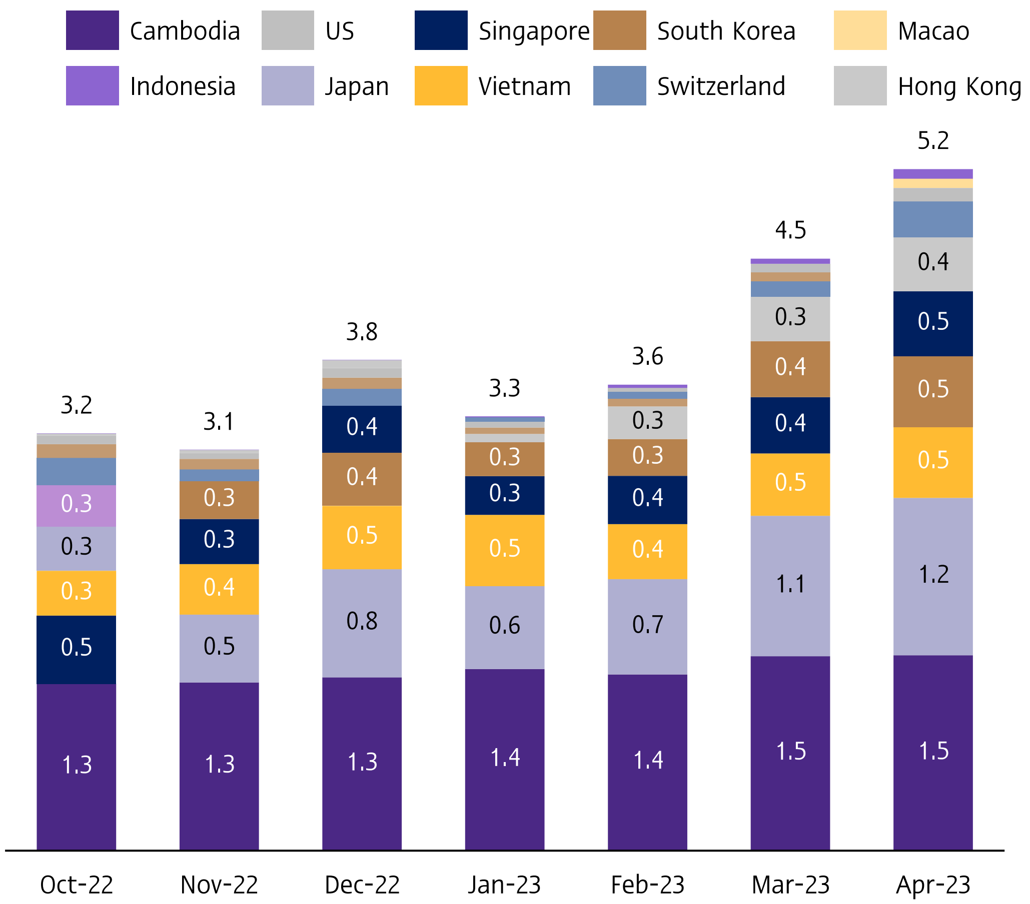
Domestic travel grew significantly in many provinces, especially the ones near Bangkok **but still being pressured by the number of Thai tourists travelling abroad.**

Thai visitors by province in Jan – Apr 2023



The number Thai tourists traveling abroad*

Unit: hundred thousand persons



Note: *Only countries with available data on the number of Thai tourist arrivals.
Source: SCB EIC analysis based on data from Ministry of Tourism and Sports and CEIC.

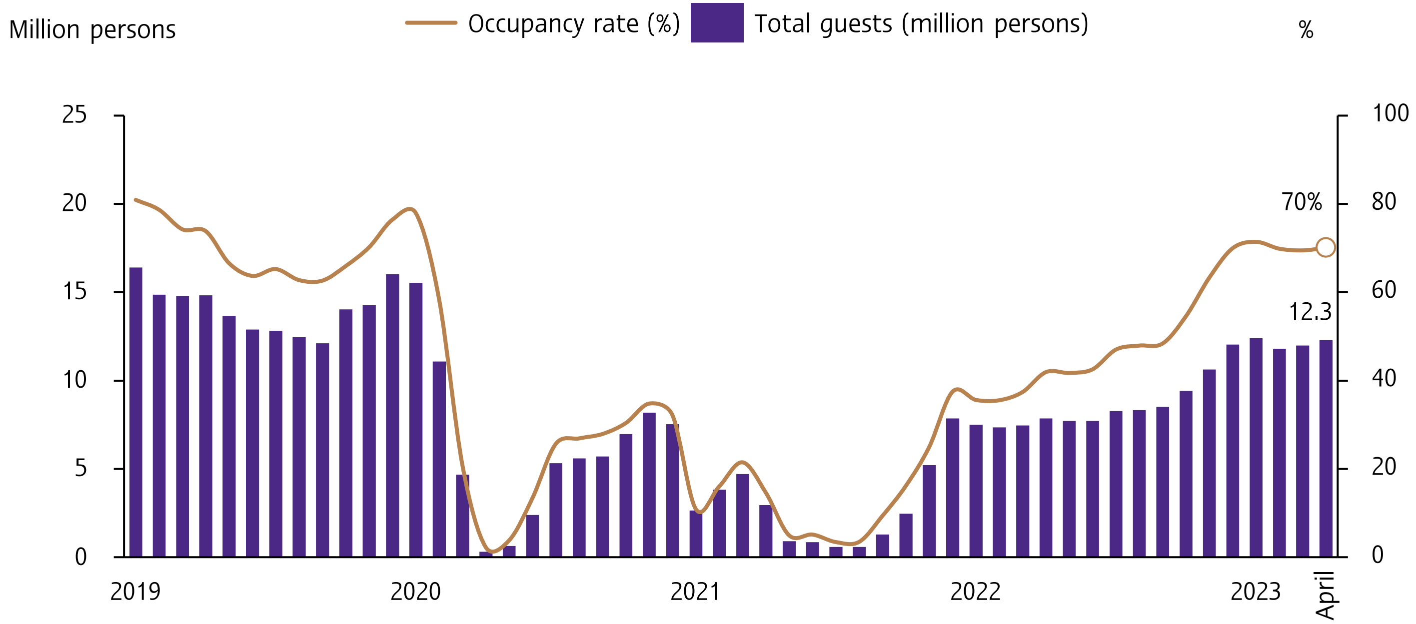
SCB EIC

Nevertheless, the tourism sector showed strong signs of recovery in many provinces following the acceleration of foreign tourist arrivals to Thailand. Hotel business will have a better recovery for the rest of the year.

The number of guests and occupancy rate

Unit: Million persons, %of total room supply

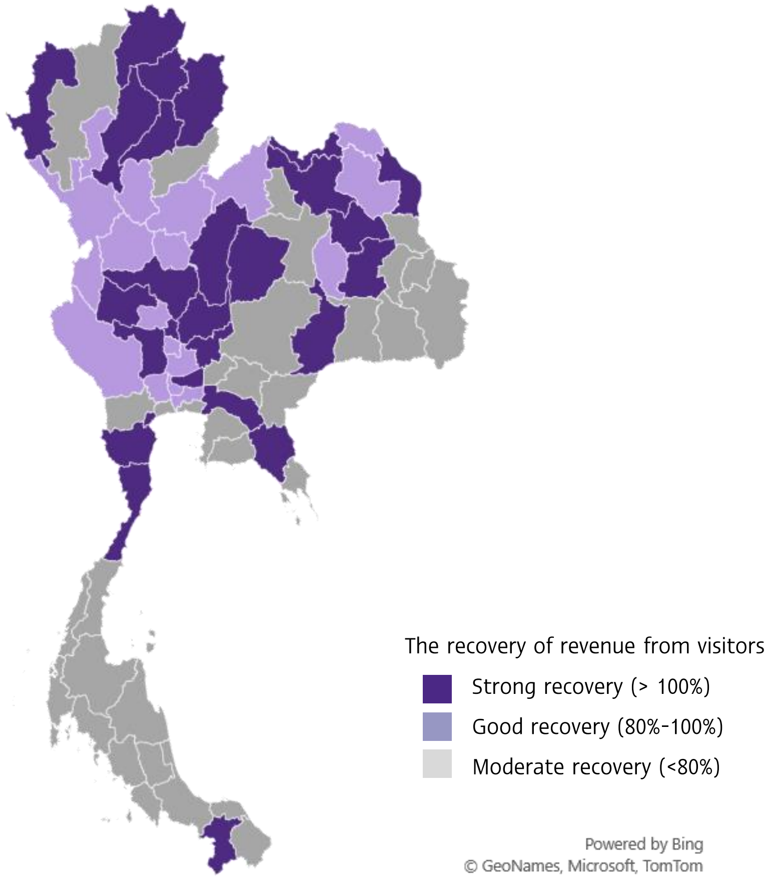
Year	2019	2020	2021	2022	2023F
Occupancy rate	70%	30%	14%	48%	64%



Occupancy rate recovered better than the number of guests as foreign tourist tends to stay in the Kingdom longer and many hotels just started resuming normal operations after being closed temporarily during COVID-19.

The recovery of revenue from visitors by province (Jan – Apr 2023)

Unit: % Recovery from the same period in 2019



Note: Guest revenue includes hotel room revenue from Thai visitors and foreign visitors.
Source: SCB EIC analysis based on data from Ministry of Tourism and Sports.

SCB EIC

Tourism policy is one of the main focus by the new government to drive economic growth but the competition tends to increase accordingly.

Tourism policy of prospective coalition parties (under MOU)

Create value added and increase revenue to the second-tier tourism provinces/local communities.

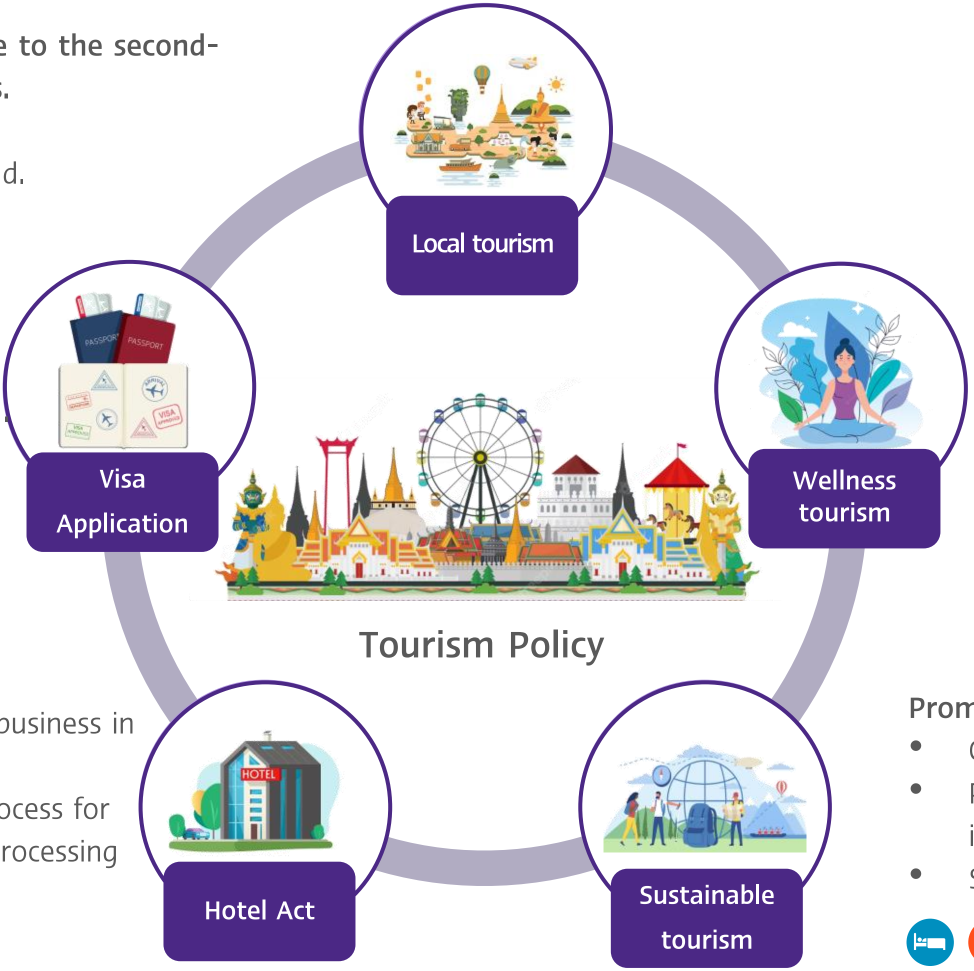
- Promote local festival in each area.
- Organize more mega events in Thailand.

Ease Visa application process.

- Adjust Visa conditions to attract digital nomad.
- Improve the power of Thai passports for visa-free travel.

Unlock for SMEs and local business.

- Relaxation of strict regulations to support business in each category.
- Empower local governments in approval process for hotel business licenses in order to reduce processing time.



Main business receiving benefits

- Hotel
- Hospital
- MICE
- Transport
- Tour operators
- Wellness business

Develop wellness economy to achieve Medical hub target.

- Attract high-income foreign senior citizens.
- Elevated to world-class medical tourism.

Promote sustainable tourism.

- Create incentive system of carbon credit for hotels and tourists
- Provide soft loan and tax deduction for hotels with investment in energy-efficient building.
- Strive to be environmentally-conscious MICE center.

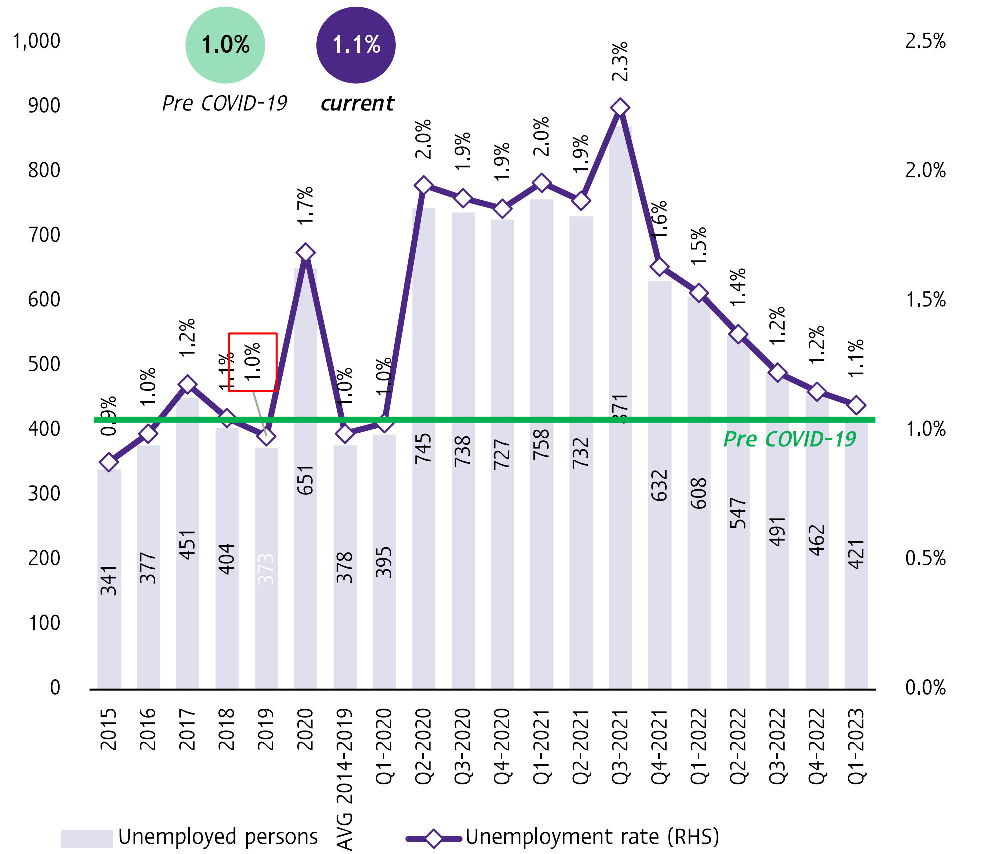
Source: SCB EIC analysis based on data from Prospective coalition of the new government.

The continued recovery of Thai tourism sector positively contributed to the labor market, especially employment in the service sector related to tourism activities.

Number of unemployed persons and unemployment rate

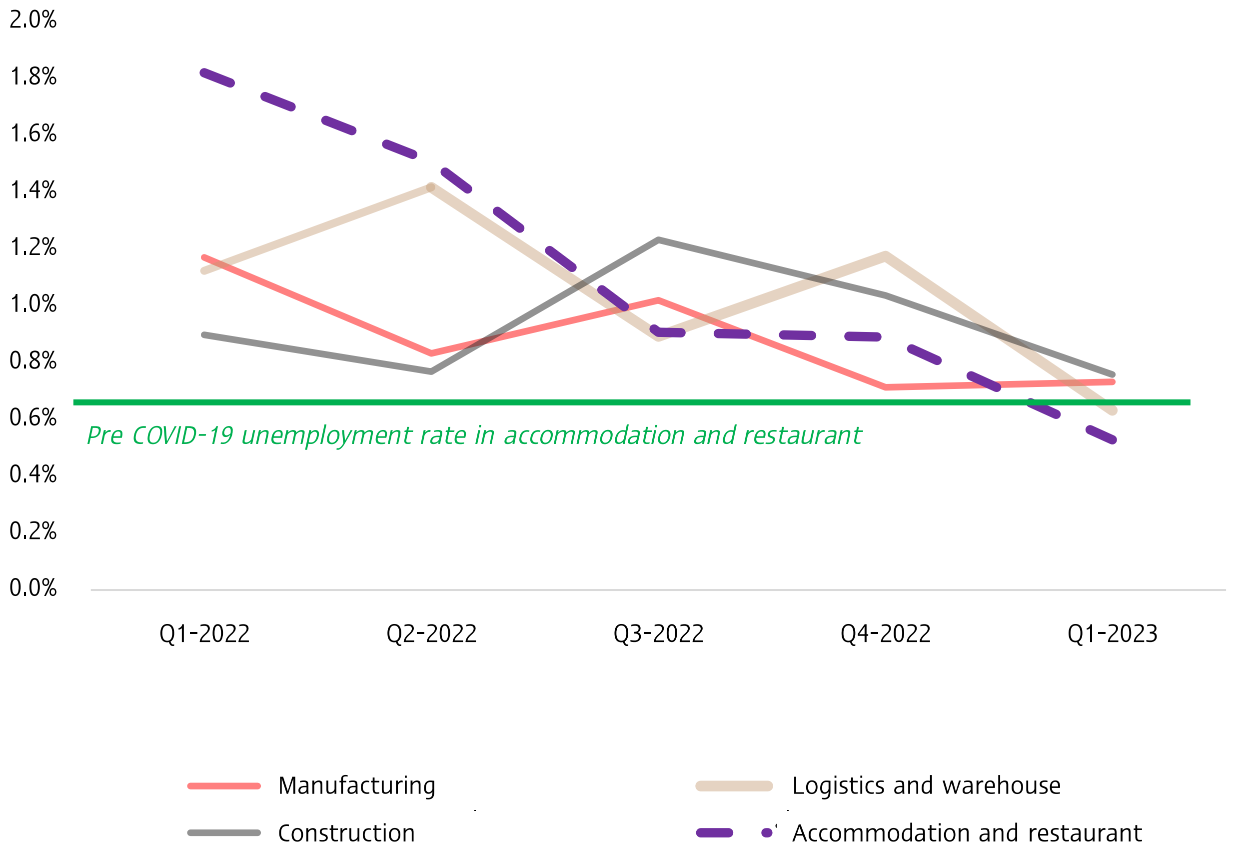
Unit: Thousand persons

Unit: % of total workforce



Thailand's unemployment rate (in accommodation and restaurant)

Unit: % of workforce in each industrial sector

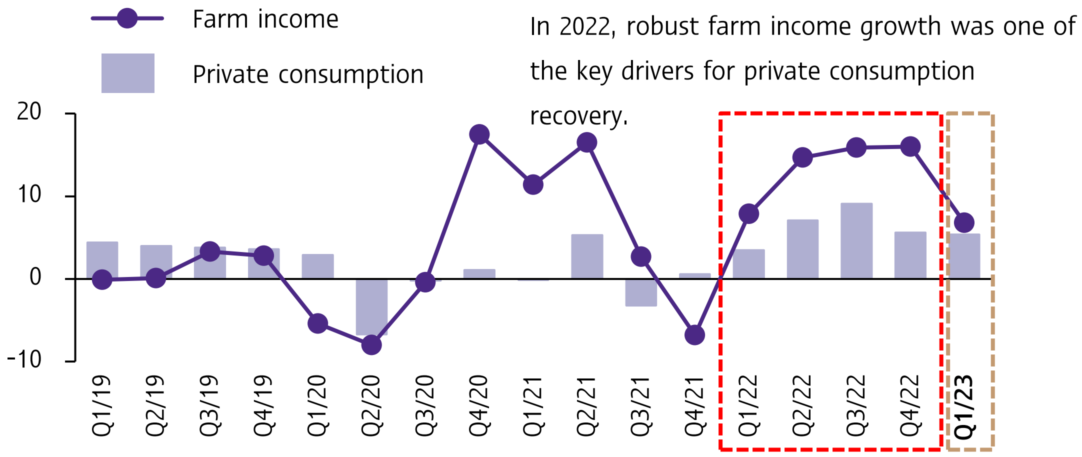


Source: SCB EIC analysis based on data from National Statistical Office

However, growth from farm income should slow considerably as prices of various agricultural products may drop this year.

Private consumption and farm income (quarterly)

Unit: %YOY



Farm income growth forecast in 2023

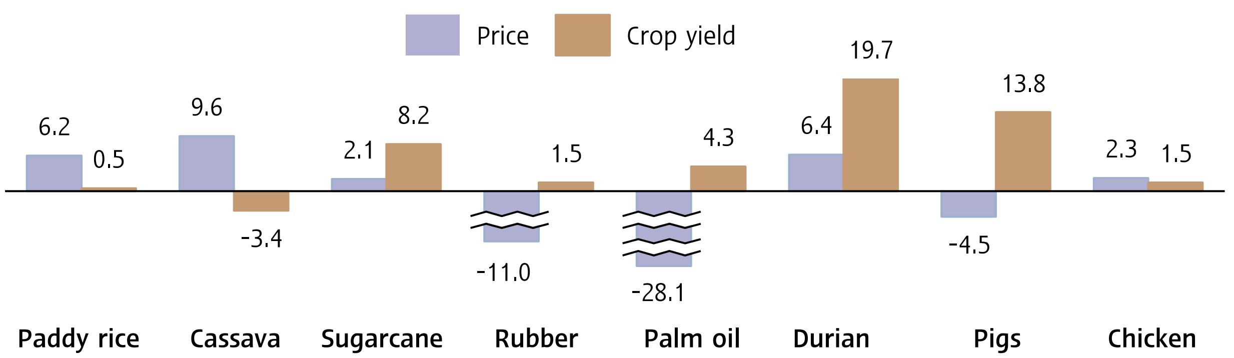
Unit: %YOY

Forecast	2022P*	2023F	4M23
Income index	13.7	0.6	6.2
Price index	11.6	-1.5	-2.9
Crop yield index	1.7	1.6	8.9

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

Forecasted agricultural crop yield and price index growth in 2023

Unit: %YOY



Positive/ negative factors to production

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

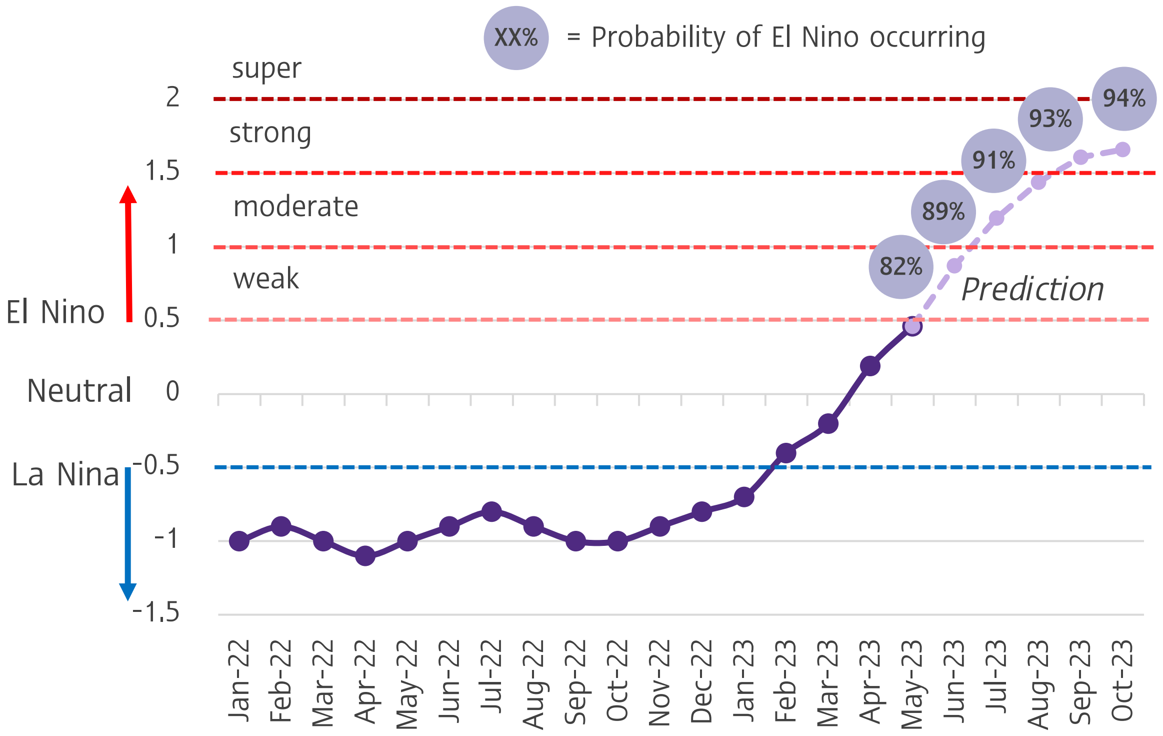
Note: *Preliminary data, subject to change.

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

The world may experience weak to strong El Nino events in H2/2023, causing rainfall in Thailand to be lower than usual, as occurred during past events.

Sea surface temperature anomaly (Oceanic Nino Index, ONI)

Unit: Degrees Celsius



El Nino is a naturally occurring phenomenon characterized by higher than average sea surface temperatures in the central and eastern Pacific Ocean, near the equator. This moves the warmer waters from the coasts of Indonesia to South America. Such an altered flow of warm waters will then cause rainfall in Thailand to be lower than usual.

Source: SCB EIC analysis based on data from IRI NOAA and Thai Meteorological Department.

% rainfall difference from average in years with El Nino during the past 40 years

Unit: % compared to 30 years average (1991 – 2020)

Year	Northern	North eastern	Central	Western	Southern (East)	Southern (West)
1983	-1.5	-4.6	15.6	29.7	-6.8	5.2
1986	-14.6	-4.1	-2.7	1.4	-4.0	11.6
1987	-10.2	-2.1	-7.4	-6.0	-10.4	-7.7
1991	-14.6	-8.0	-12.2	-3.5	-14.2	-8.4
1992	-9.3	-11.0	-12.6	-19.3	-19.0	-21.7
1993	-25.6	-20.0	-17.7	-5.1	7.7	8.1
1997	-14.1	-6.5	-14.2	-16.2	-8.2	-8.7
1998	-18.2	-13.0	0.2	-1.2	-9.1	0.1
2002	15.3	12.3	1.0	-7.0	-16.7	-15.6
2004	-2.6	-3.9	-23.7	-11.3	-21.1	-15.4
2006	18.9	3.0	9.7	10.5	-9.6	-4.9
2009	-9.0	1.9	8.6	-1.0	-9.6	-3.9
2015	-18.8	-16.7	-8.8	-10.0	-16.6	-7.7
2019	-21.1	-12.6	-25.2	-9.9	-18.4	-14.8
No of times with lower than average rainfall	12	11	9	11	13	10

During the past 40 years, El Nino occurred 14 times, in which most of the occurrences lowered rainfall in Thailand to levels below average (the 30 years average). For example, in 2019, the northern region experienced a rainfall reduction of 21.1% compared to the average.

In the base case, SCB EIC views that the drought in 2023 will cost the agriculture sector THB 40,000 million. Off-season rice in 2024 will see the most damage as cultivating such a dry-season crop requires ample rainfall stored from 2023.

Rainfall in 2023 compared to normal rainfall (3 scenarios)

Unit: %

Region	Base case	Best case	Worst case	2019	% Usable water*
Northern	-13.5	-6.3	-20.7	-21.1	21 (15)**
Northeastern	-14.1	-8.3	-19.8	-12.6	22 (14)
Central	-13.4	-6.0	-20.7	-25.2	14 (19)
Eastern	-13.6	-7.7	-19.4	-9.9	30 (20)
Southern (East)	-21.8	-16.4	-27.1	-18.4	34 (42)
Southern (West)	-12.4	-6.7	-18.1	-14.8	-

- **Base case** estimates the percentage of rainfall that is below normal with the assumption that El Nino occurs only during Jun – Oct, with the same severity as predicted by IRI.
- **Best case** assumes that the percentage of rainfall that is below normal is **lower** than the base case according to the volatility of rainfall during El Nino (base case + standard deviation).
- **Worst case** assumes that the percentage of rainfall that is below normal is **higher** than the base case (base case – standard deviation)

Estimated agriculture sector losses from 2023 drought

Scenarios	Base case	Best case	Worst case
In-season rice 2023/2024 (ample water needed, grown in lowlands)			
Crop production decline compared to normal rainfall periods* (Million Tons)	0.7	0.3	1.2
Estimated losses (Million Baht)**	**7,493**	**3,280**	**13,286**
Off-season rice 2024 (planted in dry season, need water from reservoir)			
Crop production decline compared to normal rainfall periods* (Million Tons)	1.9	1.3	2.4
Estimated losses (Million Baht)***	**18,463**	**13,303**	**23,624**
Sugarcane 2023/2024 (ample water needed, grown in highlands)			
Crop production decline compared to normal rainfall periods* (Million Tons)	11.6	4.1	22.0
Estimated losses (Million Baht)****	**12,554**	**4,391**	**23,767**
Cassava 2023/2024 (need less water, grown in highlands)			
Crop production decline compared to normal rainfall periods* (Million Tons)	1.8	0.7	2.9
Estimated losses (Million Baht)*****	**1,903**	**804**	**3,124**
Total estimated losses (Million Baht)	**40,414**	**21,778**	**63,801**

- Estimated production loss compared to production that should have been produced if rainfall is normal
- Estimated by changing the rainfall volume in different scenarios, while all other variables remained constant

Remarks : *Crop production losses in the 2023/24 harvesting season is compared to the production that should have been produced during normal rainfall periods (not losses from prior season) **Estimated from the weighted average price of paddy rice in May 2023 (11,519 THB/ ton) ***Estimated from the price of paddy rice in May 2023 (9,914 THB/ ton) ****Estimated from preliminary price of sugarcane in 2022/23 season (1,080 THB/ ton) *****Estimated from the price of fresh cassava in May 2023 (3,090 THB/ton)

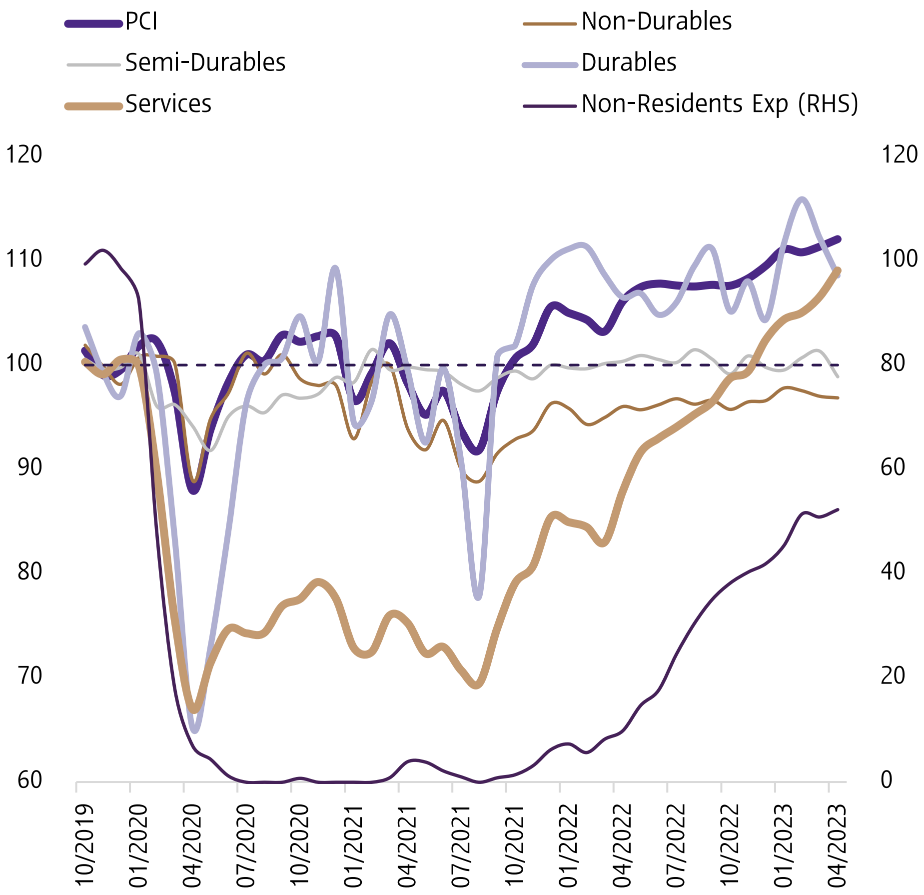
Note: *Data as of 5 Jun 2023, ** Numbers in parentheses = same day data in 2019.

Source: SCB EIC analysis based on data from IRI (International Research Institute for Climate and Society), Office of Agricultural Economics, Thai Meteorological Department, and Royal Irrigation Department.

Private consumption should continue to increase, especially for services, in line with improving foreign tourist arrival numbers, consumer confidence readings, and labor market conditions.

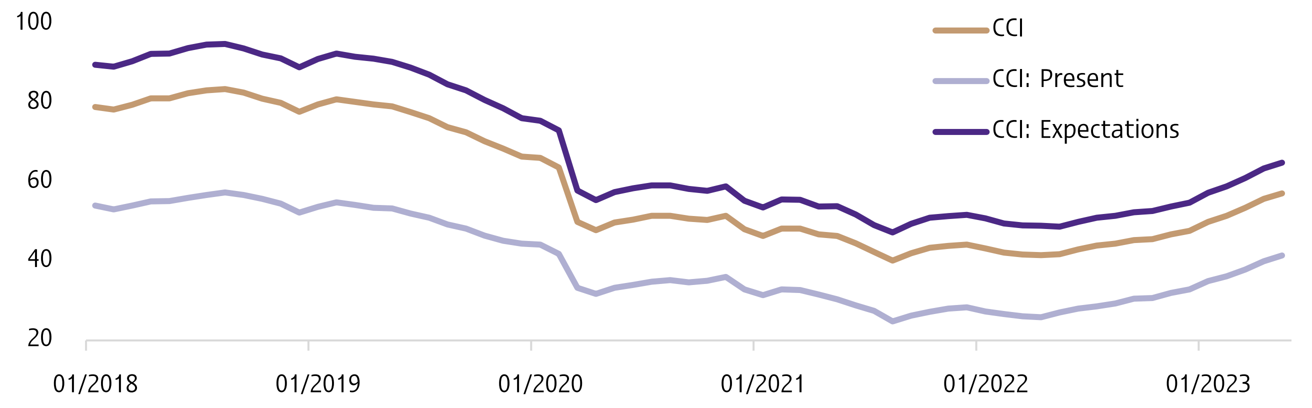
Private Consumption Index

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



Consumer Confidence Index

Unit: Index (100 = unchanged), seasonally-adjusted



Private consumption should continue to improve

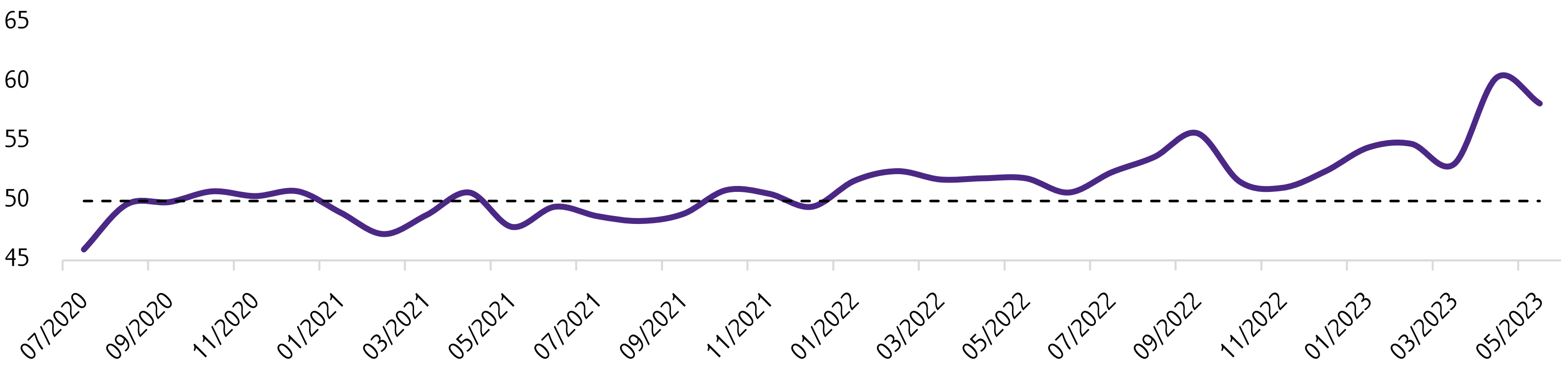
- **The readings of the Private Consumption Index (PCI) improved from the prior month** (seasonally-adjusted) following growing spendings on services, especially hotels and restaurants. Spendings on non-durable goods remained unchanged, while spendings on durable and semi-durable goods dropped.
- **The Consumer Confidence Index (CCI) rose to 55.7** (not seasonally-adjusted) **in May, the highest in 3 years**, on the back of better economic results in Q1/2023, increasing foreign tourist arrivals, heightening agricultural product prices, and declining domestic oil prices.
- **Private consumption still pressured by the high cost of living**, in addition to concerns about the uncertainty of the new government formation, global economic downside risks, and sluggish merchandise export conditions.

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

Manufacturing for the domestic market continued to grow in line with private consumption. However, manufacturing for external markets slowed according to weakening merchandise exports.

Manufacturing PMI

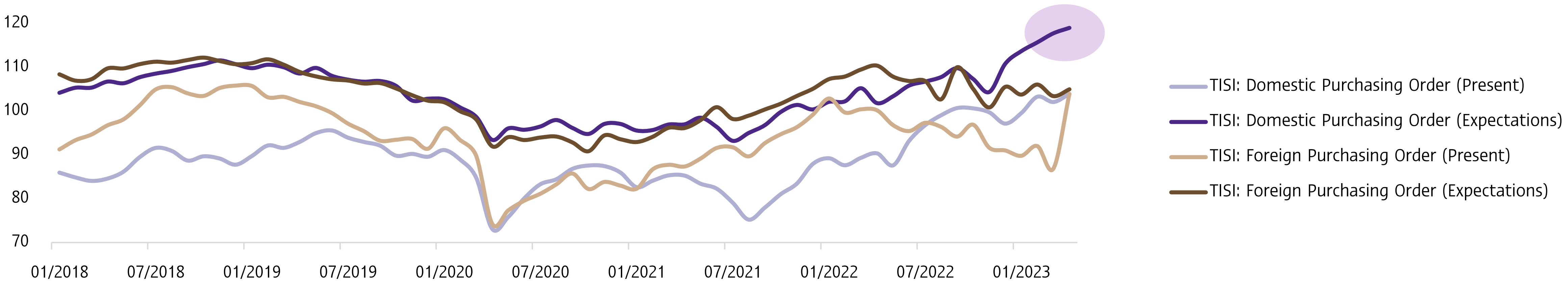
Unit: Index > 50 represents expansion



Manufacturing PMI Index	Signal
Overview	+
Manufacturing output	+
Domestic purchasing orders	+
Foreign purchasing orders	+
Manufacturer confidence	−

Thailand Industrial Sentiment Index (TISI) : Domestic purchasing order vs Foreign purchasing order

Unit: Index (100 = stabilizing trend), seasonally-adjusted

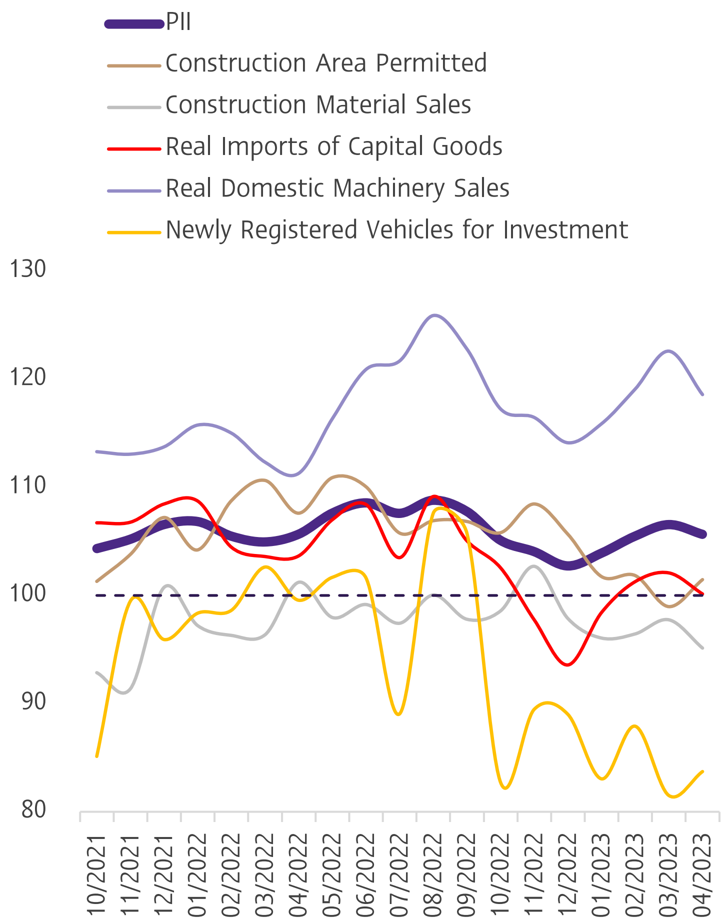


Source: SCB EIC analysis based on data from the Ministry of Commerce, S&P Global, and CEIC.

The Private Investment Index reading stabilized, while business sentiment expectations improved, especially regarding profit and production. However, expectations about interest rate burden, business liquidity, and production cost worsened, despite signs of improvement.

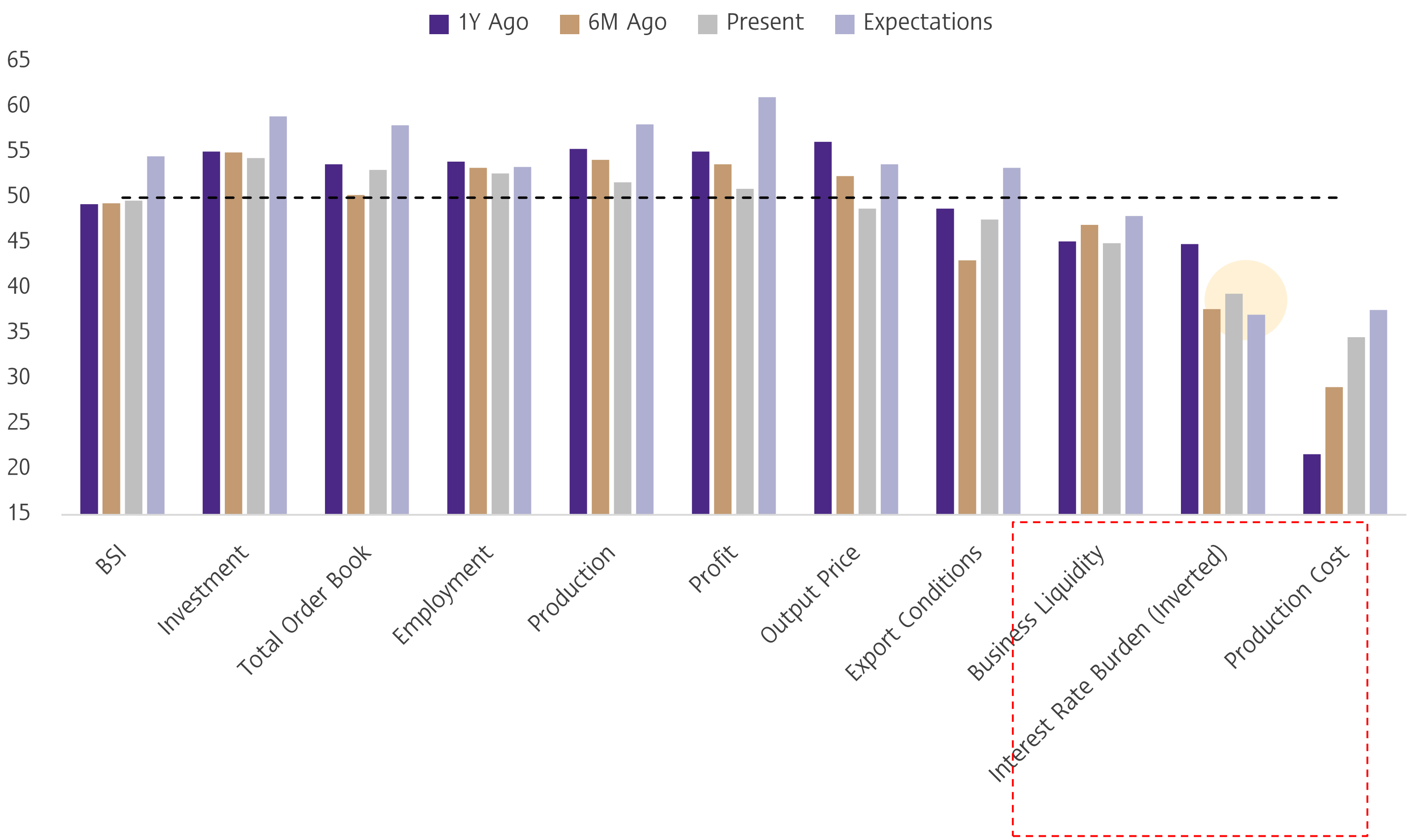
Private Investment Index

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



Business Sentiment Index

Unit: Index = 50 business activities stabilized

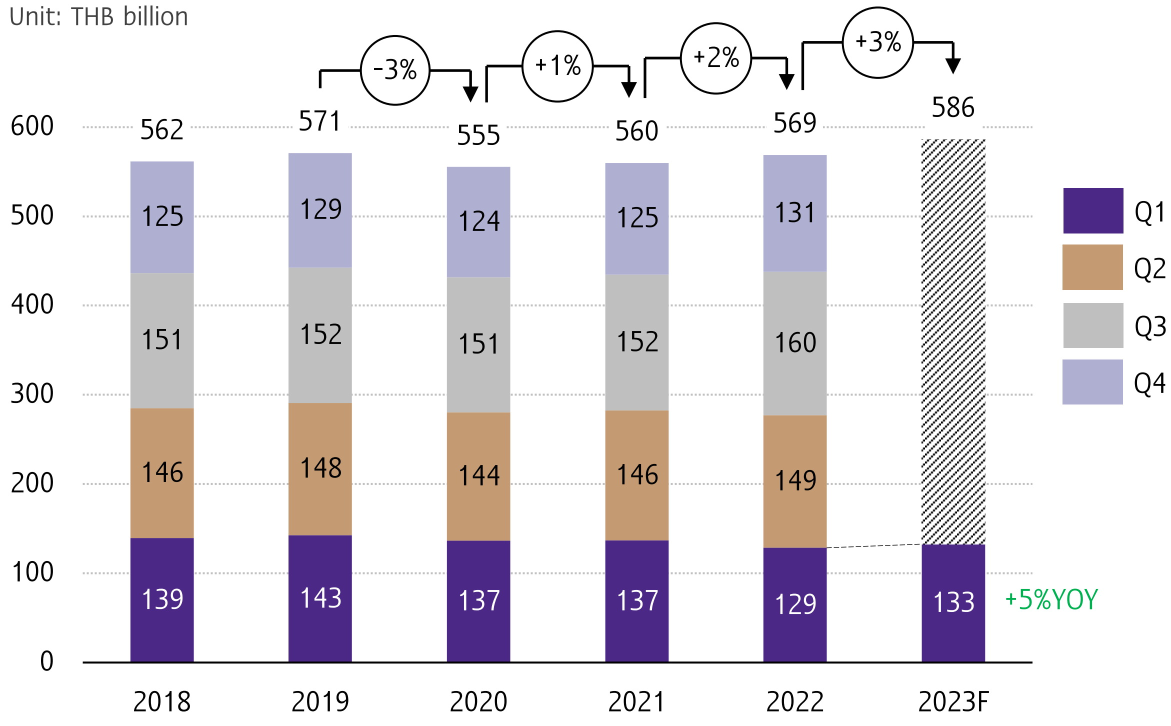


Source: SCB EIC analysis based on data from Bank of Thailand, University of the Thai Chamber of Commerce, and CEIC.

Private construction in 2023 should improve following new residential project launches and the construction of large commercial real estate projects.

Private construction value

Unit: THB billion

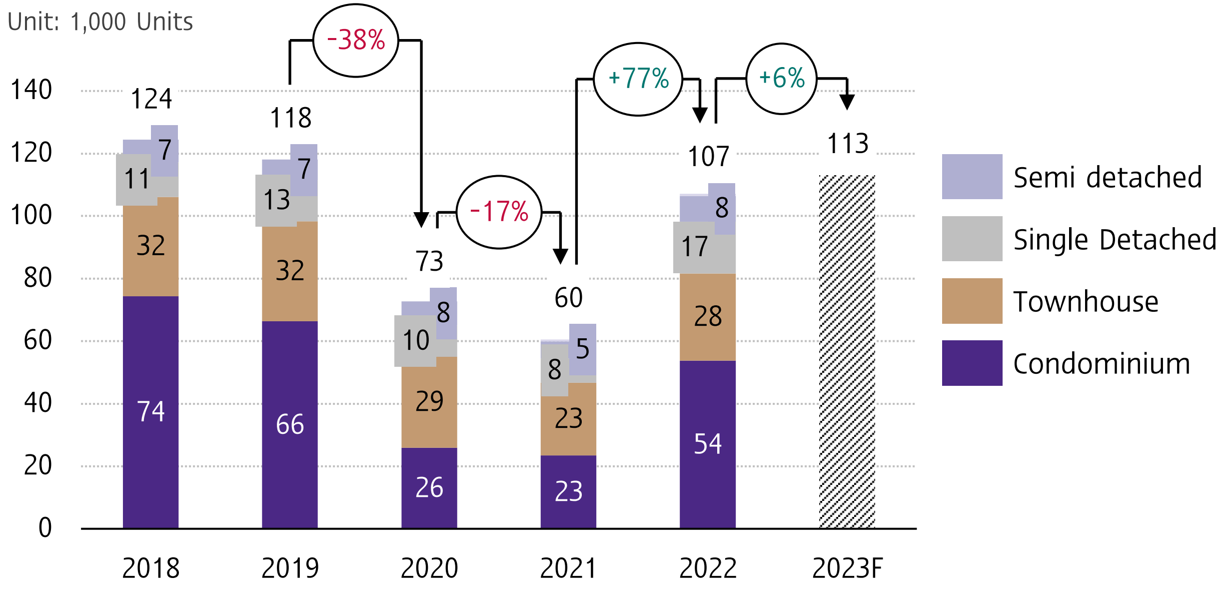


Q1/23: Private construction improved by 5%YOY from residential project construction as new projects launched in 2022 saw satisfactory results.

2023: Private construction should continue to improve from new residential project launches and the construction of large commercial real estate projects.

New housing units launched in Bangkok – Vicinities

Unit: 1,000 Units



Residential real estate: New project launches, both low and high rise, should continue to expand, especially for middle-low end projects. However, high-end projects, particularly condominiums, should recover after contracting in 2022.

Commercial real estate:

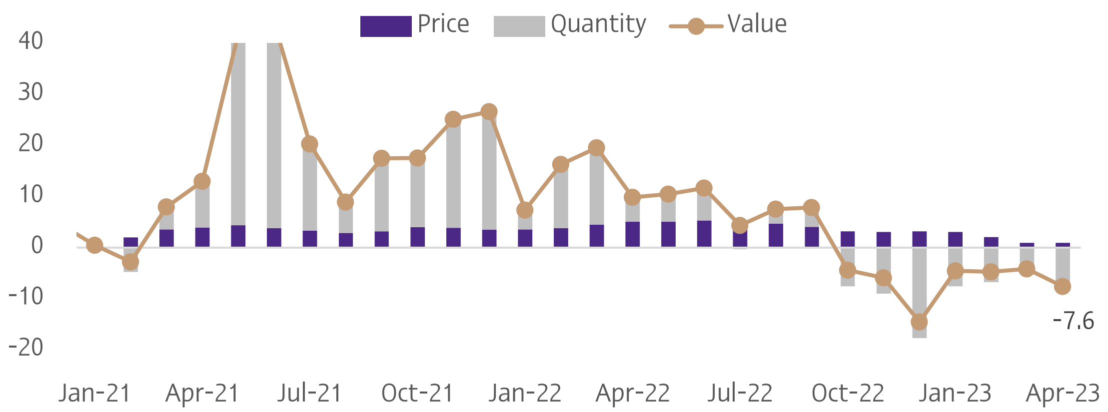
- **Construction of large projects should continue.** Approved areas for office and retail space construction continued to recover since 2021.
- **Retail space renovated** to serve recovering purchasing power of Thai locals and foreign tourists.

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

Thai merchandise exports during 4M2023 dropped by -5.2%YOY from lower quantity as global demand remained weak. Exports to most key markets should see strong contractions this year.

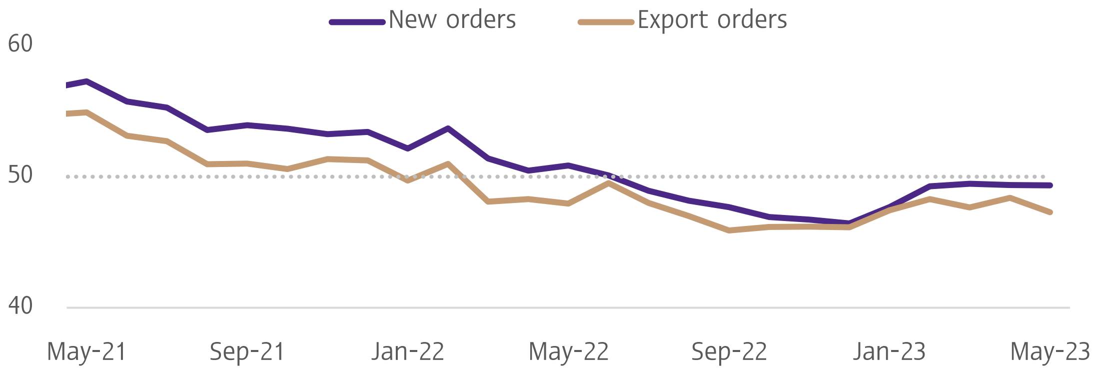
Thai export value, price, quantity: Thai export dropped mainly due to quantity

Unit: %YOY



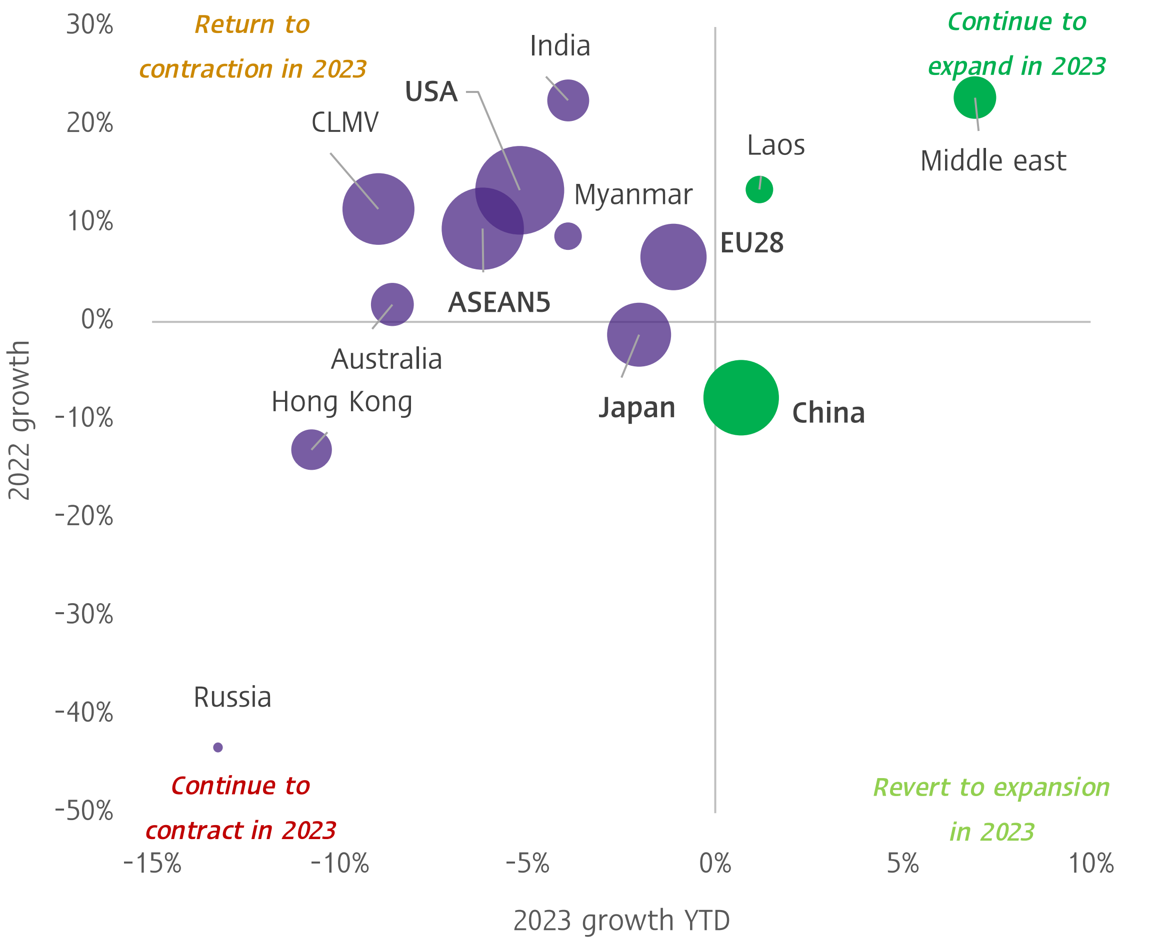
Global Manufacturing Purchasing Manager Index

Unit: Index > 50 improving conditions compared to before, seasonally-adjusted



Thai export value by destination (2022 vs 2023F)

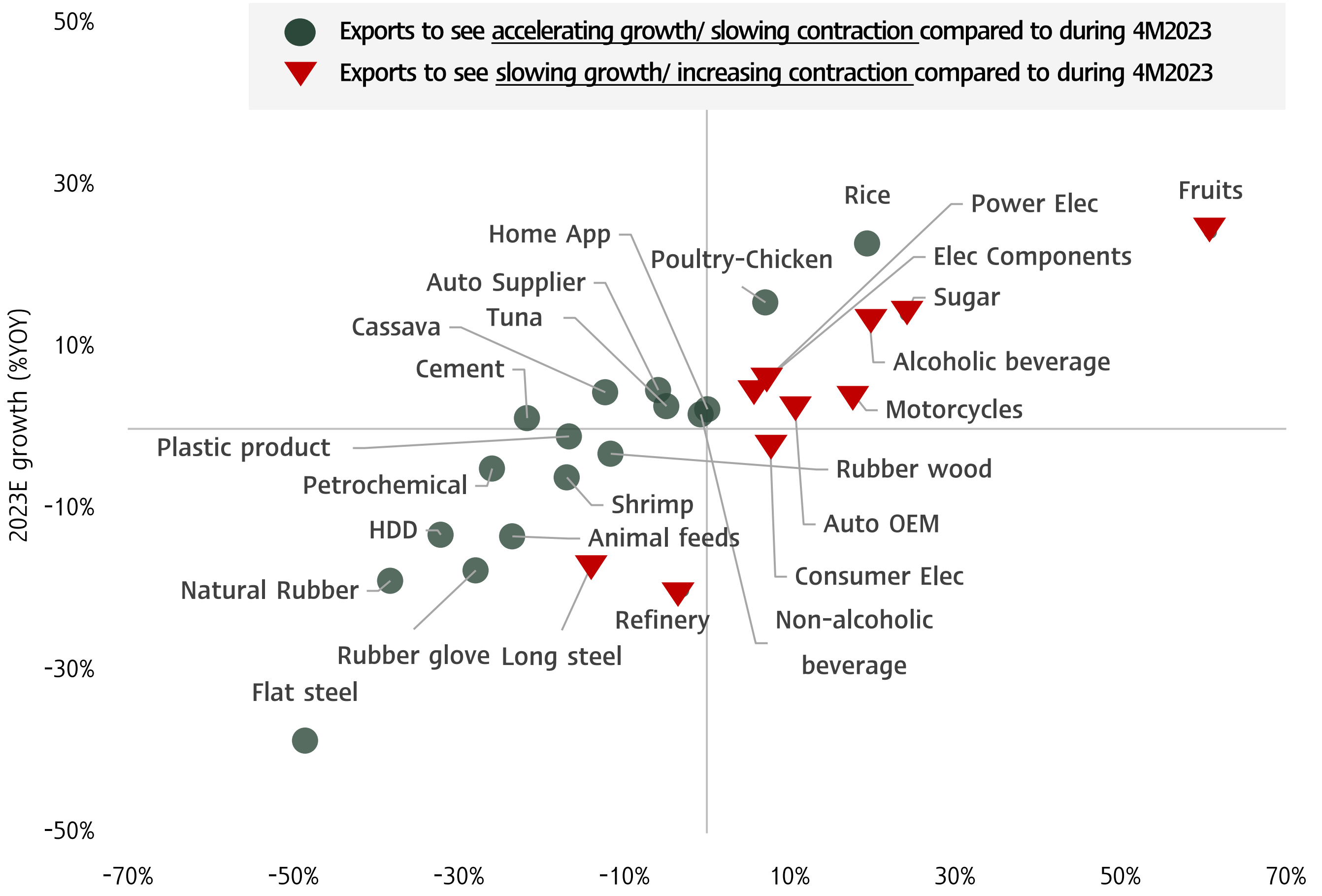
Unit: %YOY



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

Uneven export recovery anticipated in the periods ahead. Products with reliance on the Chinese market should continue to grow, despite certain products seeing slowing momentum. As such, exports in 2023 should expand slightly.

Growth of industrial products export (Jan – Apr 2023 vs 2023 annual forecast)



Export prospects during the remainder of 2023

Exports to see strengthening conditions compared to during 4M2023

- **Accelerating growth**
  Chicken should see support from China's re-opening and its cancellation of the Zero-COVID policy. Other supporting factors include new export markets and chicken as a substitution for pork as the African swine fever (ASF) outbreaks lingered.
- **Recovery or slowing contraction**
  Electrical appliances and automotive parts and components should see support from Asian market demand and easing supply disruption conditions after China's re-opening (Dec 2022).
  Rubber should see support from China's economic growth.

Exports to see stalling conditions compared to during 4M2023

- **Slowing growth**
  Automotive and electronics should see slowing growth according to global demand.
- **Increasing contraction**
  Steel and energy should see impact from price declines and slowing global crude oil price trends.

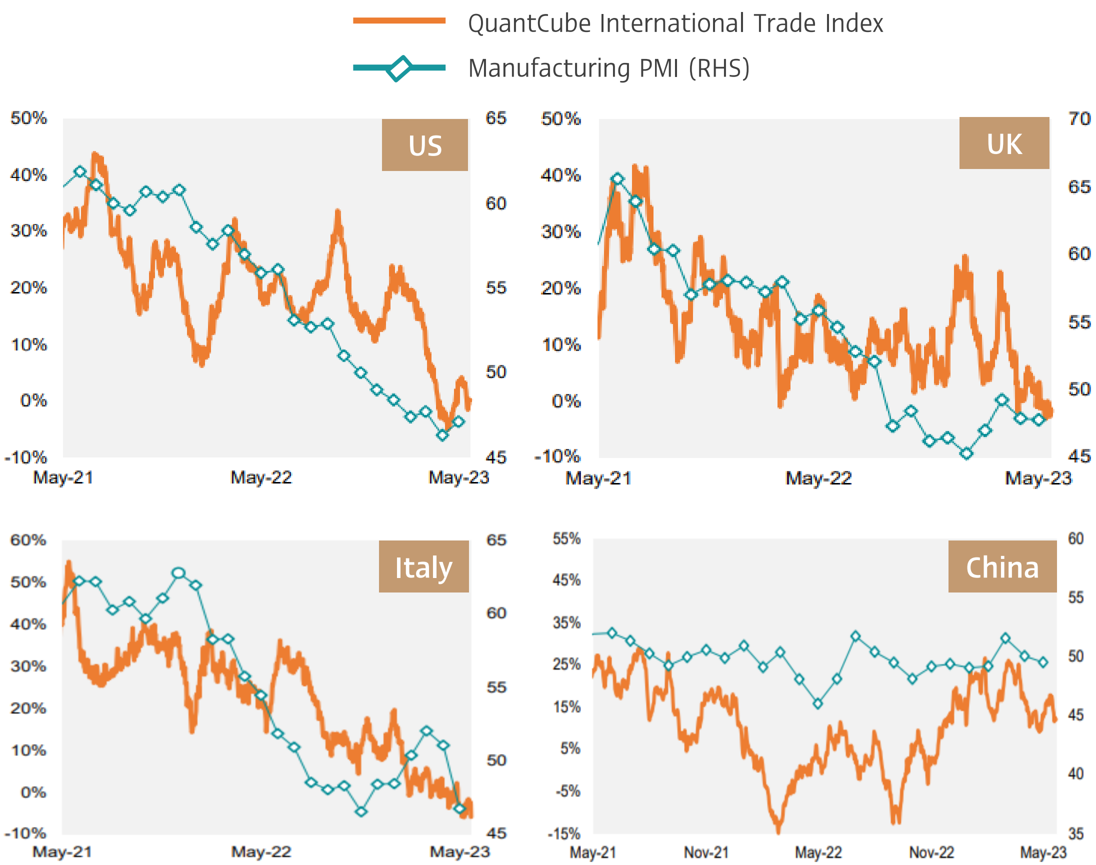
Note: *Industrial products included in the forecast account for 55.6% of total export value.
**Export prospects evaluated from growth during Jan – Apr 2023 compared to overall 2023 growth.
Source: SCB EIC analysis based on data from the Ministry of Commerce.

SCB EIC cuts its Thai 2023 export forecast to 0.5% (from 1.2%) as support from China slowed faster than anticipated with rising global economic downside risks.

QuantCube International Trade Index

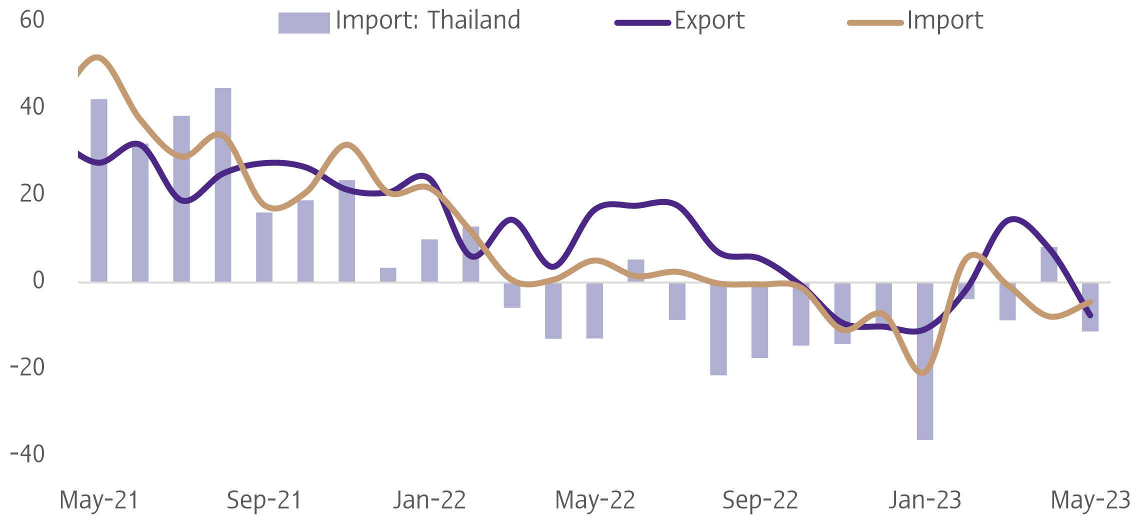
Unit: %YOY (daily, Index 6 Jul 2012 = 100)
Data as of 21 May 2023

Unit: Index >50 improving conditions, seasonally-adjusted



Trade conditions in China

Unit: %YOY, USD



Factors undermining Thai exports in 2023	Factors supporting Thai exports in 2023
• **Global economic conditions could slow** during H2/2023 with no clear drivers supporting global demand recovery. • **Global trade should continue to stall,** as reflected by the QuantCube International Trade Index. • **China and South Korea's export indicators remain weak.**	• Despite recovery slowing faster than anticipated, **Chinese demand for consumer goods/ services** should improve (%YOY) in the periods ahead following China's economic recovery from the low base.

Source: SCB EIC analysis based on data from China Customs, Moody's, Bloomberg, and CEIC.

Thai economy after the election

with awaiting uncertainties

In the base case, the new gov't should be by the end of August, though the formation could be pushed back to late October **due to delays in securing majority house seats.**

Political events timeline

14 May General election day
15 May EC reveals unofficial results

by 13 Jul (within 60 days)
EC declares official results

by 28 Jul (within 15 days)
First parliamentary meeting date set

August
The Prime Minister and the new cabinet to begin their duties

Implications on public spending

New gov't in place	Base Aug 2023	Worse Oct 2023
Delayed announcement of FY2024 Budget Act	3-4m	6m
Disbursement of FY2024 investment budget according to target	⇔ hit target	⇩ not hit target
Continuity of approval of FY2024 mega public investment projects	⇩	⇩⇩

New gov't formation scenario

Base
Move Forward Party leading the establishment of a liberal government

Scenario 1
Pheu Thai Party leading the establishment of a liberal government

Scenario 2
Pheu Thai Party leading the establishment of a mixed liberal-conservative gov't

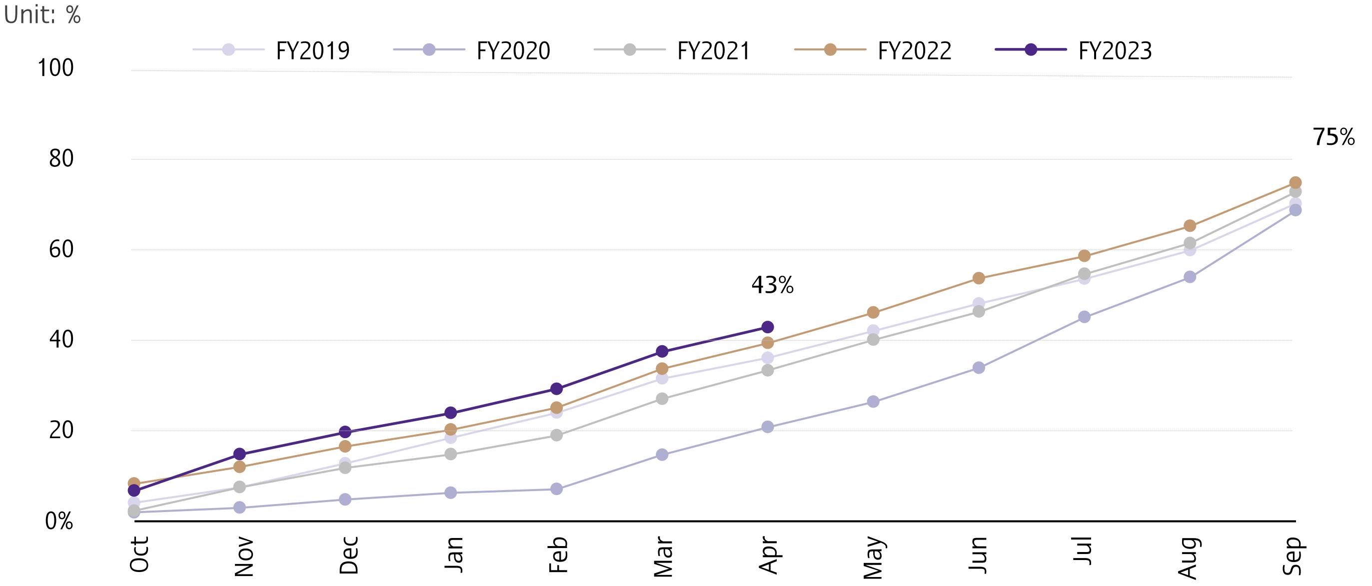
Prime Minister who is not a current Prime Minister candidate.

Source: SCB EIC analysis based on data from the Office of Election Commission of Thailand and various press.

SCB EIC

The accumulated investment budget disbursement rate surged as gov't hastened the approval of new construction projects before parliament dissolution. Looking ahead, the delay of the FY2024 Budget Act and the approval of new projects after new gov't formation warrant monitoring.

Accumulated investment budget disbursement rate (gov't hastening disbursements in FY2023 before parliament dissolution)



Departments with high investment budget usage	End of Sep				End of Apr	
	2019	2020	2021	2022	2022	2023
Department of Highways	74%	77%	86%	90%	41%	51%
Department of Rural Roads	87%	82%	89%	91%	46%	45%
Royal Irrigation Department	81%	81%	82%	83%	42%	48%
Department of Public Works and Town & Country Planning	66%	65%	62%	47%	27%	23%

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

Supporting factors

General construction projects:

Investment budget in FY2023 increased by THB 27 billion (+6%YOY). The accumulated investment budget disbursement rate in 2023 surged compared to previous years with such disbursements expected to continue.

Mega projects:

- **On-going construction projects with progress**, i.e. Bangkok–Nong Khai High-Speed Railway (Bangkok – Nakhon Ratchasima Phase), Double Track Railway Phase 1, Southern MRT Purple Line, 3rd runway Suvarnabhumi Airport, Northern and Northeastern Double Track Railway
- **New mega-projects with approved bidding and construction that is likely to continue under the new government,** i.e Map Ta Phut Port Phase 3 (Stage 2)
- **New public construction projects with hastened approval before election** , i.e. Chalong Rat Expressway Extension Chatuchot - Lam Luk Ka Road (THB 24 Billion) Intercity Motorway No. 7 Extension to link with U-Tapao Airport (THB 4.4 Billion)

Challenging factors

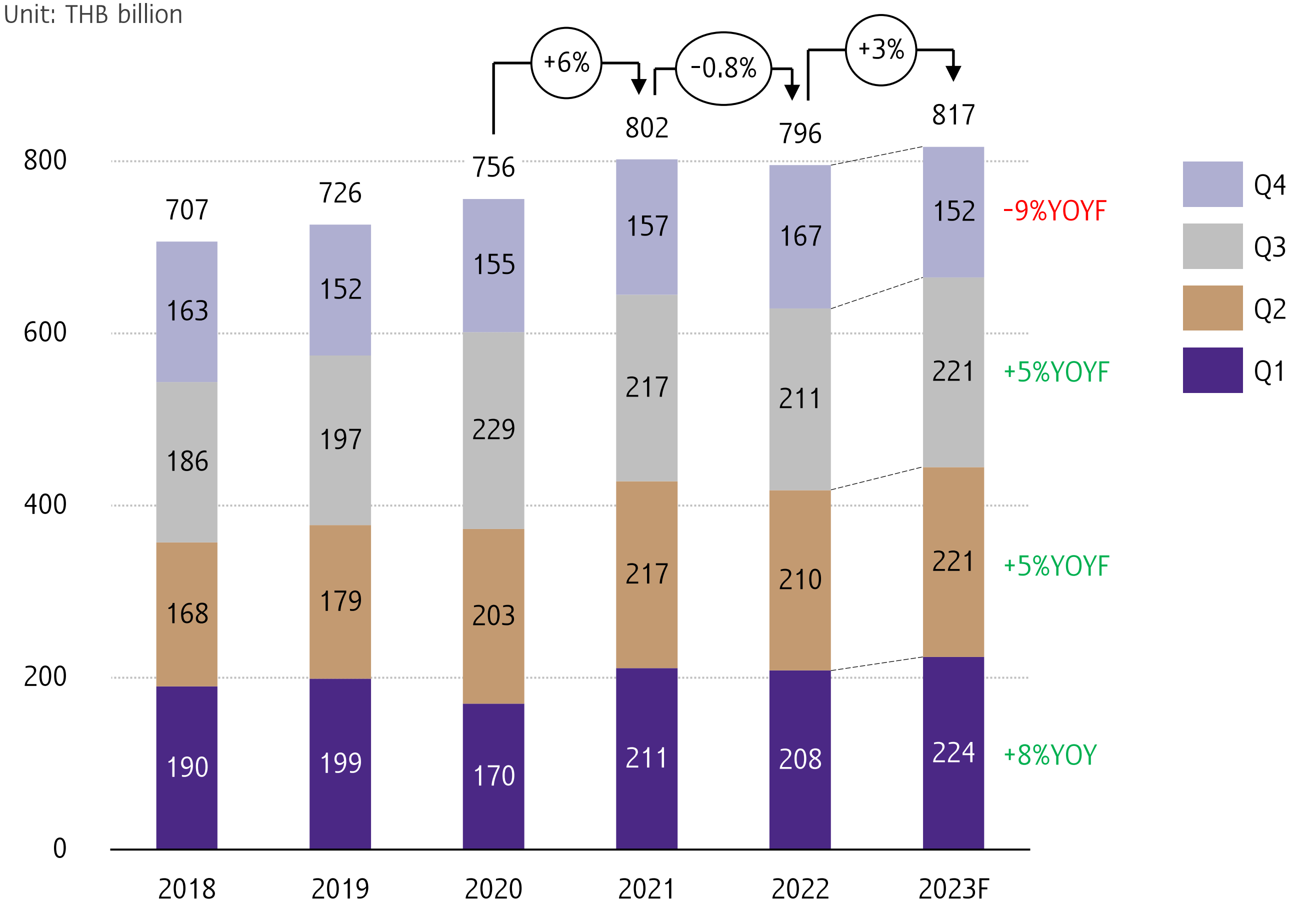
- **Delays in approval of new construction projects with sizable value**, i.e. MRT Orange Line Western Route Bang Khun Non - Thailand Cultural Center (THB 140 Billion)
- **Delays in FY2024 budget announcement** will affect disbursements and public construction project launches in Q4/2023

SCB EIC

Public construction in 2023 should continue to expand following higher FY2023 investment budget allocation and approved mega projects. Looking ahead, the delay of the FY2024 Budget Act and the approval of new projects after new gov't formation warrant monitoring.

Public construction value

Unit: THB billion



Public construction in 2023 should continue to expand

Q1-Q3/2023: Public construction value should increase.

- In Q1/2023, the value surged by 8%YOY to a value higher than recent years following hastened FY2023 investment budget disbursement.
- During Q2-Q3/2023 the value should increase according to higher FY2023 investment budget allocation and approved mega projects.

Q4/2023: Public construction value should decrease following the delay of the FY2024 Budget Act and the approval of new projects after new gov't formation before hastening in the subsequent year.

Challenging factors

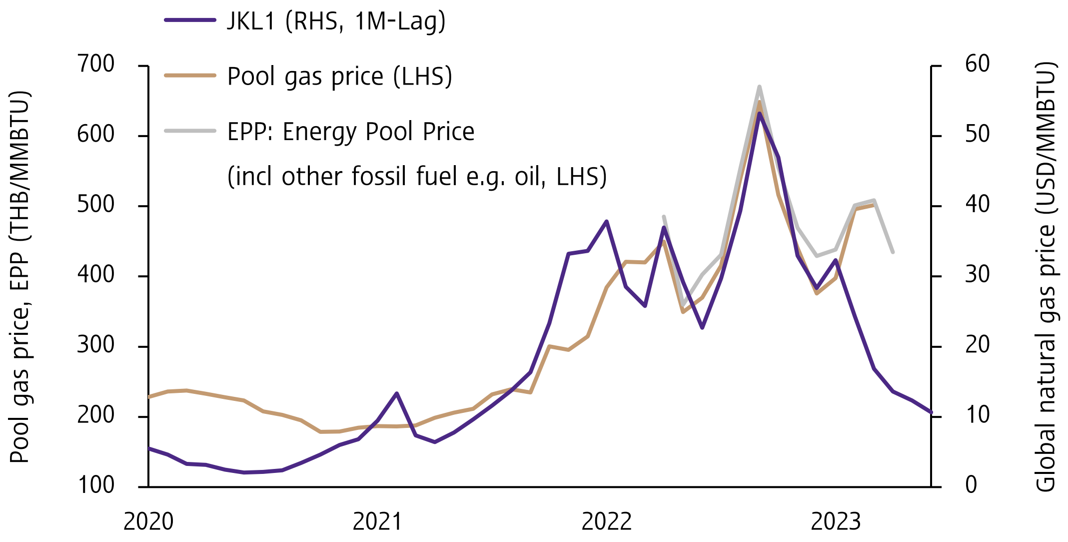
- **Delays in approval of new construction projects** with sizable value, i.e. MRT Orange Line Western Route Bang Khun Non – Thailand Cultural Center (THB 140 Billion)
- **Delays in FY2024 budget announcement** will affect disbursements and public construction project launches in Q4/2023

Source: SCB EIC analysis based on data from NESDC.

Electricity tariffs should drop following lower energy costs, in addition to the direction of the MOU jointly signed by the leading political coalition with an aim to reduce citizen's cost of living.

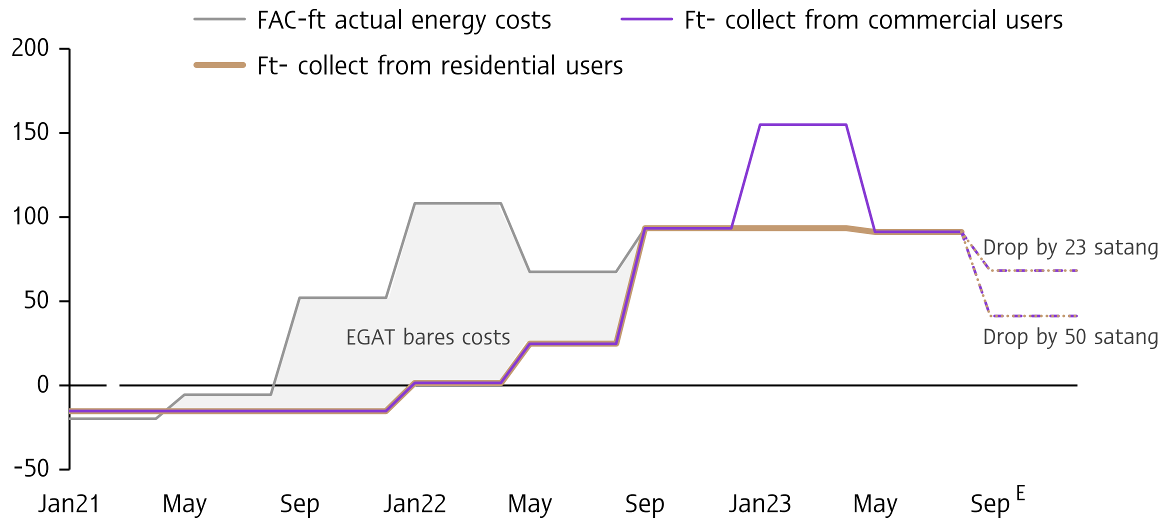
Power plants' energy cost should drop according to world natural gas prices

Unit: LHS-THB/MMBTU, RHS-USD/MMBTU



Ft may drop by 23-50 satang in line with lower gas prices and higher gas usages from the Gulf of Thailand

Unit: Satang/ unit



- **Thailand's electricity tariffs should drop according to lower energy prices, especially gas prices.** The Ft surcharge for Sep – Dec 2023 should drop by 23-50 satang/ unit or more due to
  1. The average world gas price for May dropped by 10 USD/Mmbtu, making room for electricity tariffs during the last 4 months of 2023 to drop by more than 23-30 satang/ unit (according to ERC statement that LNG prices averaged at 14-16 USD/Mmbtu will lower the Ft surcharge by 23-30 satang/ unit). The Ft surcharge will be adjusted according to world gas prices in about 45 days.
  2. If PTTEP can produce more gas from the G1 field in the Gulf of Thailand according to the target, the Ft surcharge may drop by an additional 20 satang/ unit as gas from the Gulf of Thailand is 2-3 times cheaper than LNG imports.
- **Ft surcharge reductions in the periods ahead will face pressure as in 2021-2022 EGAT subsidized electricity costs** worth THB 150 billion (according to EGAT as of 28 Apr 2023). If the costs are gradually repaid by installments of THB 20,000 million per month (or 20 satang/ unit), the period to fully repay the value would be 7 months, and will allow the Ft surcharge in May – Aug 2024 to reflect actual energy costs.
- **If the new government plans to reduce/ extend such installments, the Ft surcharge may drop by as high as 70 satang/ unit** as per the campaigning policies.

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

If the power industry is reformed according to campaigning policies, private power players may see negative implications. The size of impact depends on the details of such measures.

Preliminary impact on the power business from policies to reform the sector to lower cost of living and increase energy security

Examples of potential measures	IPP & SPP power plants with Availability payment (AP)/Capacity payment i.e. natural gas power plants	SPP & VSPP power plants with purchase price according to output, i.e. FiT based renewable power plants	Private power plants that sell electricity directly to industial users (IU)
▪ Reducing electricity tariffs by 70 satang/ unit for residential users (according to Move Forward Party's campaigning policy)	No impact : Wholesale Ft purchase price not affected		No impact : Ft for commercial users not affected
▪ Revising existing private power plant power purchase agreement, i.e. postponing AP payments in exchange with extending contract period*	Negative impact : lower power plant revenue and profit	Limited impact : purchase price based on output with high purchase price from 6-8 THB Adder expiring in 2026	No impact : Selling and buying price negotiated privately
▪ Reducing EGAT's excess production capacity, i.e. limiting plans for new power plant contracts	Negative impact : Stalling revenue growth in the future from lower expansion of new Thai power plants; the private sector may invest abroad instead		-
▪ Adjusting the structure of the natural gas sales agreement	Positive impact : lower energy costs for natural gas power plants	No impact : use renewable energy as source of electricity generation	Positive impact : lower energy costs for natural gas power plants
▪ Reducing electricity tariffs for business users (according to FTI's request)	No impact : Wholesale Ft purchase price not affected		Negative impact : revenue affected but may be compensated from lower costs

Note: *Khun Sirikanya, tipped to be the next Minister of Finance, gave a special interview on Longtunman and Billion Money that the concession contracts cannot be canceled, but can be negotiated for revisions, such as postponing AP payments in exchange with extending contract period.

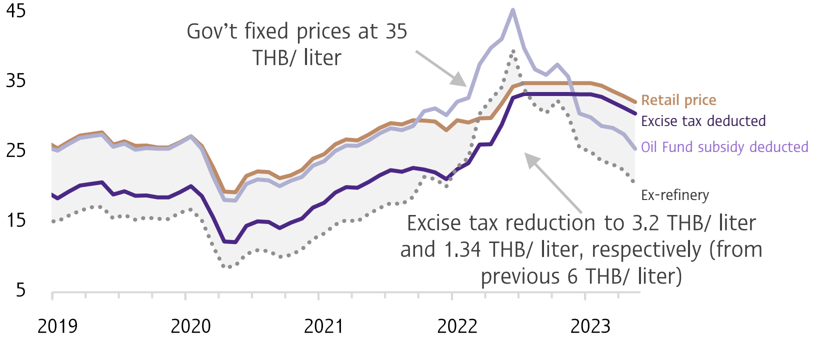
Source: SCB EIC analysis based on data from leading political coalition MOU featured on various press.

The domestic oil price policy direction still remains unclear and depends on the new gov't approach, which is also highly uncertain.

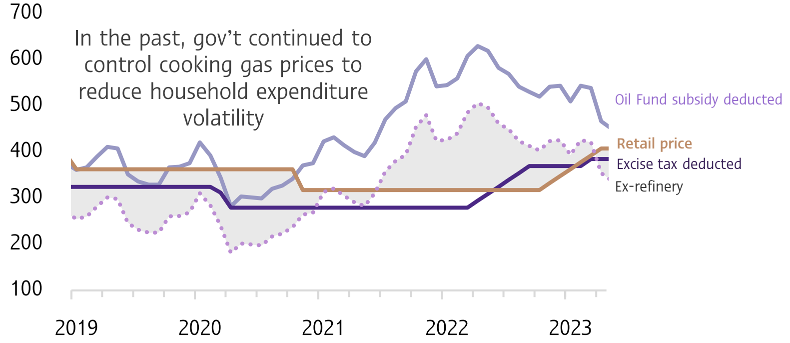
Ex-refinery vs retail oil price

Unit: THB/ liter (diesel), THB/ 15 kg cylinder (cooking gas)

Diesel



Cooking gas 15 kg cylinder



The government control domestic oil prices, especially diesel and cooking gas for households, to stabilize the oil prices and cushion the impact on the people and economy.

Domestic oil price structure

	Ex-refinery	Price is referenced from price referenced from world market (Asian regional price) which is influenced by exchange rate as well.
+	Excise tax	Tax charged under the supervision of the *Excise Department, Ministry of Finance*
+	Oil fund	Key mechanism to stabilize fuel prices; under the supervision of the *Oil Fuel Fund Office, Ministry of Energy*
+	VAT 7% Municipality tax ENCON fund	
=	Wholesale price	
+	Marketing margin	Other costs and profit of oil retailers are for reference only, each retailer will have different margins depending on management
+	VAT 7%	
=	Retail price	Retail price controlled according to *gov't energy price policy*

Measures that are related to such mechanisms will influence the retail price, **as such the retail price will the government's policy approach and the management directions of the Ministry of Finance and the Ministry of Energy.**

- **Despite world energy prices and domestic oil prices having been declining in 2023,** parties that stabilized oil prices (e.g. the Oil Fund) still have a deficit to recover.
- **The approach to manage domestic oil prices remains unclear** following high uncertainties surrounding the new gov't formation. The introduction of new measures could also be difficult during the political vacuum. Delays of the new gov't formation and new policy implementation also increase the uncertainty in domestic oil price management in the future.
- In H2/2023, **the domestic oil price direction should depend more on the oil price management approach and tax mechanisms under price structure rather than energy prices in the world market.** The price management approach should balance between repaying the subsidy, adjusting relevant tax mechanisms, and alleviating citizen's cost of living.

ENERGY NEWS CENTER: MoE finding next steps with concerns that the CEPA meeting may be delayed, as LPG-NGV price control expire in June 2023

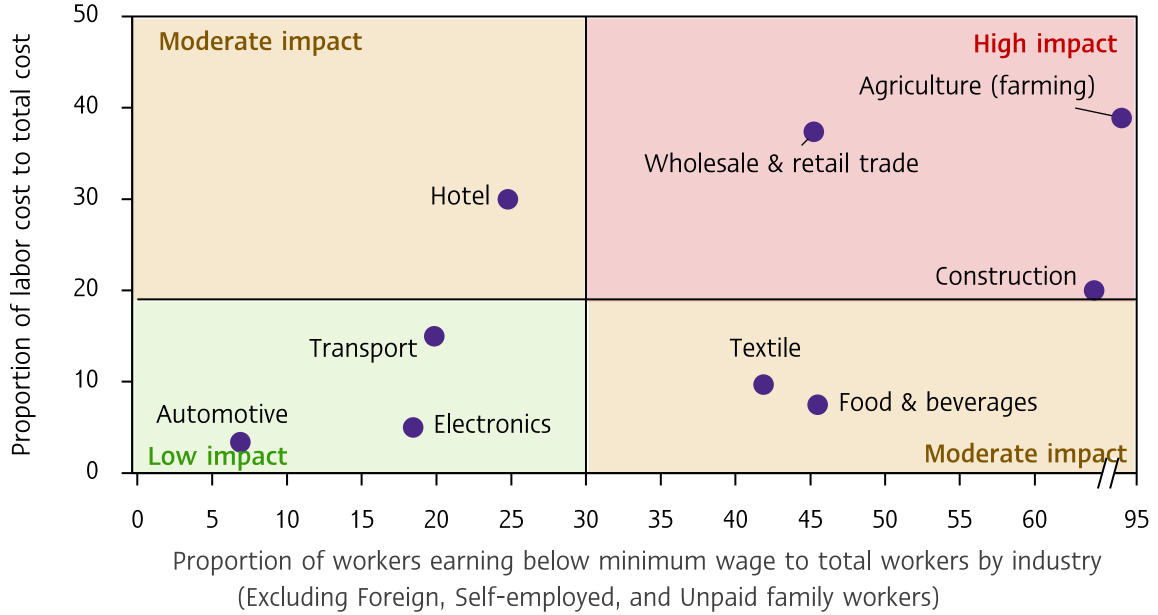
Thai PBS: "MoF" drop 5 THB/ liter diesel tax cut extension

Note: Cooking gas ex-refinery price is normally disclosed in THB/ kg terms, ex-refinery price per 15 kg is calculated by analysts; information and analysis as of June 2023.
Source: SCB EIC analysis based on data from EPPO, CEIC, and various press.

Policies that immediately hike minimum wages will hurt sectors that are more reliant on unskilled labor, though the size of impact depends on many factors, including labor shortages and wage adjustments in other labor groups according to the ability to pass on costs.

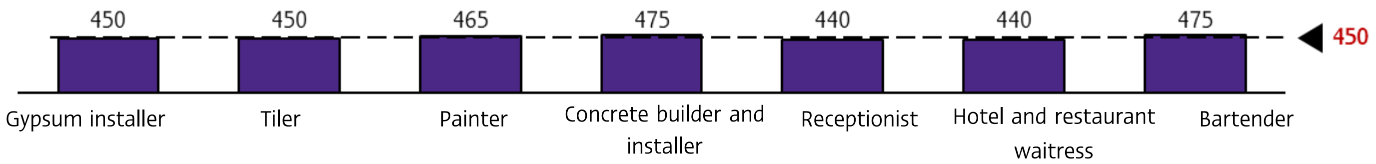
Portion of workers earning below minimum wage to total workers by industry and portion of labor cost to total cost

Unit: %



Examples of earnings of skilled workers (level 1) in certain industries

Unit: THB/ Day



Minimum wage hike impact on businesses

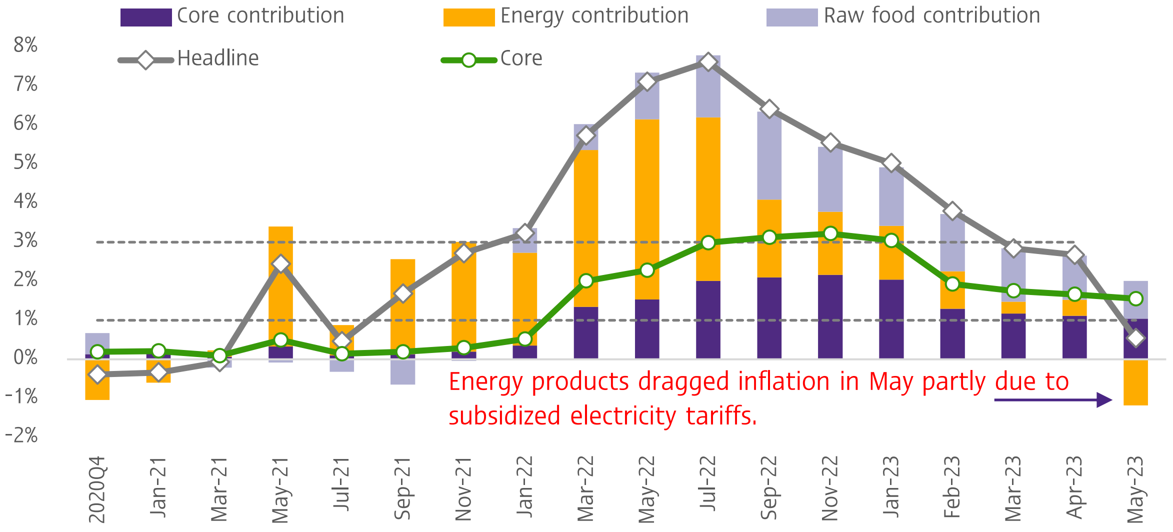
- **Sectors that are highly reliant on unskilled labor,** i.e. agriculture, construction, retail, food manufacturing, textile, should see more impact
- The impact could become more pronounced, if…
  - **The sectors are highly reliant on foreign labor**, which mostly receive minimum wage
  - **The sectors facing labor shortages** as wages need to be higher than minimum wage to attract workers
- **The sectors that are reliant on semi-skilled labor, i.e. tourism, and reliant on semi-skilled labor that are in short supply, i.e. construction workers that might need to increase wages** to keep an appropriate gap between minimum wage and semi-skilled wage
- The impact could become less pronounced, if…
  - **The sectors can increase prices** and pass on higher labor costs
  - **The sectors can use technology to substitute unskilled labor,** as well as control other costs
  - **The sectors benefit from recovering purchasing power, especially consumption-related**, i.e. retail, food and beverage, tourism, some also benefit from government stimulus that prompts spending
  - **The sectors receive support from government stimulus**, such as corporate income tax, electricity bill, or additional expense reductions

Source: SCB EIC analysis based on data from the National Statistical Office of Thailand and Cabinet Resolution (10 May 2022).

SCB EIC views that inflation will slow to 2.1% in 2023 following energy price trends and the high base in Q2/2022. However, inflation may increase in H2/2023 following new gov't policy uncertainties and better economic recovery.

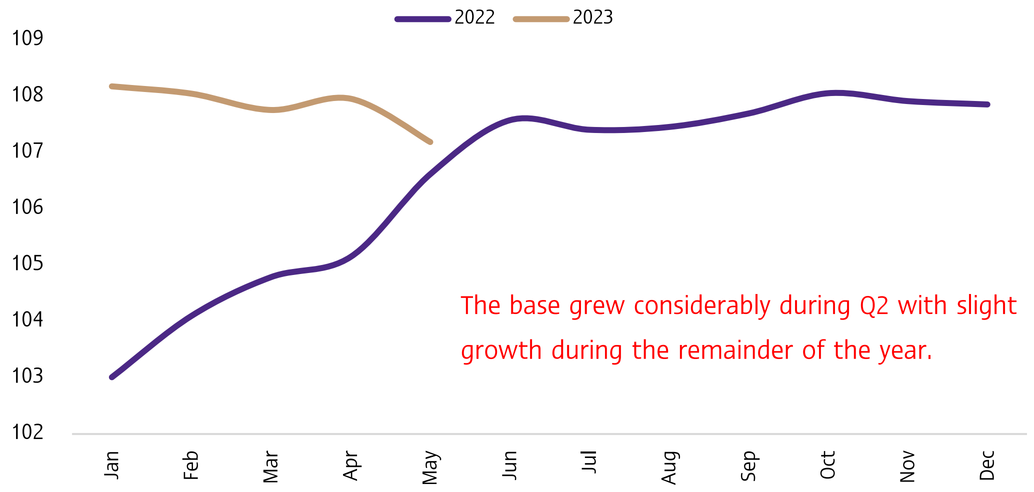
Contribution to headline inflation growth

Unit: Index (2019 = 100)



Consumer Price Index

Unit: Index (2019=100)



Category	Share	2022	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	YTD
Electricity, fuel, water, lighting	5.5%	20.8%	13.0%	11.2%	11.2%	11.5%	11.1%	-4.0%	8.1%

- **Headline inflation should slow abruptly** as energy prices drop, particularly oil prices, as well as the high base effect.
- **Going forward, core inflation should gradually and slowly drop**, following the ongoing cost transfers from producers to consumers, while demand-side pressures could pick up as economic recovery gains traction

Forecast	2023F
Headline inflation	2.1%
Core inflation	1.7%

SCB EIC evaluates that the minimum wage should increase to THB 450 from an average of THB 341, causing core inflation to increase by 0.63% from the base case.

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

New gov't policies should benefit sectors relating to consumption, including SMEs, **though some may be affected by the minimum wage hike and trade monopolies. The playouts warrant monitoring.**

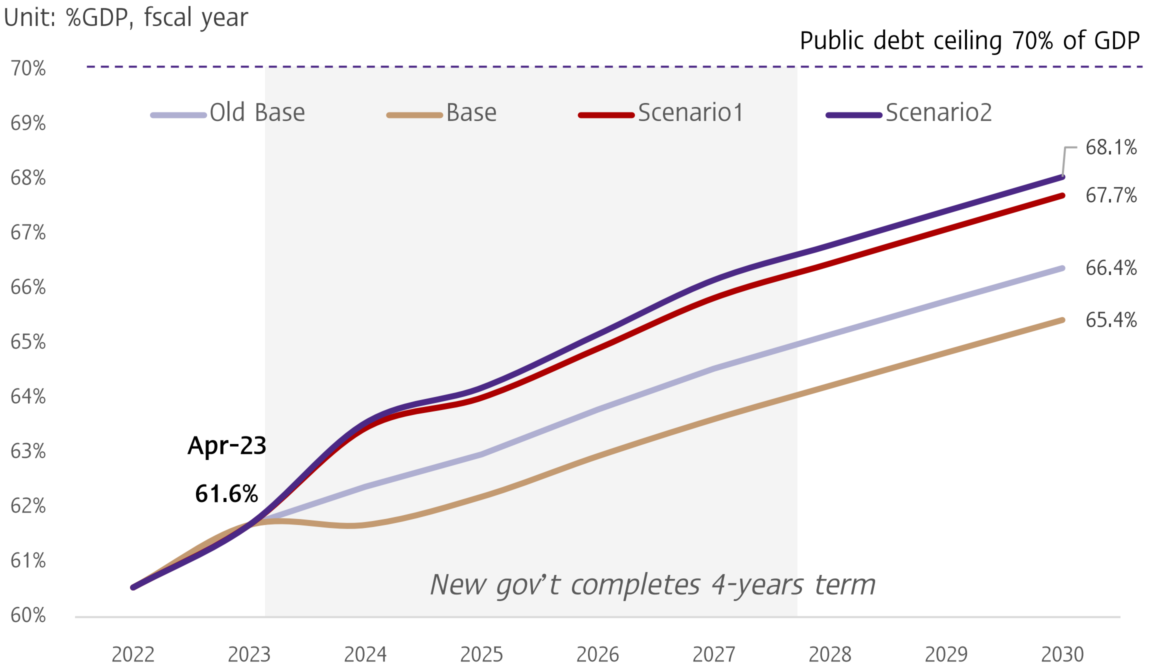
New gov't policies with impact on businesses		Businesses that should benefit	Businesses that should be affected
Increase income/ lower cost of living/ support quality of life	• Minimum wage hike • Universal welfare system • Uplift public health • Social security/ healthcare insurance • Reduce electricity tariffs	• Retail-wholesale • Food and beverage • Restaurant • Healthcare • Tourism	• Businesses with a high portion of unskilled labors who receive minimum wage i.e. construction, food production, textile, certain service businesses, i.e. restaurant, retail, gas station • Power plants that sell electricity directly to industries will see impact if electricity tariff for businesses is also reduced
Support SMEs	• Lower costs for SMEs (i.e. tax deduction) • Receipt lotteries • More budget authority to local administrations	• Sectors with high SMEs portion i.e. retail-wholesale, F&B, tourism-related • Medium/ small construction • Small distiller/ community enterprise • Small-scale/ local fisheries	• Alcoholic drinks businesses may face fiercer competition from new players • Private-owned power plants, esp. IPP & SPP, that receive availability payment, i.e. natural gas plants, may be impacted if gov't revises the power purchase agreement
Terminate monopolies/ promote trade competition	• Progressive liquor bill • Amend fisheries law • Restructure power industry/ price/ capacity		
Support agriculture/ reduce production costs/ increase value add	• Lower farmer cost/ promote food processing • Support technology accessibility • Land reforms	• Agriculture • Food and beverage • Telecommunication	• Real estate businesses need to monitor land reform, distribution of land ownership and other related policies that may impact project development plan
Environment	• Reduce PM 2.5 air pollution • Reduce GHG emissions • promote green businesses	• Renewable energy power plant • Solar PV	• Businesses will incur additional costs for environmental impact reports and may have to lower GHG emissions. Those with greatest impact are high emitters, i.e. energy, building materials, construction businesses • Logistic businesses will need to invest to switch to EV technology • Agribusinesses with high reliance on crops with burning practices, i.e. sugar and animal feed that rely on maize

Note: Preliminary estimates according to the probability of policy implementation from the government coalition MOU. Playouts are still unclear and uncertain and subjected to change. Some policies may have limitations on actual use.

SCB EIC

Public debt levels will likely increase in all scenarios as per the execution of campaigning policies and will add pressure to the already high ageing population expenditure. As such, fiscal reforms are needed to create fiscal sustainability.

Public debt forecast (as of Jun 2023) by SCB EIC



Base (Move Forward leading liberal gov't)	Focus on state welfare & gradual execution of proposed fiscal reform
Scenario1 (Pheu Thai leading liberal gov't)	Focus on economic stimulus with expenditure continually increasing
Scenario2 (Pheu Thai mixed gov't)	Focus on economic stimulus with expenditure continually increasing
Old Base (before election)	Inability to reduce fiscal deficit to GDP ratio & no fiscal reform

Fiscal risk evaluation from new gov't policies by SCB EIC

Leading party	Example of policies (THB Trillion)		Remarks
Move Forward	**Total**	**1.290**	• Clear source of funds, i.e. tax reform, not extrabudgetary • Expenditure reforms, i.e. reducing military budget • Fiscal risk : Medium-to-High depending on fiscal reform capability
	Progressive welfare (per year)	0.650	
	Self-governing province (per year)	0.200	
Pheu Thai	**Total**	**1.780**	• Somewhat clear source of funds • Calculations based on relatively high fiscal multiplier and economic growth assumptions • Fiscal risk : High
	Digital wallet (first 6 months)	0.560	
	Water management	0.500	
	Elderly welfare (per year)	0.300	

Proposed fiscal reform THB 650 Billion (as of 4th year of the Move Party Forward gov't)
(1) Tax reform (4.7) i.e. land tax (1.5) tax collection efficiency (1) tax for large corporates (0.92) wealth tax (0.6) lotteries (0.5)
(2) Expenditure reform (1.8) i.e. cut unnecessary projects (1) military budget (0.5)

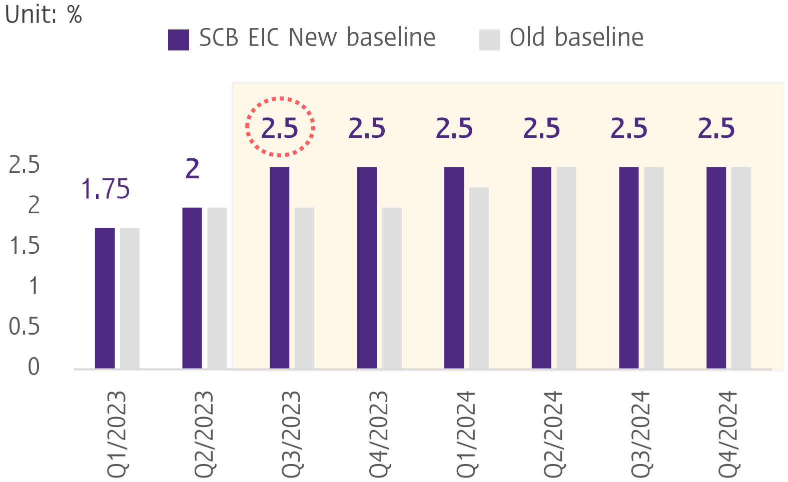
SCB EIC Fiscal reform implementation assumption : 20% in 2024 with 20% addition per year until 80% in 2027, excluding wealth tax as may not meet target

Source: SCB EIC analysis based on data from the Office of Election Commission of Thailand, Pheu Thai Party, and Move Forward Party.

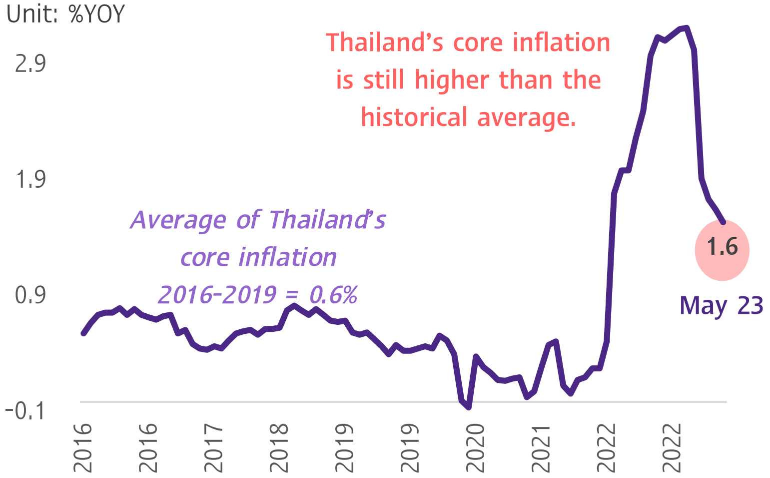
Thai Financial Market

SCB EIC expects the MPC to continue hiking its policy rate 2 more times to the terminal rate of 2.5% in Q3 as the Thai economy should continue to expand and inflation pressures remain looking ahead.

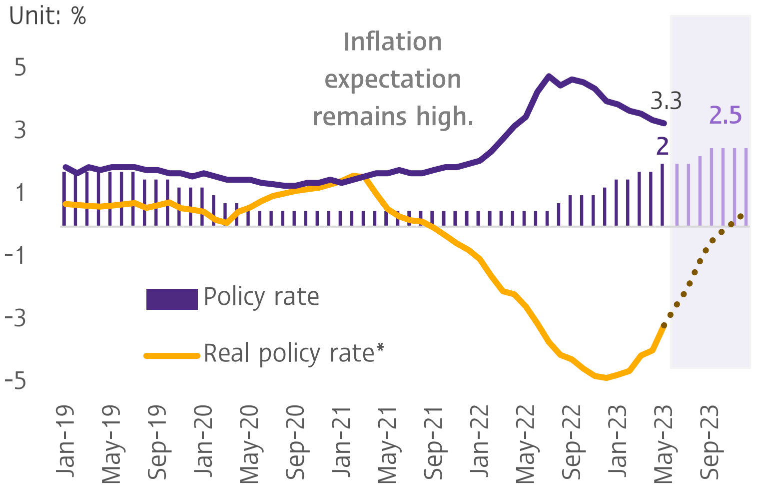
Thailand's policy rate expectation by SCB EIC



Core inflation

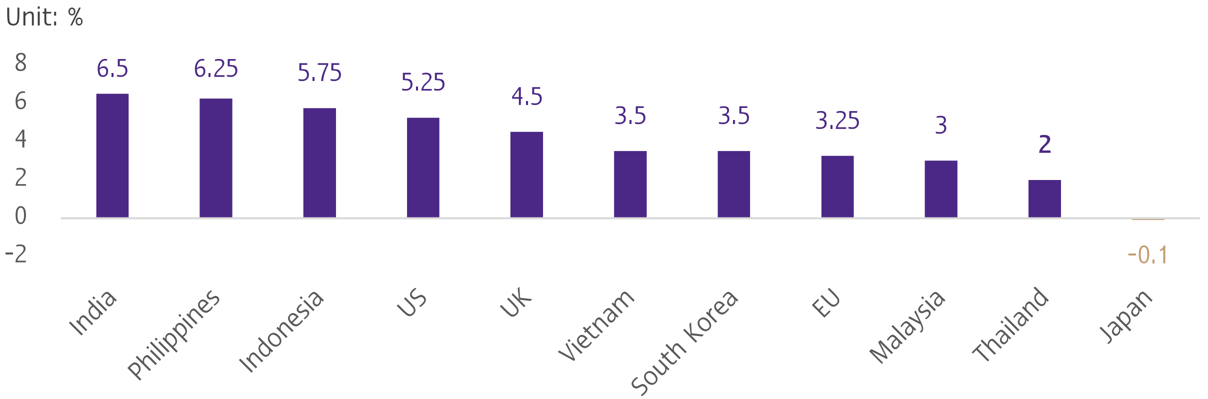


Real policy rate



Note: *Real policy rate is calculated based on 12-month moving average of headline inflation to reduce volatility from using monthly inflation figures.

Countries' policy rates



<u>SCB EIC expects the MPC to continue normalizing its policy rate to 2.5% at its September meeting,</u> which is the level consistent with the economy growing at its potential and inflation residing within the target. The MPC is then expected to keep the policy rate on hold awaiting for the effect of monetary policy transmission to the economy.

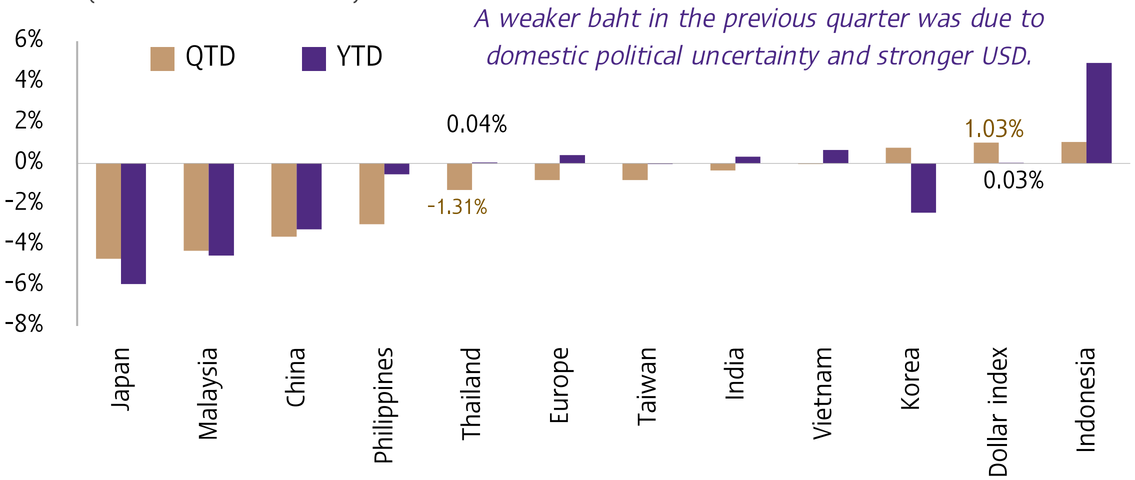
<u>SCB EIC expects the MPC to hike the policy rate to the level where real policy rate turns positive.</u> This is because a too low real policy rate could lead to imbalances in the economy and a build-up of risk to financial stability in the long run.

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

The baht will still face weakening pressure in the short run as USD will remain strong while the yuan will remain weak. The baht is thus expected to be moving sideway upward in the range 34.35-35.35.

Change in currency value against USD

Unit: % (data as of 9 June 2023)



- **A weaker baht against USD in the previous period** was due to 1) a stronger USD driven by market expectations that the Fed may continue to hike its policy rate, 2) a slower-than-expected Chinese economy, and 3) a domestic political uncertainty which resulted in capital outflows from the Thai financial markets.
- **In the short run (1-3 months), the baht is expected to be moving sideway upward within the range of 34.35-35.35** due to the followings:
  1. **USD will still face appreciation pressure in the short run** supported by US economic data outturns which saw improvement in employment. This may cause the Fed to raise its policy rate in July. Moreover, lower-than-expected growth outturns of other economies including Europe also caused USD to strengthen.
  2. **The baht will face pressure from the weakening yuan** as Chinese economy continues to exhibit weaker growth as seen in growth of Service PMIs, real estate sector, and confidence. Whereas, monetary and fiscal policies will likely remain accommodative.
  3. **Uncertainty pertaining to the new government formation** will affect investor confidence and capital flows.

The impacts of raising debt ceiling on the FX market

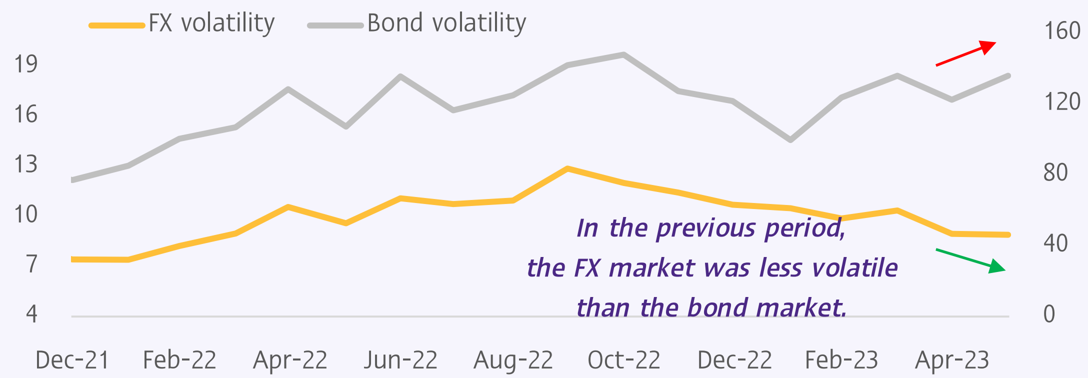
The US has succeeded in raising the debt ceiling but with condition to cap federal spending for two years (excluding defense expenditures), which will affect the economy and USD.

- **The US economy and volatility in the FX market will likely face a limited impact** as most of the important Welfare program budget has not been cut. Moreover, volatility in the FX market did not rise significantly when X-date was approaching, unlike in the bond market which was more volatile.
- **USD liquidity which will decline may cause USD to strengthen.** The US Treasury will need to issue new debt to replenish the TGA* to return the balance to an appropriate level after having declined previously. This will cause liquidity in the financial markets to decrease.

Global financial market volatility

Unit: Index

Unit: Index



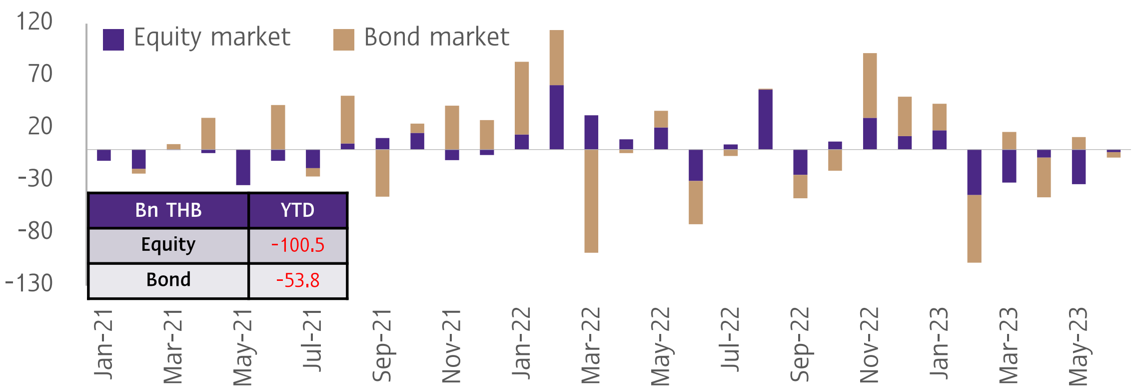
Note: *Treasury General Account (TGA) is the account of Treasury funds at the Federal Reserve, which has declined previously when debt ceiling has not yet been raised.

Source: SCB FX analysis based on data from Bloomberg ThaiBMA and SET.

At the end of this year, the baht will likely strengthen to a range of 32-33 baht per USD **driven by the Thai economic outlook, improving investor confidence, and the weakening USD.**

Capital flows to the Thai financial markets

Unit: THB billion (data as of 9 June 2023)



Bn THB	YTD
Equity	-100.5
Bond	-53.8

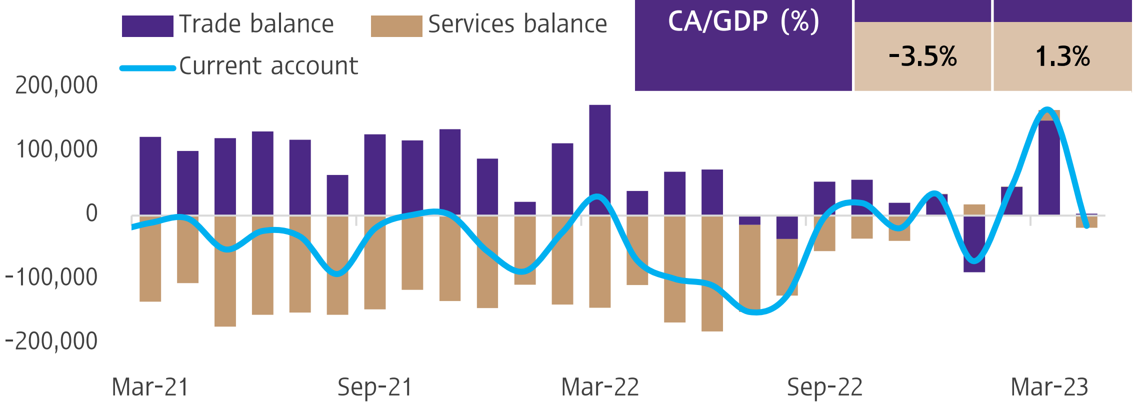
Factors that could cause the baht to strengthen during the end of the year

- **Political uncertainty is likely to end** where appointment of the Prime minister is expected at the beginning of Q3. This will result in gradual capital inflows, reducing weakening pressures on the baht.
- **The Thai economy should continue to recover.** Services sector and private consumption should facilitate the continued expansion in demand, while tourism will support the current account to turn surplus again.
- **USD will likely weaken on the back of global economic recovery.** During H2/2023, inflation pressures will likely continue to decline. Monetary policy will then become less tightened, allowing for a gradual global economic recovery. USD is therefore expected weaken.

Thailand's current account will turn surplus this year due to both trade and services balances.

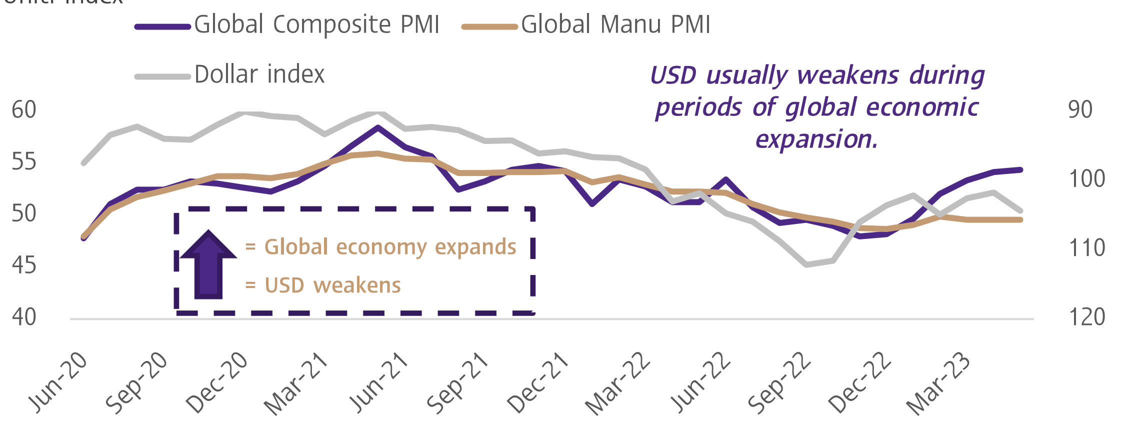
Unit: THB million

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



USD and Global manufacturing PMI

Unit: Index



Note: *Assessment from WEO April 2023 on the impact on GDP growth in 2023.
Source: SCB FX analysis based on data from Bloomberg and IMF.

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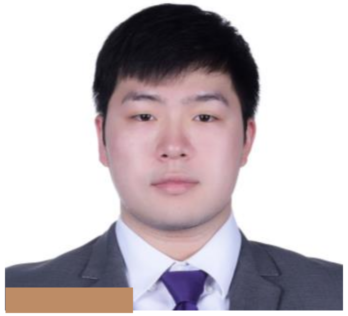

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