Q4/2023

SCB EIC

Outlook

Economic outlook 2023 – 2024
as of Q4/2023

Economic Intelligence Center (EIC), Siam Commercial Bank.

14 December 2023

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as of Q4/2023

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Executive summary

Global economy is projected to grow at a slower pace at 2.5% in 2024, slowing down from 2.7% in 2023. Major factors include interest rate hikes in advanced economies and depleting excess savings, especially in the US. Meanwhile, Chinese economy continues to decelerate in the short and medium terms due to structural issues. **Global economy continues to recover in the medium term, but growth is expected to be lower than pre-COVID level. The Fed and ECB are expected to loosen their monetary policies in Q2**, sooner than previously expected as inflationary pressure subsided. PBOC is expected to continue using an expansionary policy to support the economy, while BOJ is expected to end ultra-easing monetary policy by withdrawing YCC in the first half of 2024 and may end the negative interest rate policy in the second half of the year.

SCB EIC has revised down the Thai economic projection for 2023 to 2.6% as Q3 numbers were much lower than previously expected, especially due to a larger contraction in government consumption and slower tourism recovery. **Thai economy is expected to continue to expand in 2024 at 3.0%** following exports and private investment that are expected to grow at faster paces. **However, the overall economy is expected to grow at a slower pace** as growth momentum weakens. High consumption base in 2023, uneven recovery of household income, household debt, especially in low income families, sluggish recovery of Chinese tourist receipts, and the delay of 2024 Budget Act will weigh down growth. Moreover, slow growth in China, geopolitical conflicts, climate risks, as well as higher risk in the financial market due to high interest rate will be risk factors to the Thai economy. **SCB EIC expects that Thai policy rate will remain at 2.5% until the end of 2024** as the current rate is the neutral rate for economic stability in the long run. Financial risks due to higher interest rate will need to be monitored. **Thai Baht will remain in the range of 35 – 36 Baht per USD for the rest of the year and will appreciate to 32 – 33 Baht per USD by the end of 2024** following continuous recovery of the Thai economy, government stimulus, and loosen monetary policy from the Fed.

In the long run, Thai economy is expected to grow at a lower potential rate due to long accumulated structural problems from low investment and lower productivity, as well as economic scarring from the COVID pandemic. Fragilities may arise from households and businesses due to uneven recovery and debt problem in low income households and small businesses. Moreover, external factors such as climate change and geopolitical conflicts as well as internal factors from uncertainties in government policies may restrict government's abilities to cope with economic uncertainties and make necessary investments to lift up future growth potential.

SCB EIC proposes a set of "four enhancing policies" to tackle structural issues in Thai economy which are (1) Enhancing immunity for households with sufficient social assistance and social insurance; **(2) Enhancing competitiveness of Thai businesses**; **(3) Enhancing national investment strategies** that is appropriate for the changing dynamic of the global economy; and (4) Enhancing sustainability of the Thailand's real sector with government support to help businesses adapt to the ever changing dynamic of the global economy.

Thai Economy in 2023-2024

SCB EIC views Thai economy sluggish, fragile, and vulnerable, in need of building economic immunity and new economic drivers.

Key forecasts

() Previous forecast

GDP
(%YOY)

2023F	2024F
2.6	**3**
(3.1)	(3.5)

SCB EIC revised down Thai economic growth to 2.6%, following underperforming economic indicators from a sharp drop in government spending, slower recovery in foreign tourist arrivals. The growth momentum is expected to continue at 3.0% in 2024, supported by an improvement in exports and private investment. However, The long-term economy is exposing to some risks, which are (1) slower recovery as the growth potential drops due to accumulated structural problems, such as decreasing investment and deteriorating productivity, (2) economic fragility from high household and business debts, especially the low-income group with slower recovery, and (3) more vulnerability to Thai economy arising from global economic situations, climate changes, and geopolitical issues.

Policy rate (year-end)

2023F	2024F
2.5	**2.5**
(2.5)	(2.5)

SCB EIC expects Thailand's policy rate will be maintained at the current level which is 2.5% throughout 2024, which is considered supportive for the sustainable economic growth for the long term (Neutral rate). However, the financial system risks from persistent high interest rate remain to be monitored. Although D-wallet measure may lead to higher economic expansion than the potential level and more inflationary pressure, these effects seem temporary. Thai economy is anticipated to return to its potential growth, with only limited effect on inflation and Thai inflation is still expected to stay in the BOT's target at 1-3%.

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

2023F	2024F
35-36	**32-33**
(33.5-34.5)	(32-33)

Thai Baht is expected to remain stable within 35 – 36 THB/USD throughout 2023 but will appreciate further to 32-33 THB/USD by the end of 2024. This projection is based on the sustainable economic recovery, stimulus measures and Fed rate cut prospects.

Source: SCB EIC analysis based on data from NESDC, NSO, OECT, Ministry of Finance, BOT, Ministry of Commerce, Tourism Authority of Thailand, CEIC, and Bloomberg.

Thai economy in 2024

Positive factors

Exports rebound following a recovery in the global trade and an alleviation of supply chain concerns

Private investment improves in line with an increase in the number of projects registered for investment promotion and government stimulus policies.

Negative factors

Private consumption decelerates after a high growth in 2023 due to a slower income recover, especially in low-income households.

International tourist arrivals are lower than anticipated.

Government investments likely slow down, following the delayed approval of 2024 Budget Act

Global economy tends to be sluggish due to the effects of high policy rates.

Risk factors

Potential escalation of geopolitical risks, including, the expansion of Israel-Palestine conflict, the resurgence of Russia-Ukraine war, and regional tension arisen from Taiwan's Presidential election and US-China decoupling, might further affect the global supply chain and Thai exports.

More severe drought leads to a sharp drop in agricultural products

High household and business debts add more pressures to consumption and investment.

Financial system risks from persistent high interest rate will affect the debt repayment of vulnerable group, business fundraising in the bond market, and liquidity risk in some non-bank institutions.

Source: SCB EIC analysis based on data from NESDC, OAE, NSO, OECT, Ministry of Finance, BOT, Ministry of Commerce, Tourism Authority of Thailand, CEIC, and Bloomberg.

Global economy in 2023-2024

The global economy in 2023 has expanded more robustly than anticipated but likely slows down in 2024 due to downside risks and uncertainties from various aspects.

Economic growth

SCB EIC revised up its global GDP growth forecast for 2023 to 2.7% (from 2.4% previously) driven by stronger-than-expected economic growth in the US and China.

In 2024, the global economy is projected to grow 2.5%, slower pace than in 2023. The deceleration is attributed to the impact of interest rate hikes, tightened loan approval, and lower liquidity.

Inflation rate

Core inflationary pressure in the major economies decreased significantly in Q4 with a continued downward trend expected in 2024 from easing labor market conditions and weakening wage growth.

Monetary policy direction

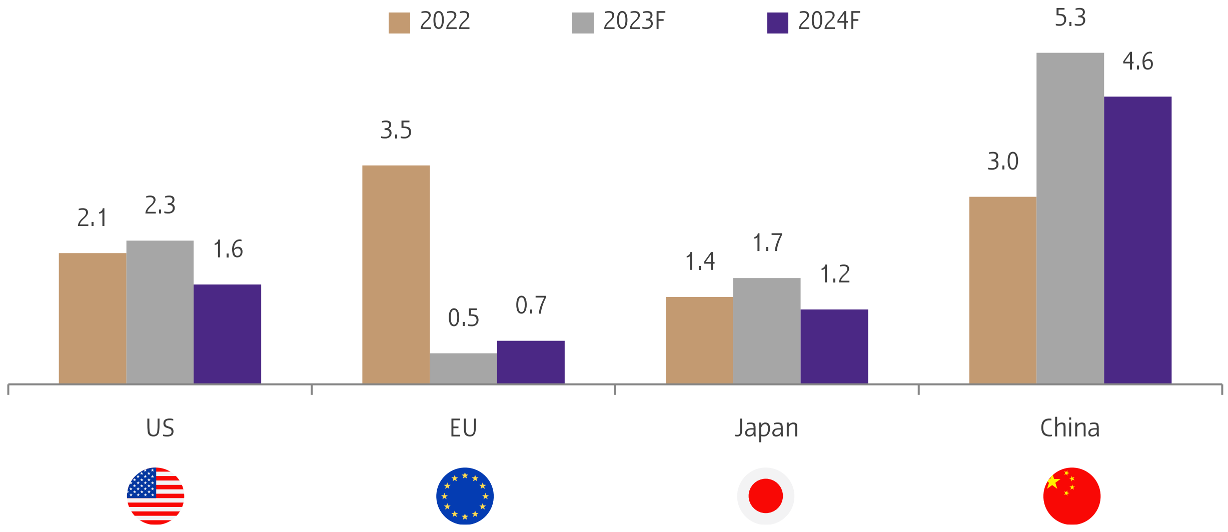
FED and ECB likely maintain policy rates at the current range of 5.25-5.5% and 4%, respectively, until Q2 of 2024 based on a continued slowdown in inflation.

BOE is inclined to keep the policy rate unchanged at the current level of 5.25%, with expectation to start cutting rate in Q3 of 2024 to 4.75% by the end of year 2024. BOE's policy rate will reach the highest level among the major economies as inflation decreases slower than the US and EU.

Source: SCB EIC analysis.

Global economic growth for 2022-2024

Unit: %YOY



Supporting factors

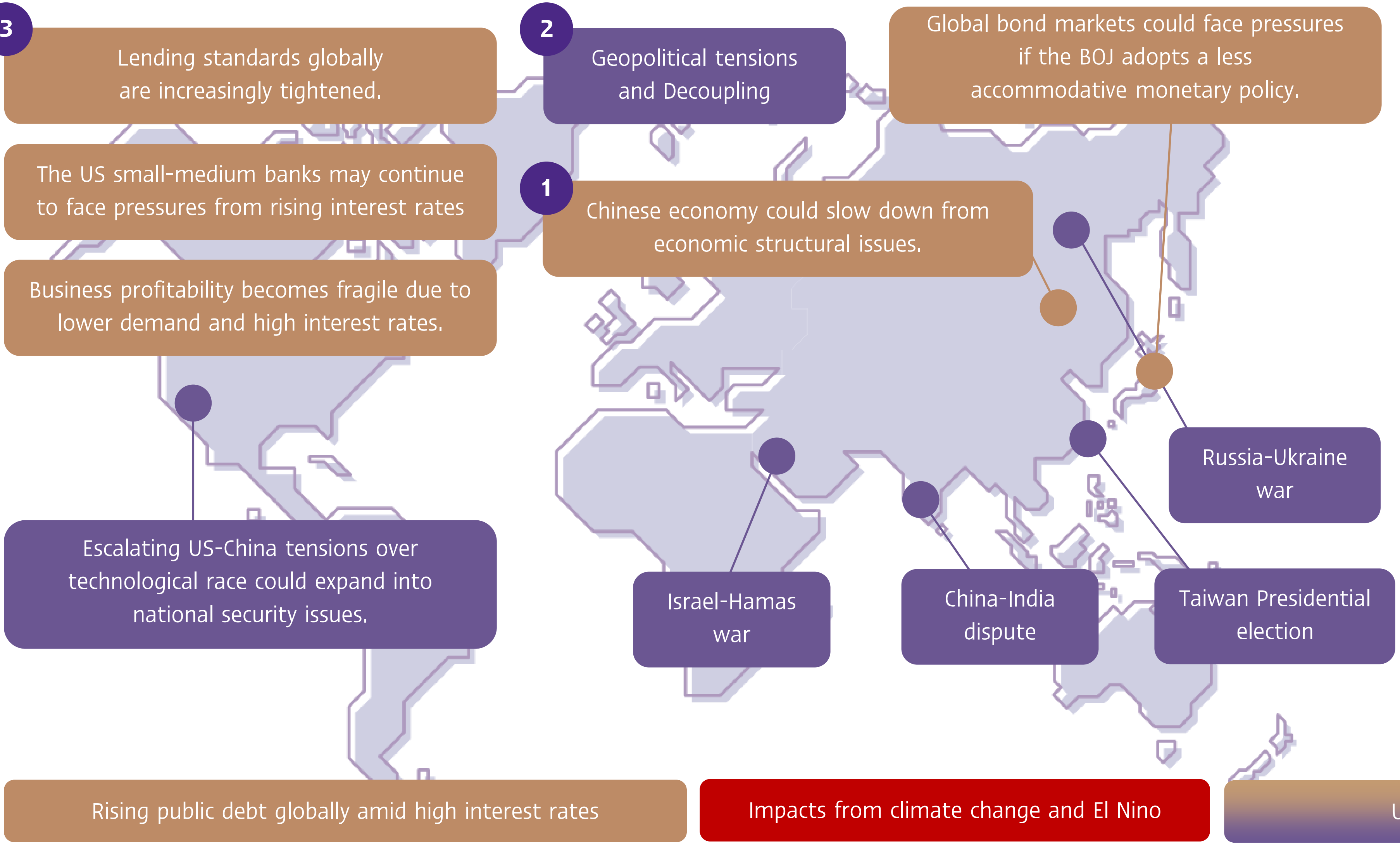
- Global labor market becomes highly flexible, supporting wages and consumption.
- Balance sheet of households and businesses have strengthened compared to the past.
- International trade in 2024 is expected to improve, while the global supply chain is returning to a normal stage.
- Service sector continues to expand, albeit at a slower pace, while manufacturing sector is stabilizing.

Risk factors

- Impacts of recent interest rate hikes.
- Tighten loan approval, while excess savings begin to decrease.
- Lower global liquidity.
- Potential acceleration of commodity prices, following a decline in oil supply and El Nino.
- Prolonged geopolitical tensions.

Source: SCB EIC analysis.

Global economic risk map in 2024



2024 Global economic risk categories

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

Note

1 2 3

Are 3 major risks to the world's economy with high probability and high impact within 2024

Source: SCB EIC analysis.

Global economy

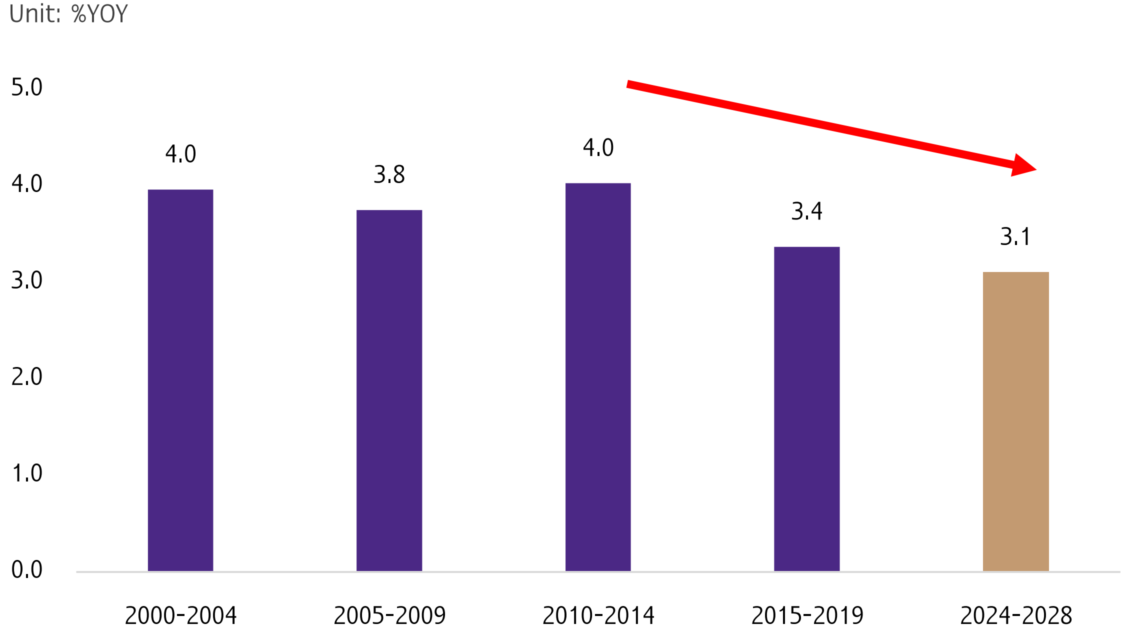
Global economy expands at a slower pace with downside risks on several fronts. Central Banks in advanced economies are expected to lower their policy rates in 2024 as inflation subsided and economies showed signs of slowing down.

Global economy performed better than expected due to expansion from US and China. Growth, however, is expected to slow down in 2024 amid downside risks and uncertainties. Global economy is projected to recover in the medium term, albeit slower than pre-Covid.

SCB EIC's Global economic projection (arrows represent changes from 2023)

GDP Growth (%YOY)	2022	2023F		2024
		As of Sep 23	As of Dec 23	As of Dec 23
Global	3.0%	2.4%	**2.7%**	**2.5%** ↓
US	2.1%	1.9%	**2.3%**	**1.6%** ↓
Euro	3.5%	0.6%	**0.5%**	**0.7%** ↑
UK	7.5%	0.4%	**0.5%**	**0.4%** ↓
Japan	1.4%	1.9%	**1.7%**	**1.2%** ↓
China	3.0%	5.1%	**5.3%**	**4.6%** ↓
India	6.7%	6.1%	**6.3%**	**6.3%**
ASEAN-5*	6.3%	4.3%	**4.4%**	**4.9%** ↑

Global economy is projected to grow at a slower pace in the medium-term. (IMF)



Headwinds and Tailwinds

Headwinds

- **Slowdown in China** due to structural problems
- **Pressure from high policy rates**
- **Tighter credit standards** and depleting excess saving
- **Lower liquidity** following tighter monetary policy
- **Commodities prices may increase** due to lower supply and El Nino
- **Persistent geopolitical conflicts**

Tailwinds

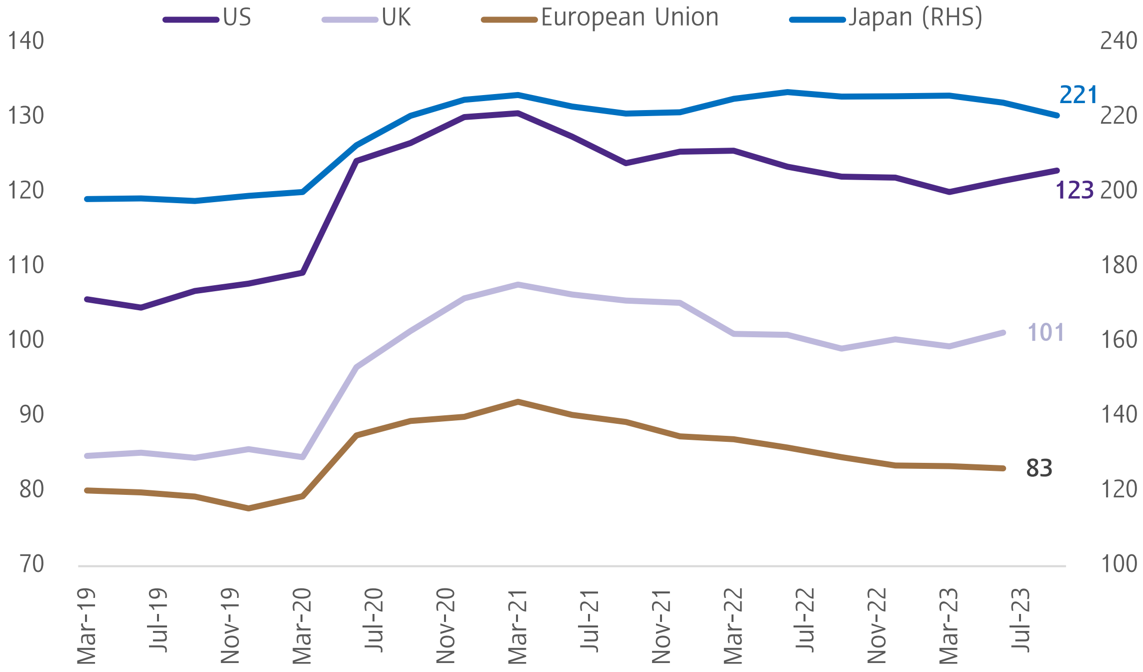
- **High flexibility in the global labor market** will shore up labor income and consumption.
- **Households' and businesses' balance sheets have improved** from before.
- **Global trade is recovering** and global supply chain has returned to normal state.
- **Service sector continues to grow**, albeit at a slightly slower pace. **Meanwhile, manufacturing has stabilized.**

Note: *ASEAN-5 comprises of Indonesia, Malaysia, Philippines, Singapore and Vietnam
Source: EIC analysis based on data from IMF WEO Oct 2023 and Bloomberg.

Governments in advanced economies are constricted in their economic supports due to high debt level accumulated from COVID related expenses, aging society related expenses, climate change mitigation, as well as increasing interest expenses.

Government debt in advanced economies

Unit: % of Nominal GDP

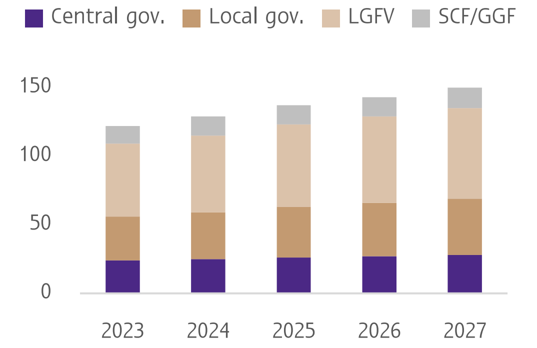


- **Governments are facing with higher fiscal pressure** from debt burden, as well as expenses from aging population, climate change and defense arising from the geopolitical conflicts.
- **Interest expense on government debt is on the rising trend** as borrowings during low interest period are beginning to come to terms, forcing governments to refinance at higher rates.

Risk of Chinese government debt

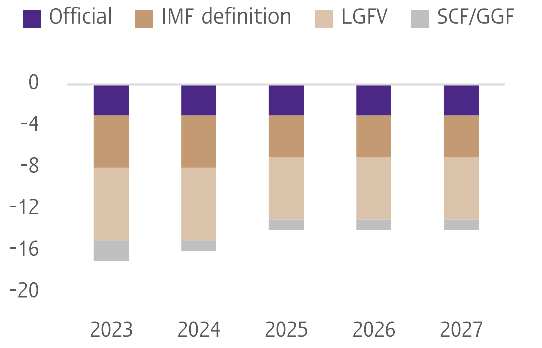
Chinese public debt (IMF projection)*

Unit: % of Nominal GDP



Chinese budget deficit** (IMF projection)

Unit: % of Nominal GDP



Local governments in China are facing with higher fiscal risks. Income from land sales has declined with the slow down in real estate sector. Meanwhile expenses from infrastructure development continue to grow as governments try to give a boost to the economy. Therefore, fiscal deficit and debt have increased.

Central government has given supports to local governments by giving transfers and allowing local governments to issue refinancing bonds to lower their financing costs. But such supports are not sufficient to fully eliminate the fiscal risks.

Higher debt level will restrict local governments' abilities to invest in infrastructures. Should central government gives additional support through deficits, China may risk sovereign credit downgrades from credit rating agencies (Moody's has changed its China's outlook from stable to negative in December.)

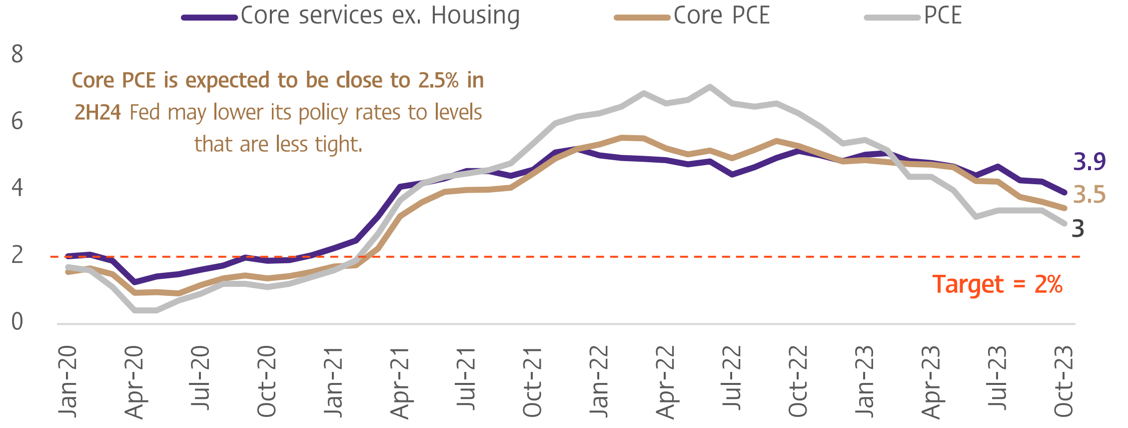
Note: *LGFV: Local government financing vehicles, SCF: Special construction fund, GGF: Government guided fund **Augmented net borrowing

Source: EIC analysis based on data from Bloomberg, IMF, Moody's, International News Agencies and CEIC.

Inflation has continued to subside following weaker labor market. Fed and ECB are expected to lower their policy rates in Q2, sooner than previously projected. Meanwhile BOJ is expected to phase out loose monetary policy in 2024 after inflation seems to be sustained.

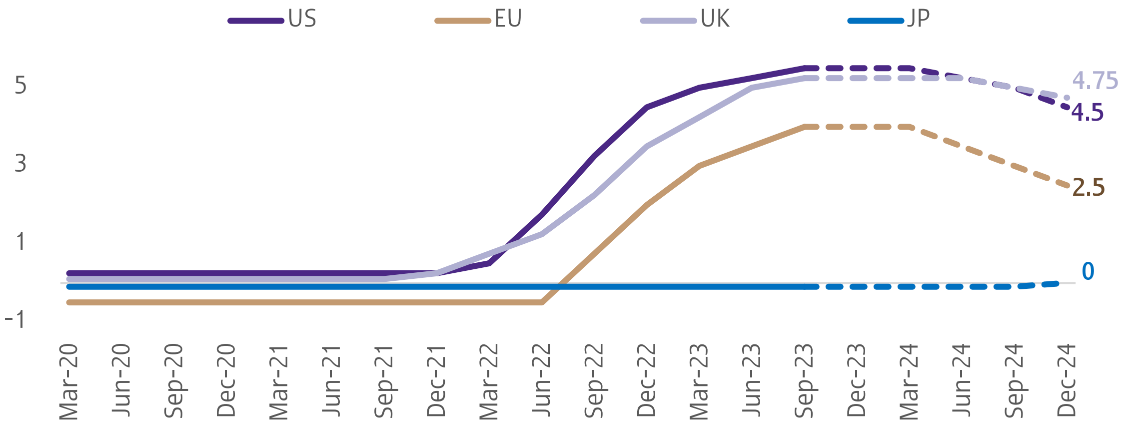
US Inflation (Personal Consumption Expenditures : PCE)

Unit: %YOY



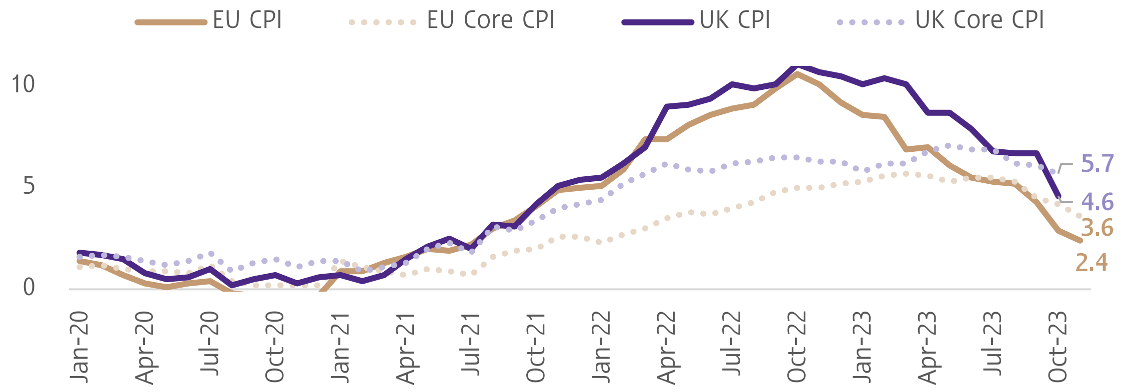
Projections of Policy rates in 2024

Unit: %



EU and UK Inflation

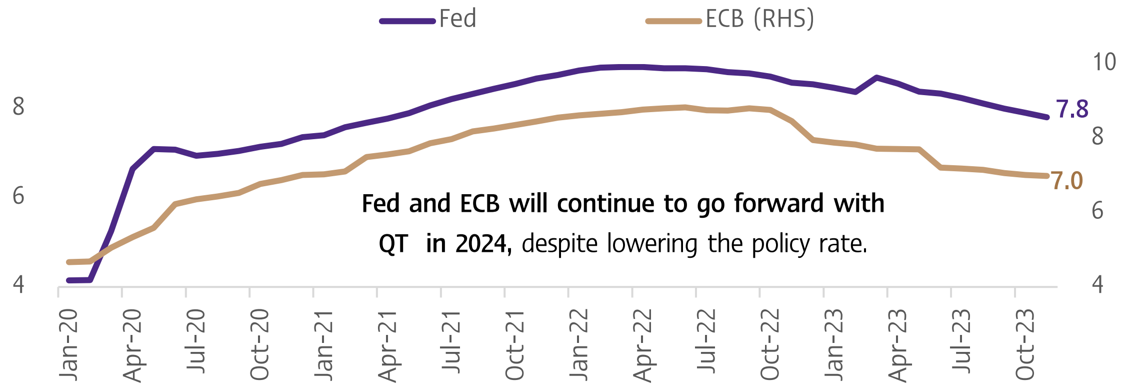
Unit: %YOY



Size of Fed's and ECB's balance sheets

Unit: USD trillion

Unit: EUR trillion



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

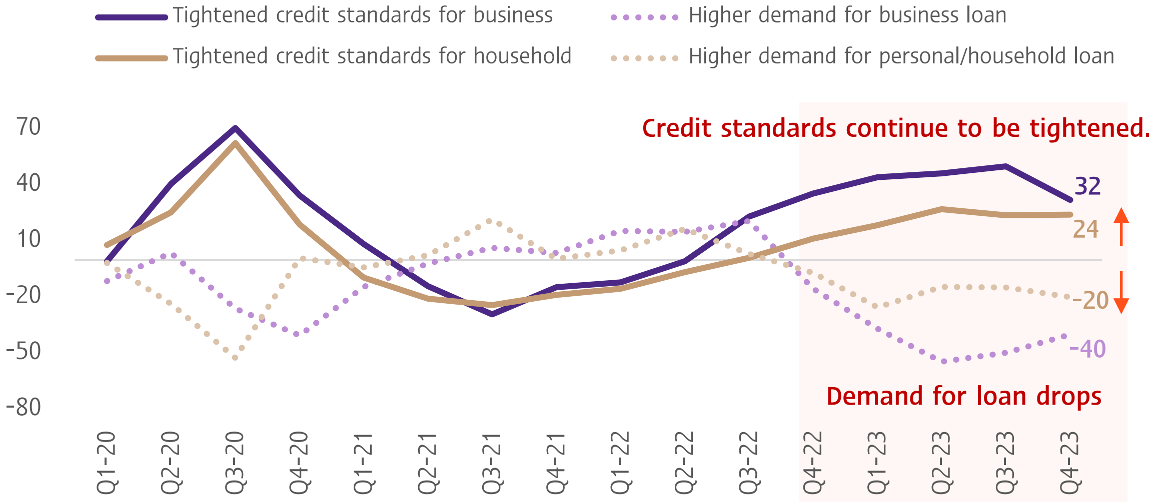
US economy

US economy in 2024 is showing a clear sign of slowdown, below its potential growth due to restrictive monetary policy and reduced support from fiscal stimulus, resulting in sluggish consumer spending and business investment.

US economy in 2024 is expected to slow down to the level below its potential growth due to restrictive monetary policy and reduced support from fiscal stimulus, resulting in weaker consumer spending and business investment.

Senior loan officer survey

Unit: Net Percentage of Financial Institutions Tightening Standards for Loans/ Reporting Stronger Demand for Loans.



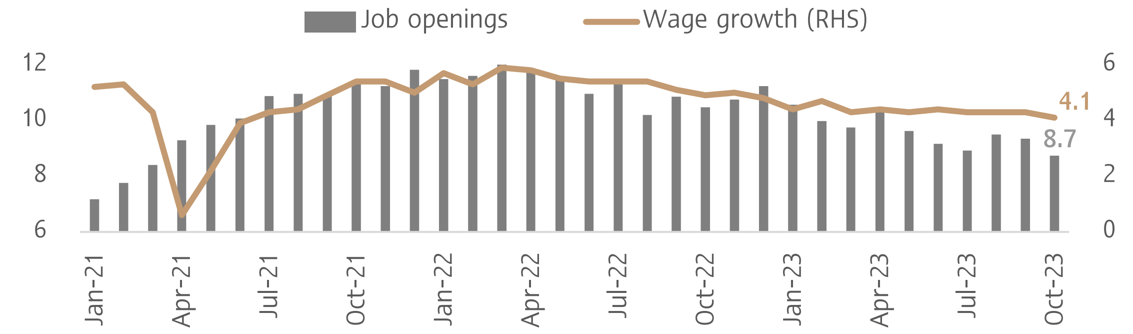
US economy is expected to expand below the potential growth (2%)

- **Private consumption, which used to be a primary driver, tends to slow down**
  due to weakening labor market, impacting wage growth, diminishing excess savings and more difficulties access to credit.
- **Investment in private sector is also slowing down.**
  Business profitability is facing pressures from high interest rates and lower purchasing power.
- **Fiscal tailwinds are fading.**
  Government spending in 2024 will be cut down by USD 70 billion according to Fiscal responsibility act

Job openings and wage growth

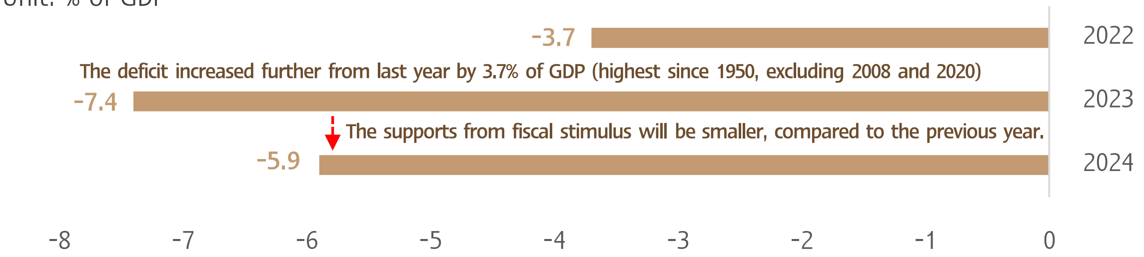
Unit: Million positions

Unit: %YOY



US Fiscal deficit*

Unit: % of GDP



Monitoring factors in 2024

1. Recession risk from high uncertainty in the effect of monetary policy
2. The approval of budget / Government shutdown
3. Risk of credit rating downgrade
4. Liquidity risk in small-medium banks due to high interest rates
5. US presidential election in November

Note: *Exclude Student loan cancellations

Source : SCB EIC analysis based on data from Bloomberg and Congressional budget office

EU economy

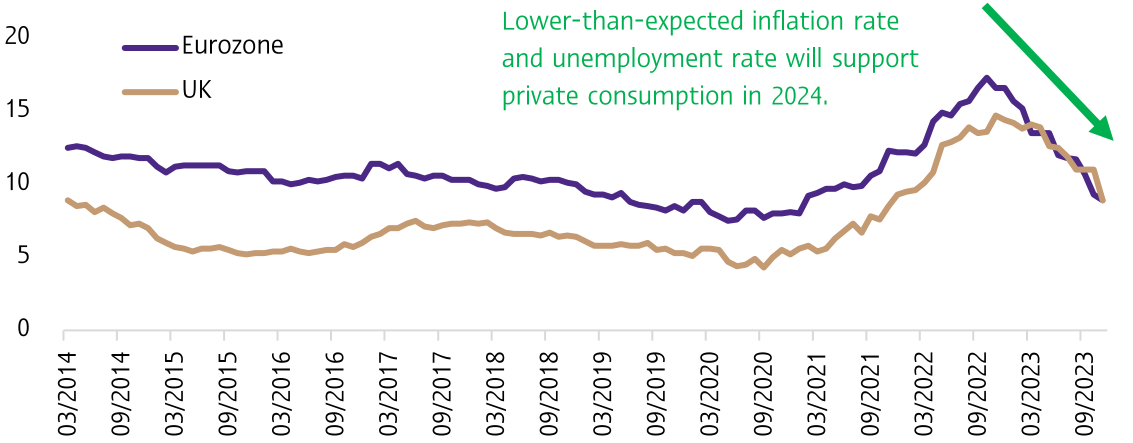
EU economy will slightly improve, driven by private consumption. However, the economy is expected to remain sluggish and will potentially experience a mild technical recession due to the effects of high interest rates and lower economic confidence.

SCB EIC

Eurozone economy in 2024 will slightly improve but will remain sluggish and potentially experience a mild technical recession. The economic environment in the latter half of the year should be less sluggish as the lagged impacts from high inflation and interest rate will start to fade.

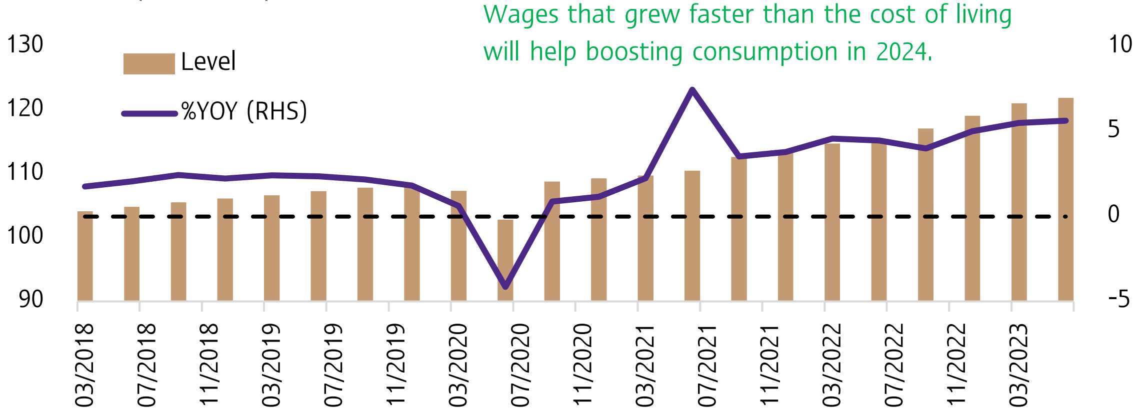
Misery index (The sum of unemployment and inflation rates)

Unit: %



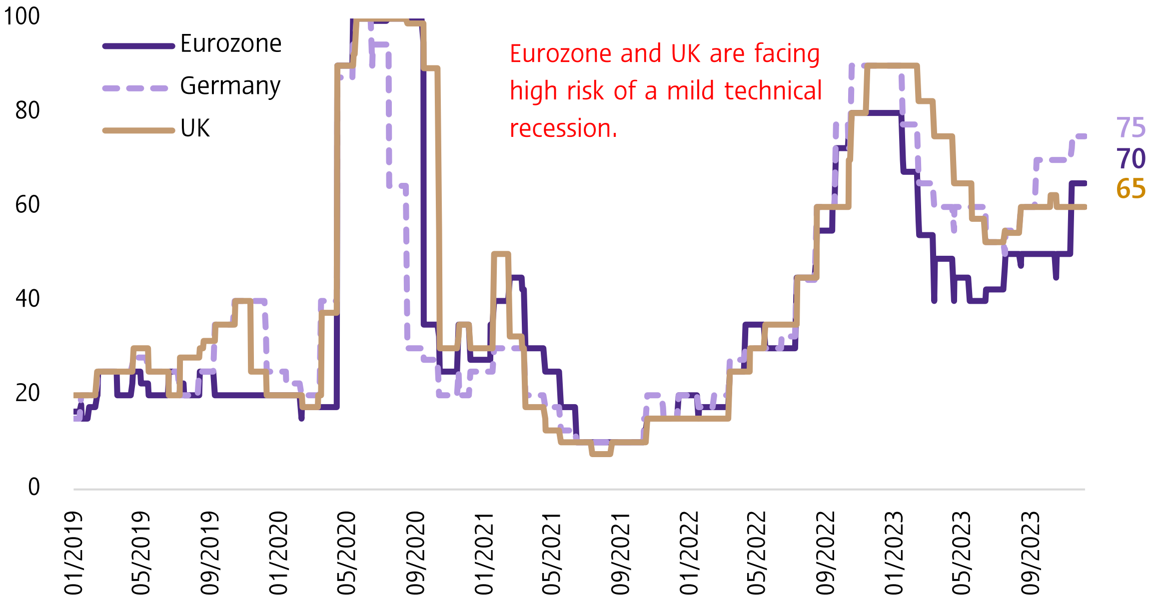
Eurozone wages

Unit: Index (2015 = 100)



Probability of Eurozone and UK entering recession in the next 12 months

Unit: %, Data as of Dec 6, 2023



Supporting factors

1. Private consumption will recover as wage grows faster than the cost of living.
2. Excess savings during COVID pandemic remain high (excluding Italy)

Pressures

1. Risk of mild technical recession
2. Effects of high interest rates, especially in the first half of 2024
3. Government is expected to reduce fiscal deficit as expense exemptions during COVID pandemic ended in 2023 and energy subsidies will be reduced.

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

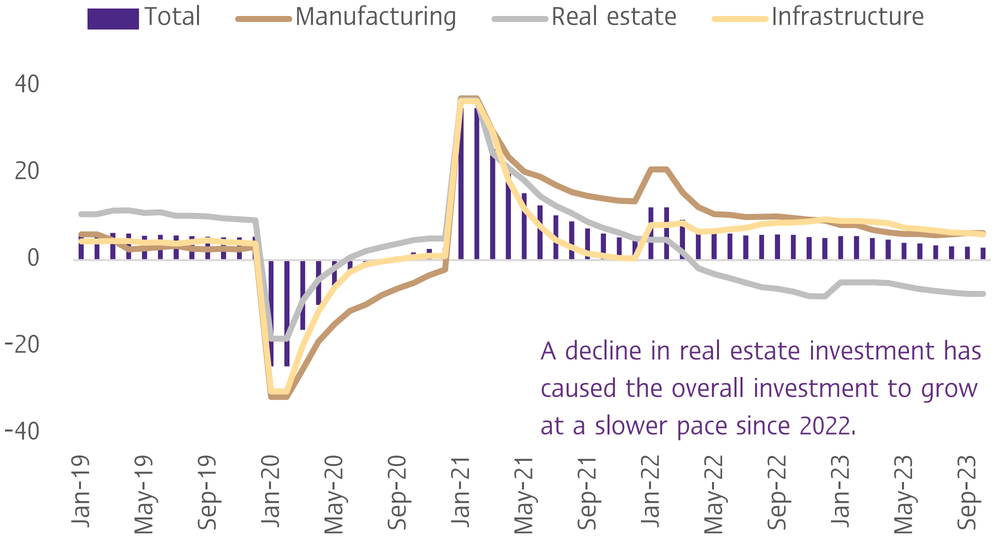
China economy

Chinese economy in 2024 will benefit from government stimulus measures that aim to boost investment, while consumption and exports show signs of recovery. In the medium term, Chinese economy is expected to decelerate due to pressures from economic structural issues.

China economy in 2024 will get additional supports from stimulus measures, primarily through infrastructure investment. Consumption and exports should recover, although the growth will be slower than last year as the base effect normalized.

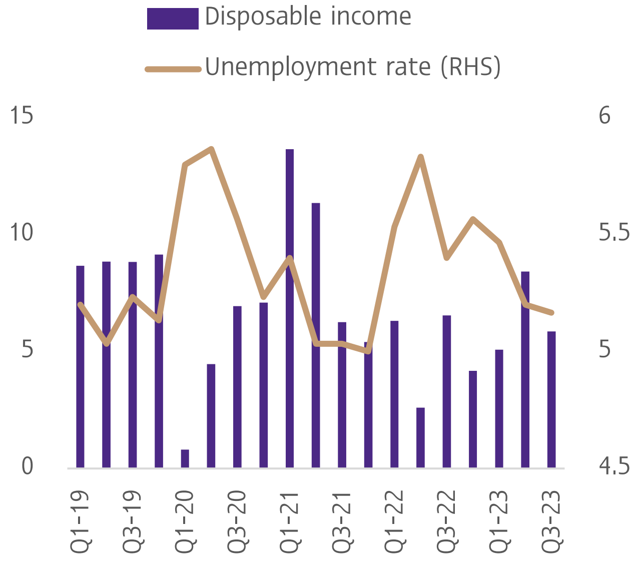
Investment in fixed assets

Unit: %YOY (Year-to-date)



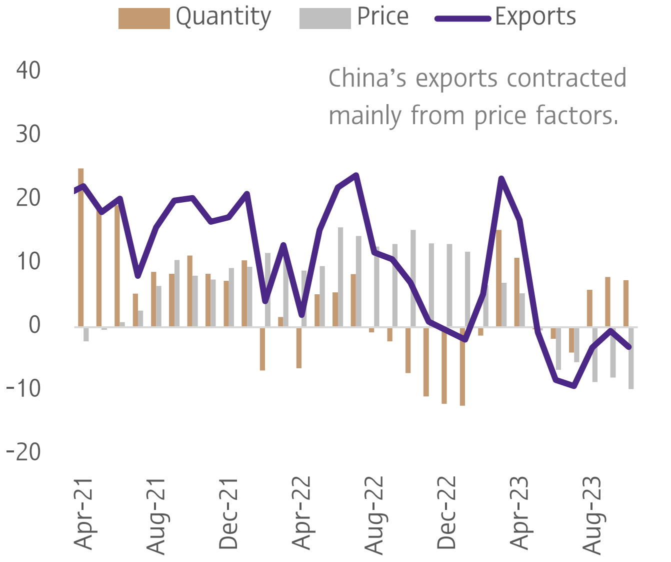
Disposable income and unemployment rate

Unit: %YOY Unit: %



Exports (CNY)

Unit: %YOY



Supporting factors for investment in 2024

1. **Continued monetary policy easing** helps reduce cost of fund.
2. **Government stimulus measures,** including budget transfers to local governments for infrastructure investment and the development of urban village and social housing. **However, investment in the real estate sector remains subdued** as the government measures may not fully compensate for the structural slowdown.
3. **Recovery in export sector supports investment in manufacturing sector.**

China economy in 2024 is expected to grow at a slower pace but still get supports from following factors

1. **Economic stimulus** from both monetary and fiscal measures will play a crucial role in boosting the economy, particularly investment.
2. **Consumption continues to expand** as the labor market remains robust and people spend their excess savings from COVID lockdown.
3. **Exports improve in 2024** due to price factors and a recovery in global manufacturing.

Source: SCB EIC analysis based on data from CEIC, National Bureau of Statistics, and General Administration of Customs.

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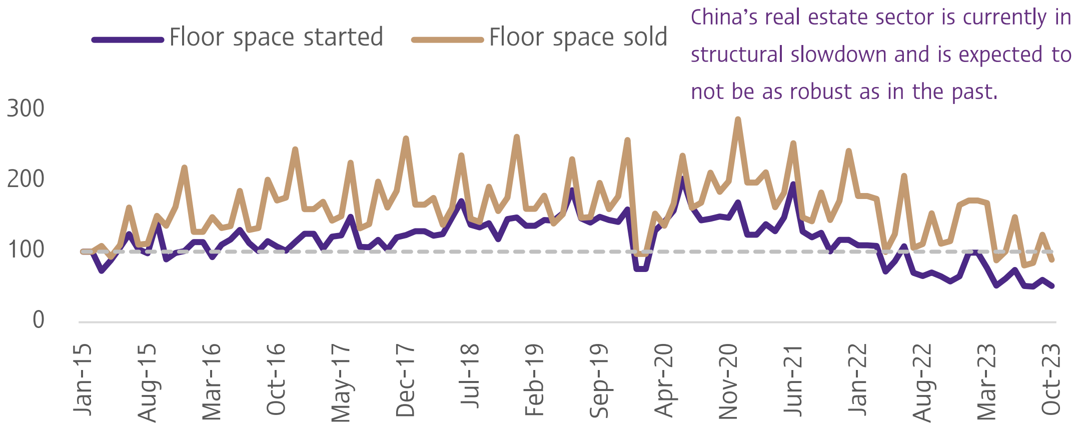
In the medium term, Chinese economy will continue decelerating as traditional economic drivers become less effective and on-going structural reforms to increase reliance on consumption take time to materialize.

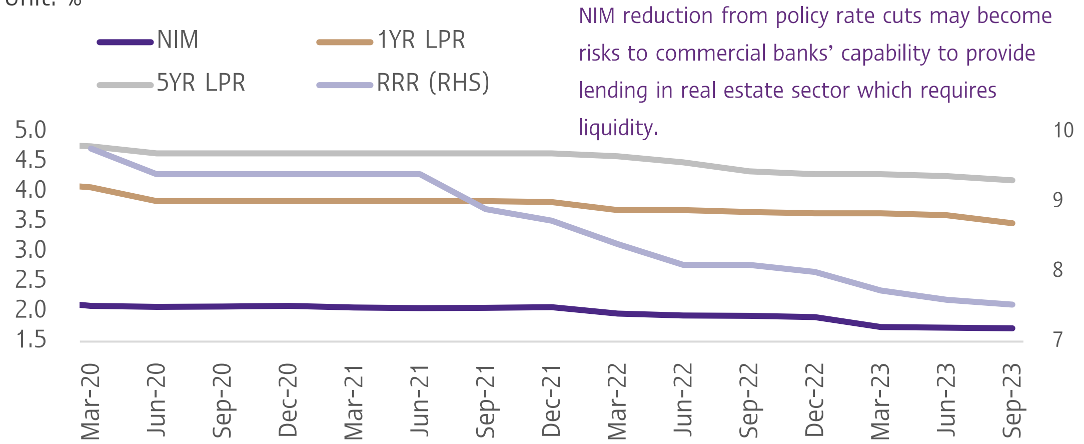
Floor space started and floor space sold

Unit: Index (Jan 2015 = 100)



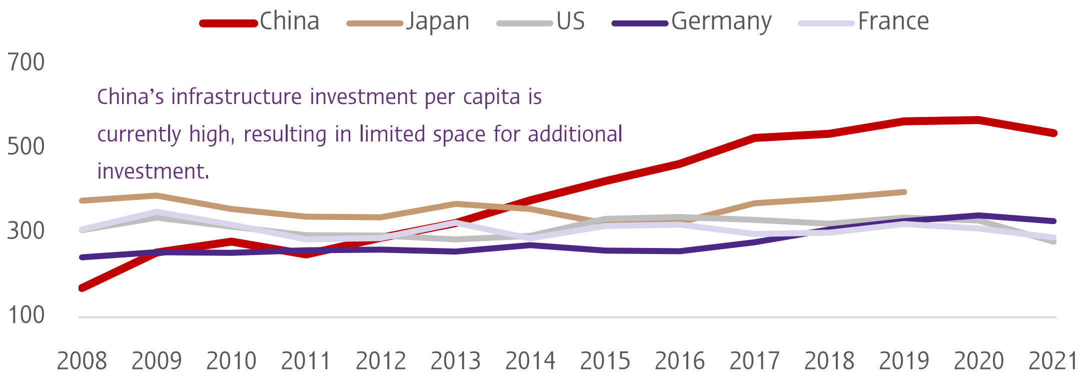
Net interest margin of commercial banks and policy rates

Unit: %



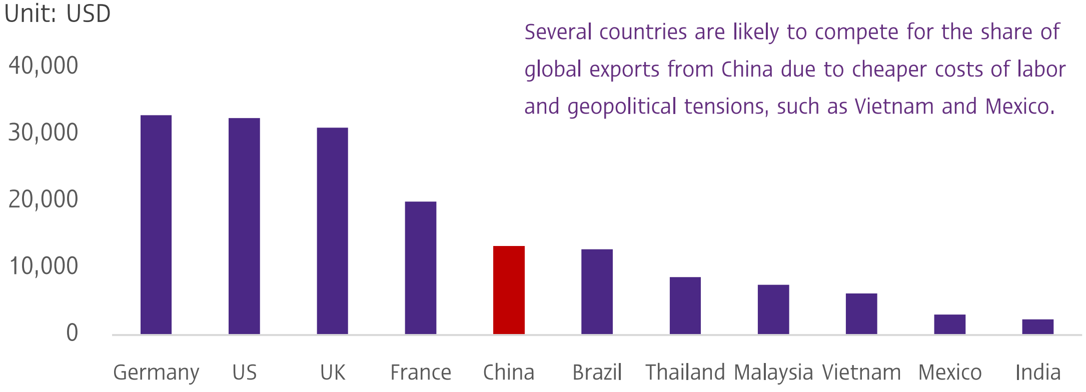
Value of inland infrastructure investment per capita

Unit: USD (Price adjusted)



Wages of production line workers/ machine operators per year (data from The reshoring institute)

Unit: USD



As a result, China needs to enact economic structural reforms to become more reliant on consumption instead of investment and exports. However, the transformation will take some time to materialize.

Source: SCB EIC analysis based on data from CEIC, National Bureau of Statistics, PBOC, OECD, and The Reshoring Institute.

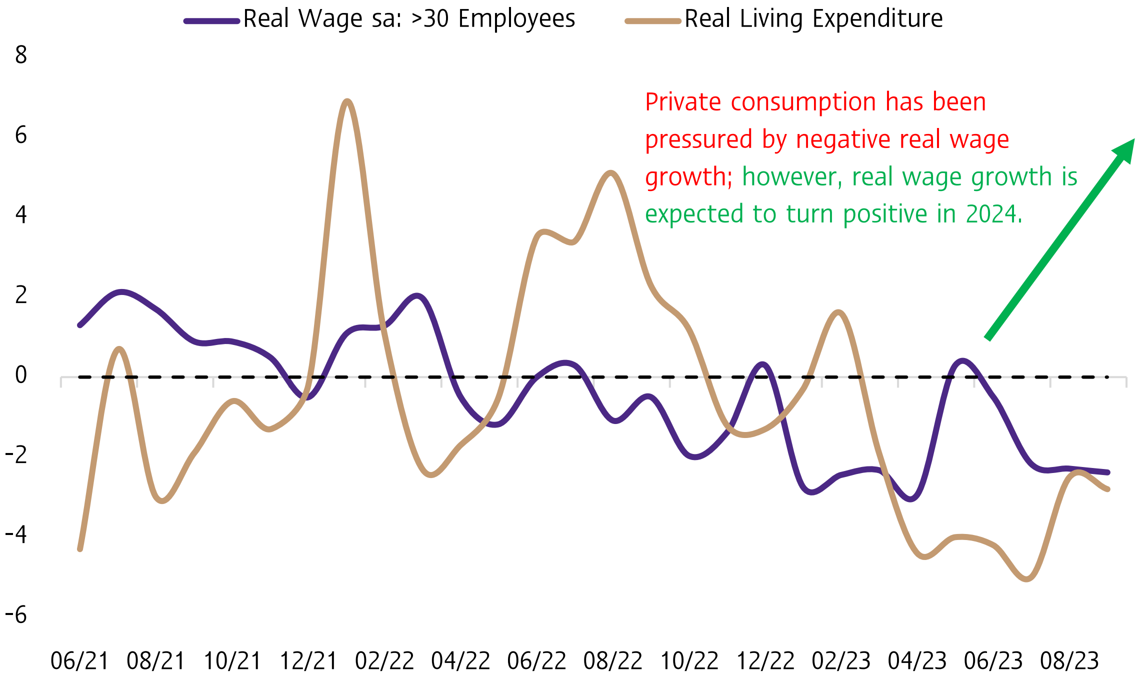
Japan economy

Although Japan economy will slow down from the previous year, the growth rate will remain above its potential level. Such continued momentum will be driven by private consumption, investment, and exports. Meanwhile, the BOJ is expected to end its ultra-easing monetary policy in 2024 as real wage growth is anticipated.

Japan economic growth will be higher than its potential growth, supported by improved private consumption due to rising real income and stimulus measures, as well as exports and investment that increase in line with global economy.

Real wage and Private consumption

Unit: %YOY

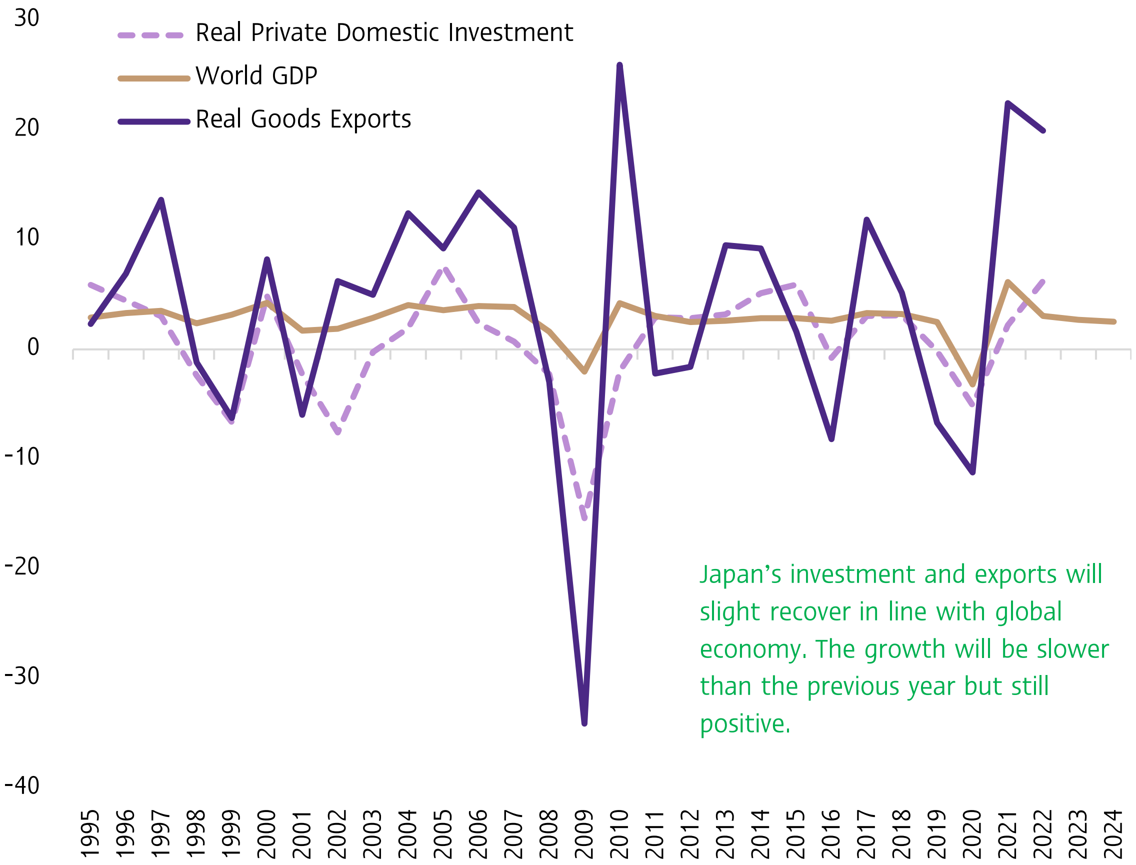


Private consumption will be boosted by economic stimulus measures and rising real wages following a normal wage raise, an increase in wages from Shunto negotiations, and a slowdown in inflation.

BOJ is expected to phase out monetary policy easing after wage raises with the expectation to end YCC in the first half of 2024 and negative interest rate policy in the latter half of 2024.

World GDP (RHS), Japan's exports and private investment (LHS)

Unit: %YOY



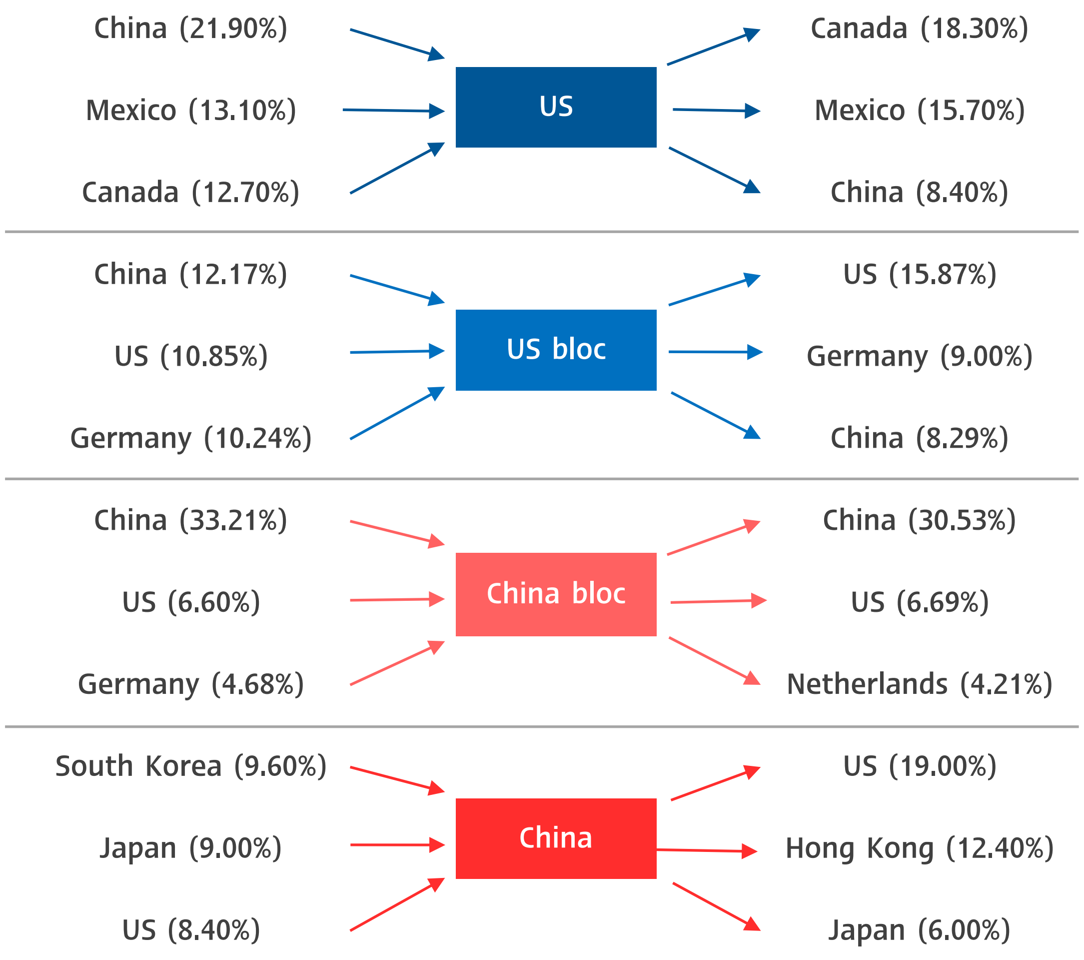
Goods Exports Growth = -10.3 + 5.3 (World GDP Growth)
Private Investment Growth = -4.1 + 1.8 (World GDP Growth)

Source: SCB EIC analysis based on data from JP Morgan, BOJ Tankan, S&P Global, and CEIC.

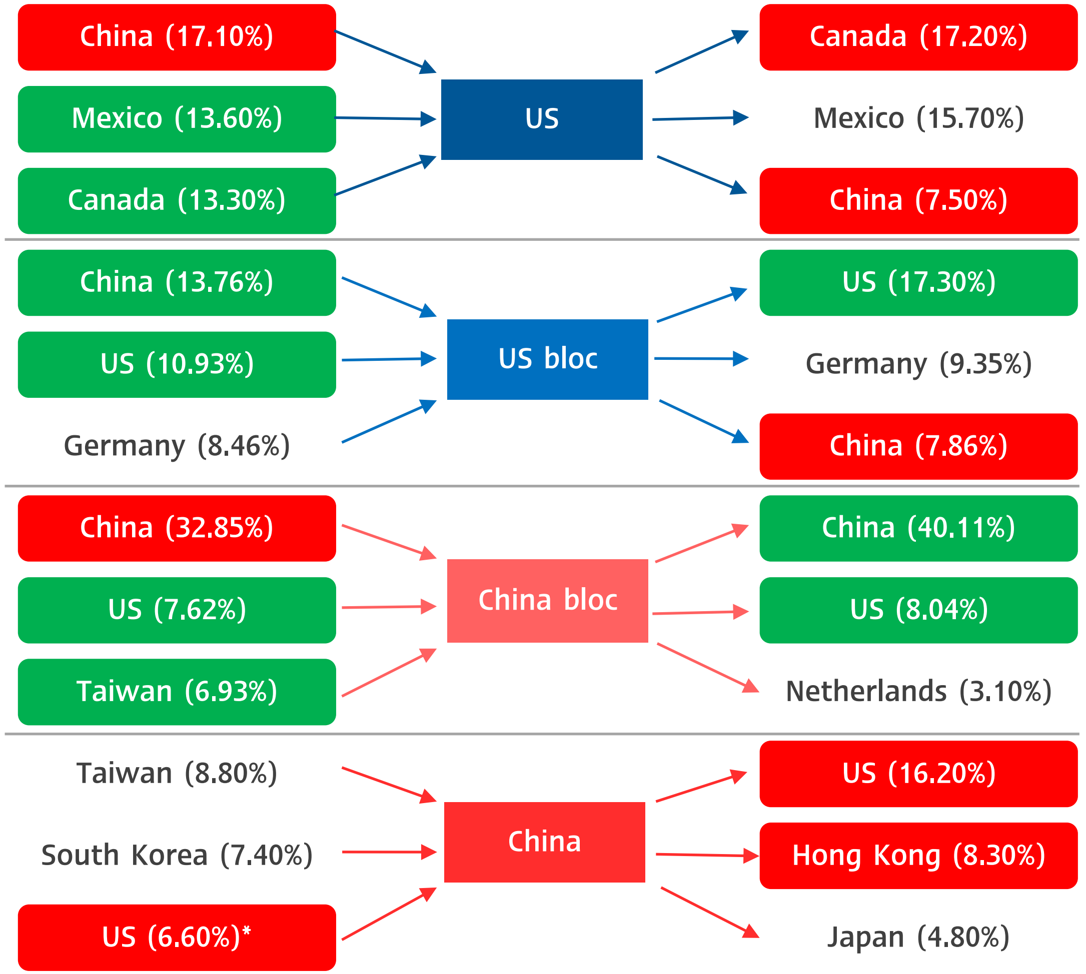
Impact from the US - China decoupling is now more pronounced.

Economic decoupling started to change global trade landscape; (1) US and its allies are reducing dependency on trade with China, relying more on their own group (2) China has not been able to significantly lower its reliance on US, but China allies are trading more with China.

Share of imports and exports of country group with top 3 trading partners in 2017



Share of imports and exports of country group with top 3 trading partners in 2022

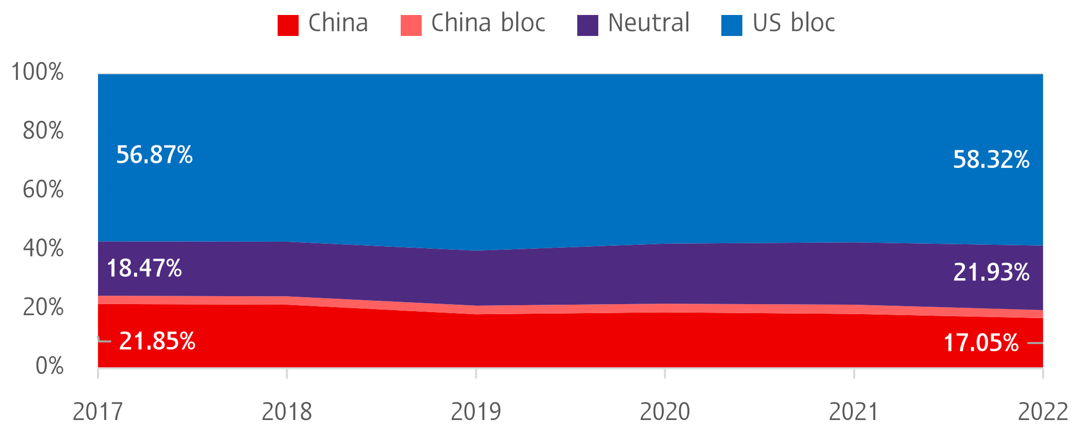


Note: *Not in the top 3 ranks

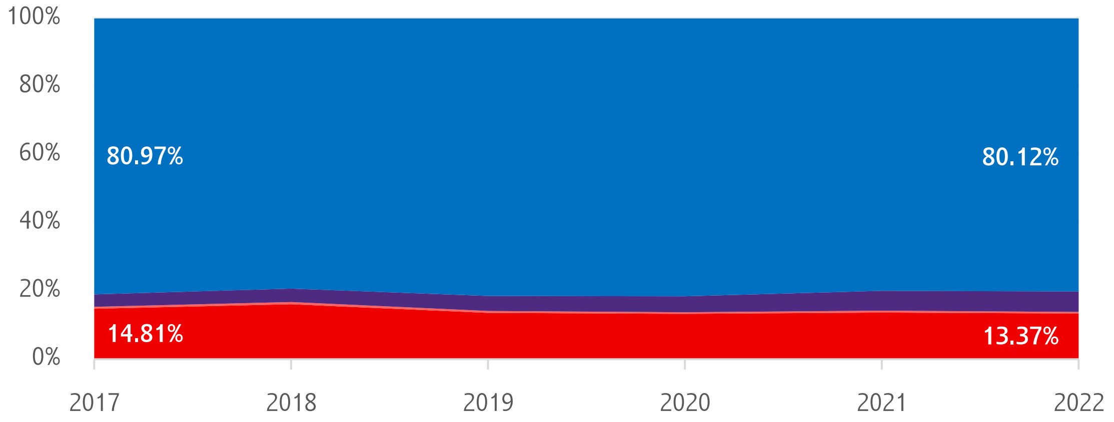
Source: SCB EIC analysis based on data from Trade Map, divided in to 5 groups; US, US Bloc, China, China Bloc, and Neutral.

US is becoming less reliance on imports from China and its allies, particularly semiconductor and electronics products. Meanwhile, neutral countries may be benefit from this situation.

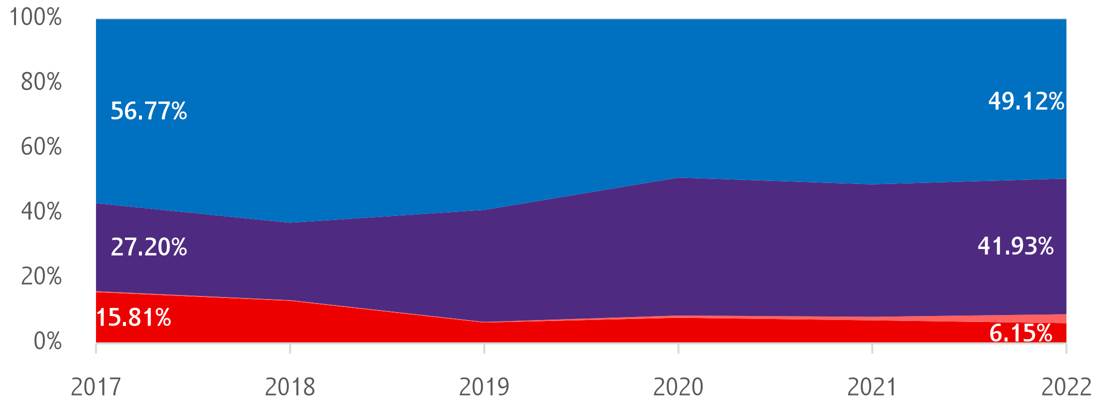
US share of total imports



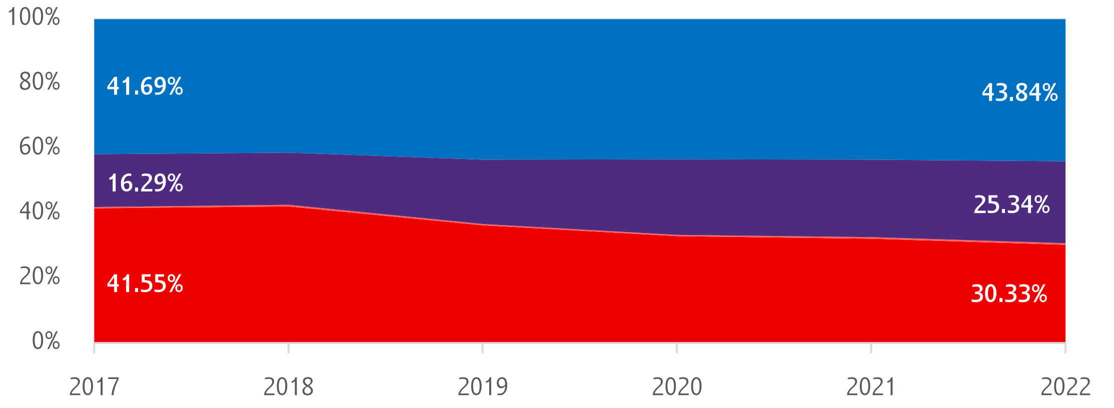
US share of automotive parts imports



US share of semiconductors imports



US share of electronic products imports (excl. semiconductors)



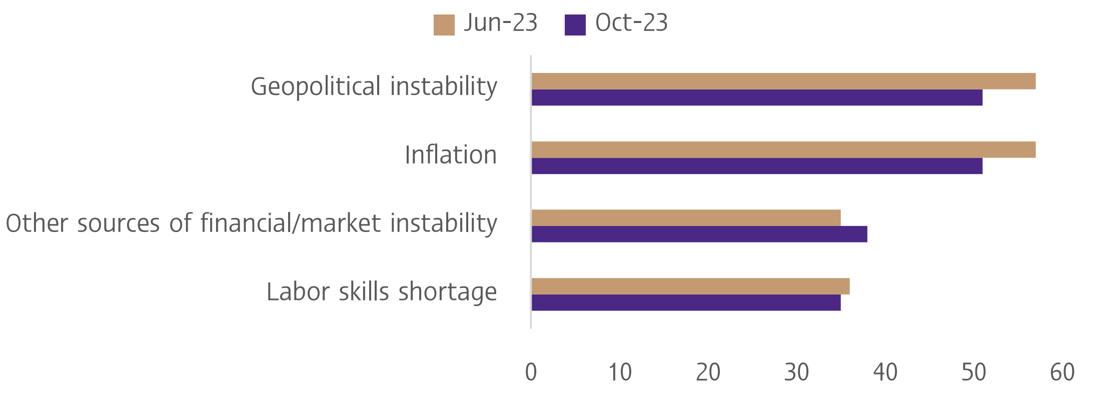
Source: SCB EIC analysis based on data from Trade map.

Survey of US and European companies operating in China indicated a slowdown in investment in China, **with geopolitical tensions being the main concern for CEOs.**

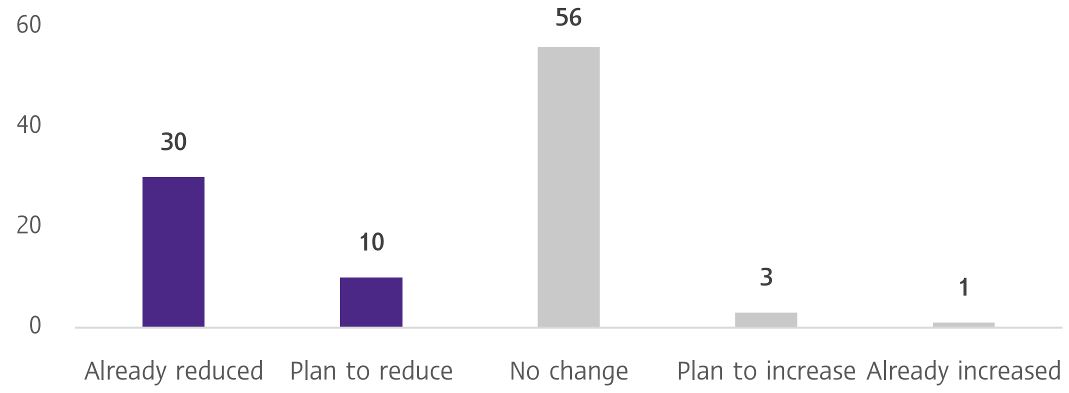
Deloitte CEO survey (Fall 2023)

Unit: % of survey responses

More than half of CEOs consider geopolitics as a factor affecting business operations.

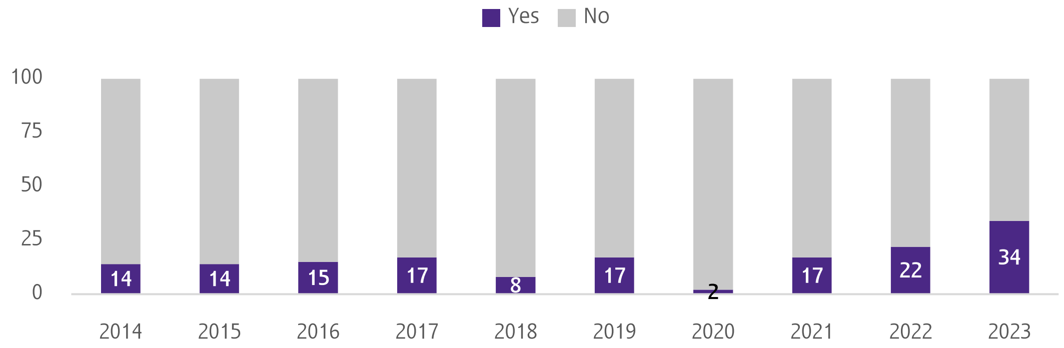


About 40% of CEOs had or have plans to lower their investments in China



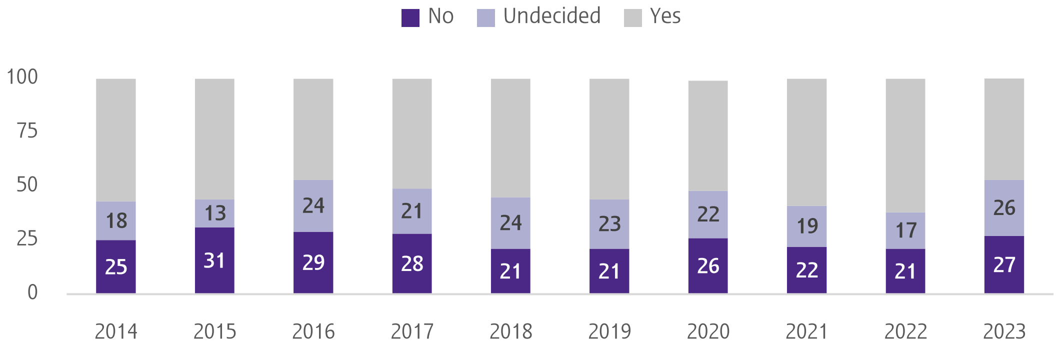
Share of US companies that reduced or stopped planned investment in China last year (US-China business council)

Unit: % of survey responses



Share of EU companies planning to increase investment in China (EU Chamber of commerce in China)

Unit: % of survey responses

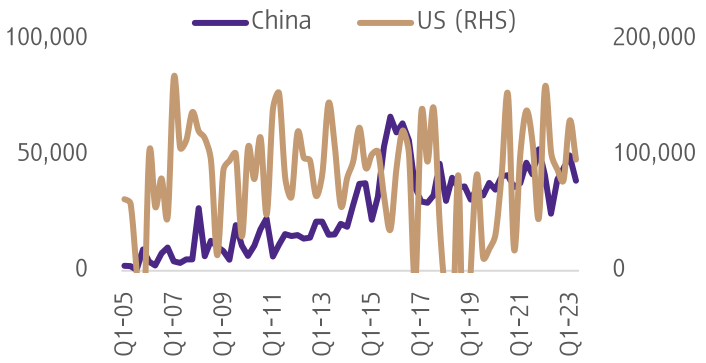


Source: SCB EIC analysis based on data from Deloitte Fall 2023 CEO Survey, US-China Business Council 2023 Member Survey, and EU Chamber of Commerce in China Business Confidence Survey 2023.

Foreign direct investment from the US and China started to show signs of decoupling, with both countries preferring to invest in their allies or neutral countries.

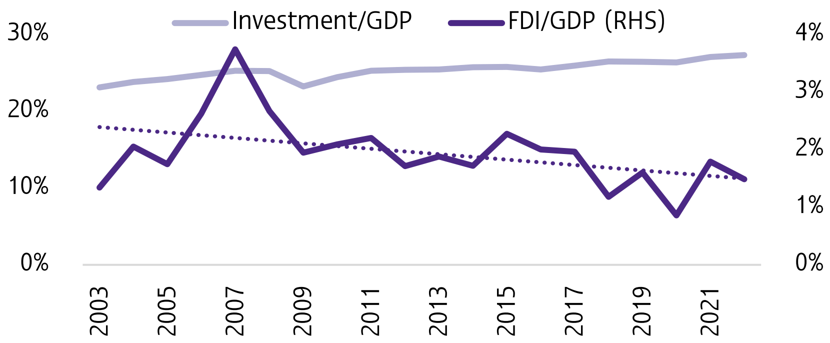
Global foreign direct investment from China and US

Unit: USD million



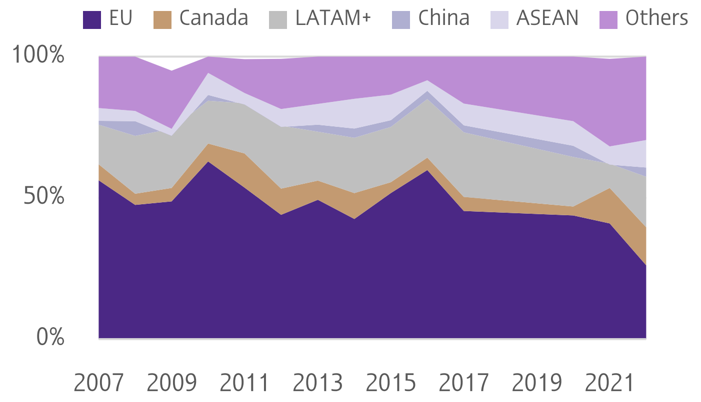
Share of investment and global FDI to world GDP

Unit: % of World GDP



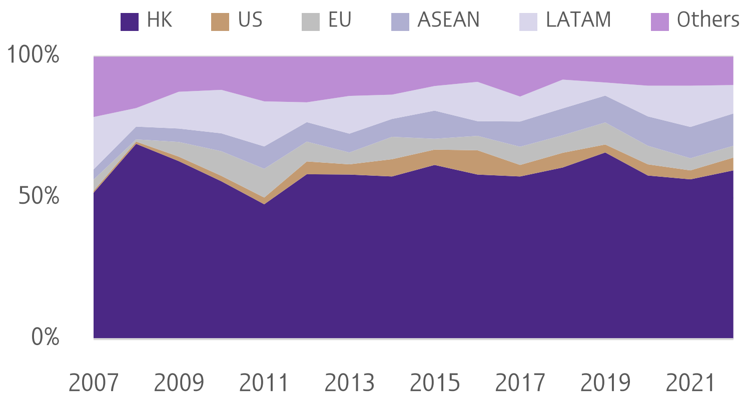
US' FDI destinations*

Unit: % of total



China's FDI destinations

Unit: % of total



FDI direction from US and China

- Global foreign direct investments from the US and China are recovering post COVID.
- Investment destinations have changed.

FDI destination trend

- **US :** mainly invests in EU, one of its allies, increases investment in Canada, and more investments into countries that remain neutral. Meanwhile, investment in China is notably low.
- **China :** most investments went to Hong Kong (China's special administrative regions : SARs), while investments in the US and EU showed signs of declining with more investment shifting to neutral countries in ASEAN and LATAM

Neutral countries in ASEAN, LATAM, and others (such as India) tend to benefit from Decoupling.

Note: *Exclude negative investment in 2018-2019

Source: SCB EIC analysis based on data from UNCTAD, IMF WEO Database, US' Bureau of Economic Analysis, and China's Ministry of Commerce.

Thai economy

Navigating a slow economic recovery against a backdrop of cumulative structural hurdles.

SCB EIC

SCB EIC downgraded Thailand's 2023 GDP to 2.6% following Q3 underperformance marked by sharp government consumption decline and delayed return of foreign tourists. In 2024, growth should also drop to 3.0% due to stalling economic momentum, uneven household income recovery, and a sluggish rebound in Chinese tourist numbers.

Economic forecast (Base case)	Unit	2023F		2024F*	
		as of Sep 23	as of Dec 23	as of Sep 23	as of Dec 23
GDP	%YOY	3.1	2.6	3.5	3.0
Private consumption	%YOY	6.1	6.9	3.2	2.6
Government consumption	%YOY	-2.2	-4.1	1.5	3.3
Private investment	%YOY	1.6	2.8	4.4	4.4
Public investment	%YOY	1.8	-0.8	3.2	2.2
Goods exports value (USD BOP)	%YOY	-1.5	-1.5	3.5	3.7
Goods imports value (USD BOP)	%YOY	-1.0	-3.3	3.4	4.3
Foreign tourist arrivals	Million persons	30.0	28.3	37.7	36.2
Headline inflation	%YOY	1.7	1.3	2.0	2.0
Core inflation	%YOY	1.4	1.3	1.5	1.5
Crude oil price (Brent)	USD/Bbl.	81.5	82.3	84	82.9
Policy rate (year-end)	%	2.5	2.5	2.5	2.5
Current account	% of GDP	1.3	1.3	2.4	2.0

Thai economy in 2024

- **Export recovery** following better global trade outlooks
- **Robust private investment recovery** in line with the number of applications to BOI and government support schemes

- **Slowing Chinese economy from structural issues** hurting Thai export recovery and Chinese tourist arrivals
- **More intense geopolitical conflicts** with implications on the global supply chain and Thai exports
- **Climate risks** impacting the Thai agriculture sector
- **Uneven income recovery and high debt**, especially among low-income households and small businesses
- **Public investment and new project bidding** slowing from the delay of the 2024 Budget Act
- **Financial system risks from high interest rates**

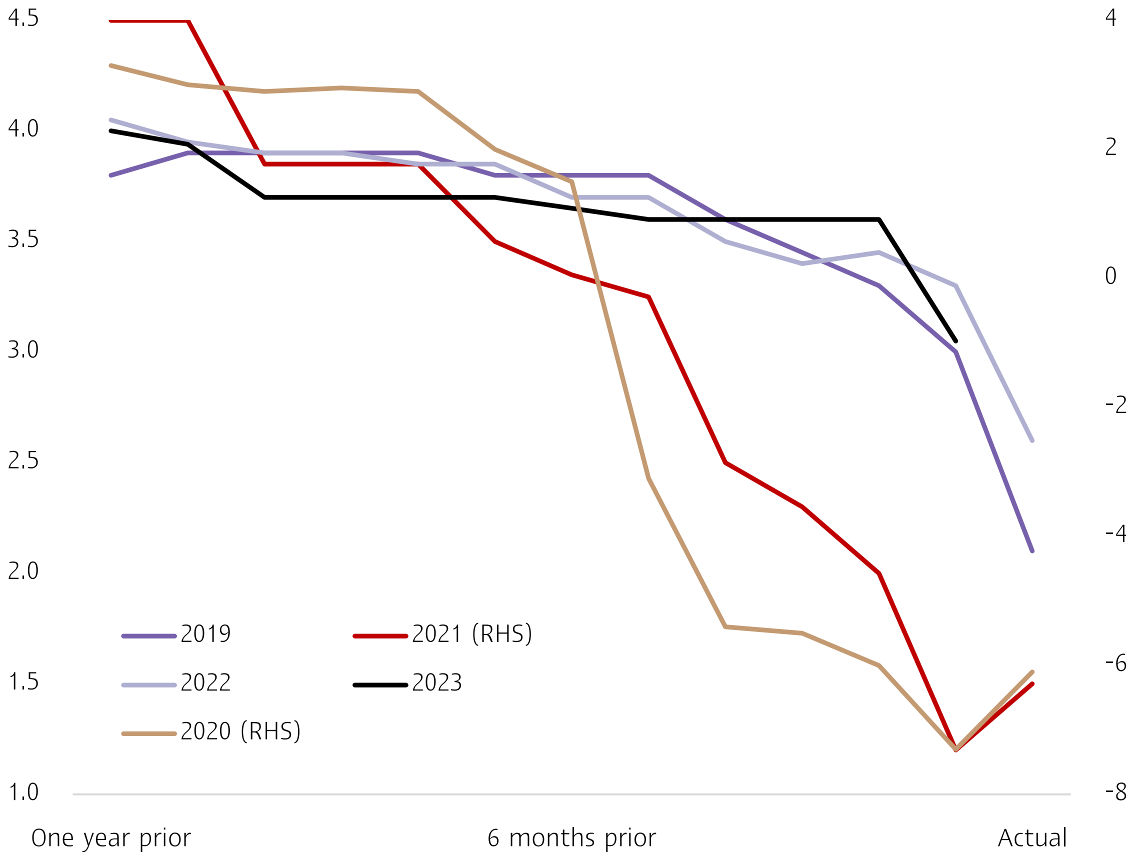
Note: *Excluding digital wallet scheme

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

The Thai economy continued to show weak performance, **with economic activities as of Q3/2023 still -0.8% below pre-COVID levels,** marking one of the slowest countries to recover from COVID.

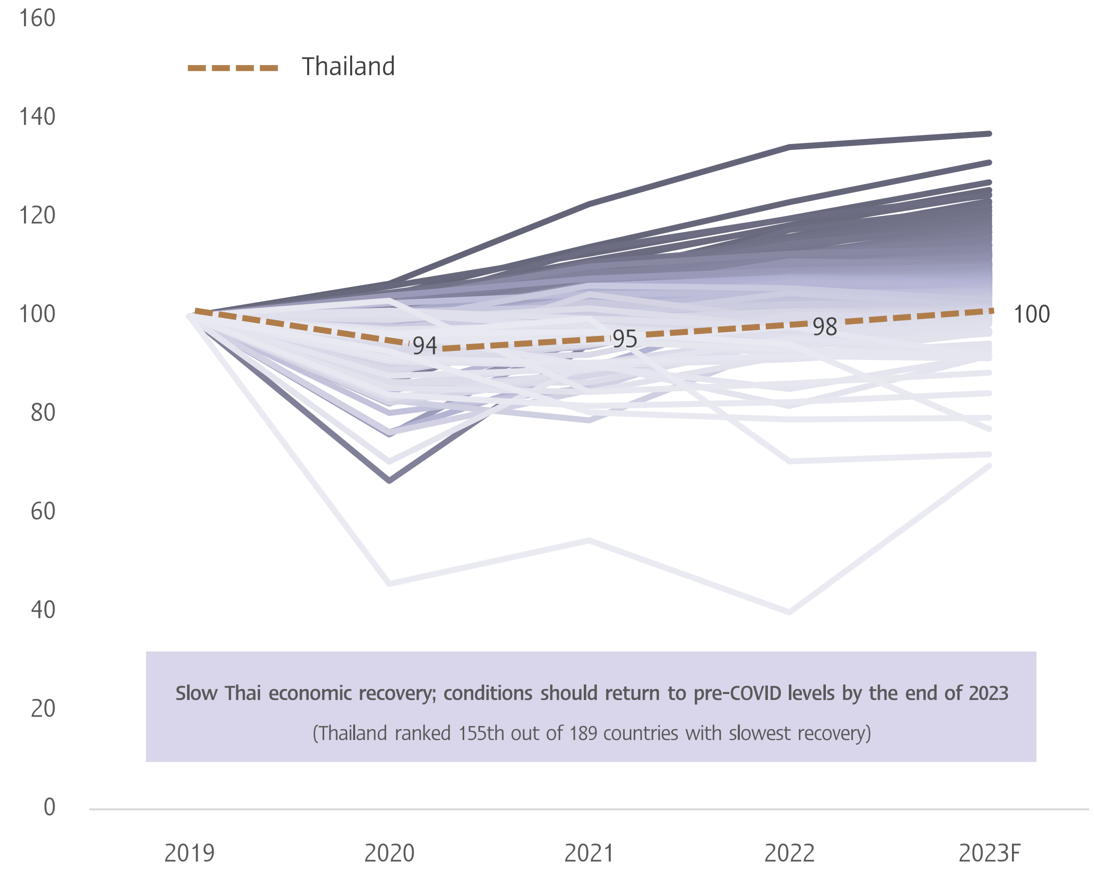
Actual Thai economic growth vs Bloomberg poll forecast (2019 – 2023)

Unit: %YOY



Most countries already returning to pre-COVID conditions, though Thailand still lags behind

Unit: Rolling sum 4 quarters index (2019Q4 = 100)

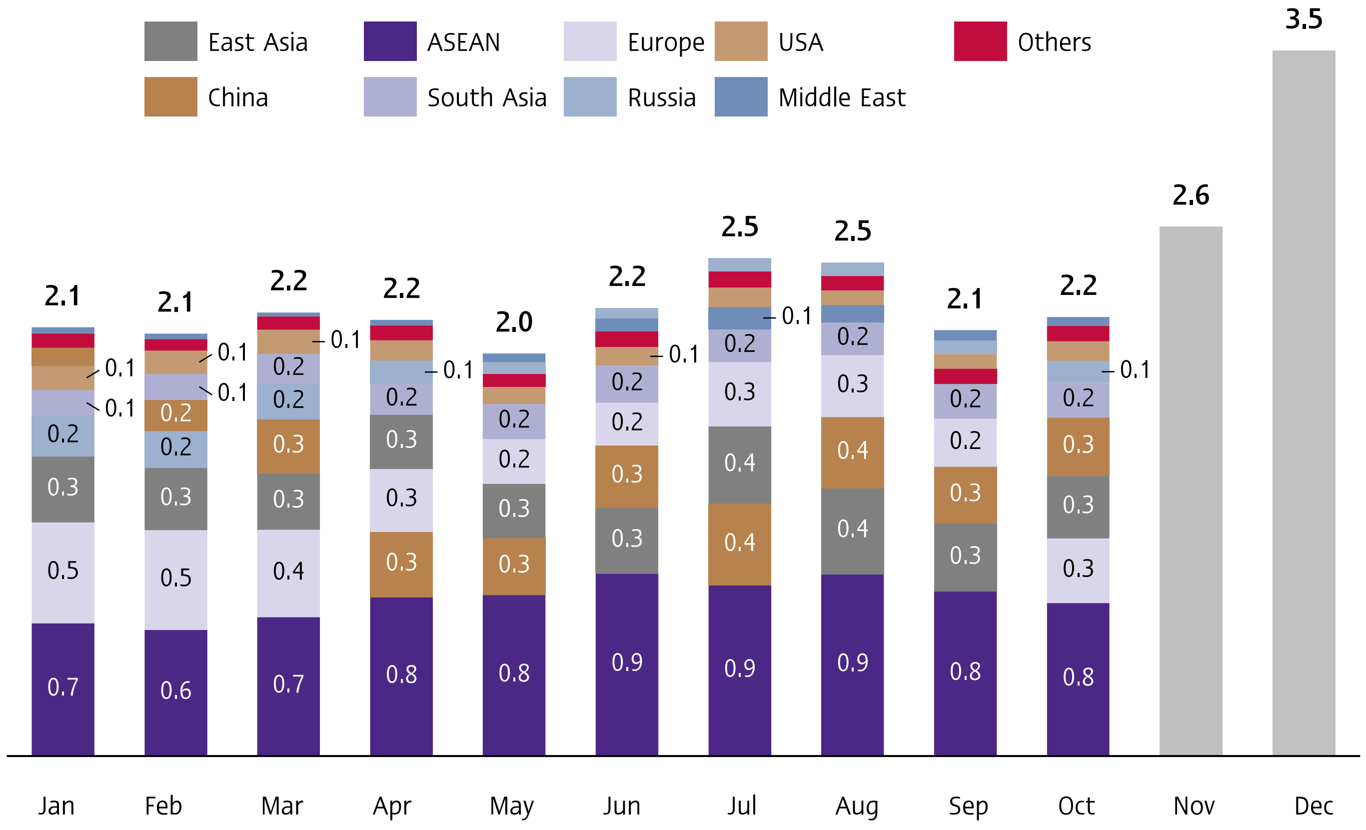


Source: SCB EIC analysis based on data from the National Economic and Social Development Council, Bloomberg, and IMF.

Foreign tourist arrivals is expected to reach 28.3 million in 2023 due to the slow return of Chinese tourists. Meanwhile, tourists from other countries rebound close to the pre-COVID levels.

Thailand has welcomed more than 25.7 million foreign tourists with receipts surpassed THB 1.1 trillion. (data as of 10 Dec 2023)

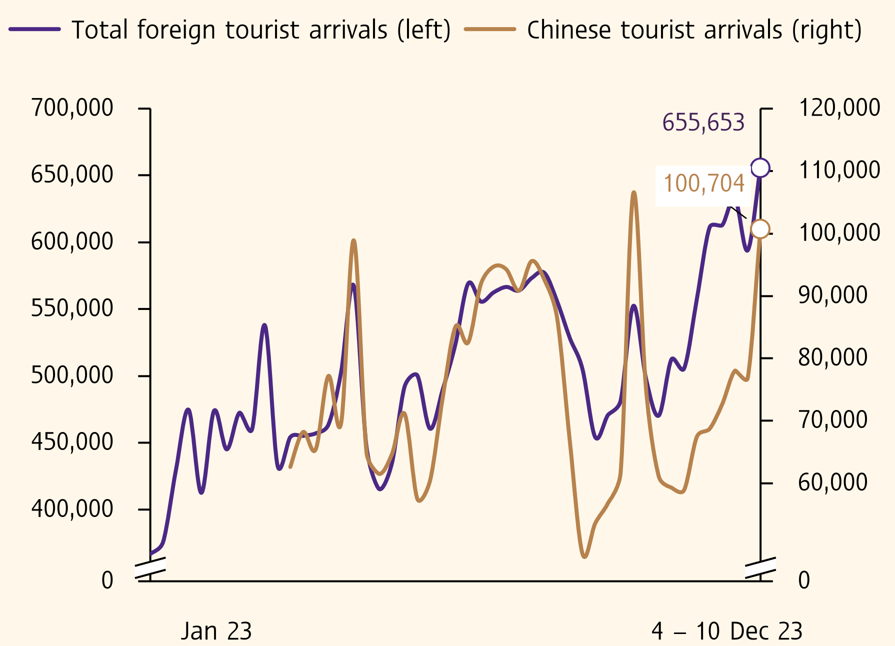
Unit: Million persons



An accelerated of foreign tourist arrivals in 2023

Overall foreign tourist arrivals have accelerated continually, while there are already signs of strong Chinese tourist recovery.

Weekly foreign tourist arrivals (Unit : persons)

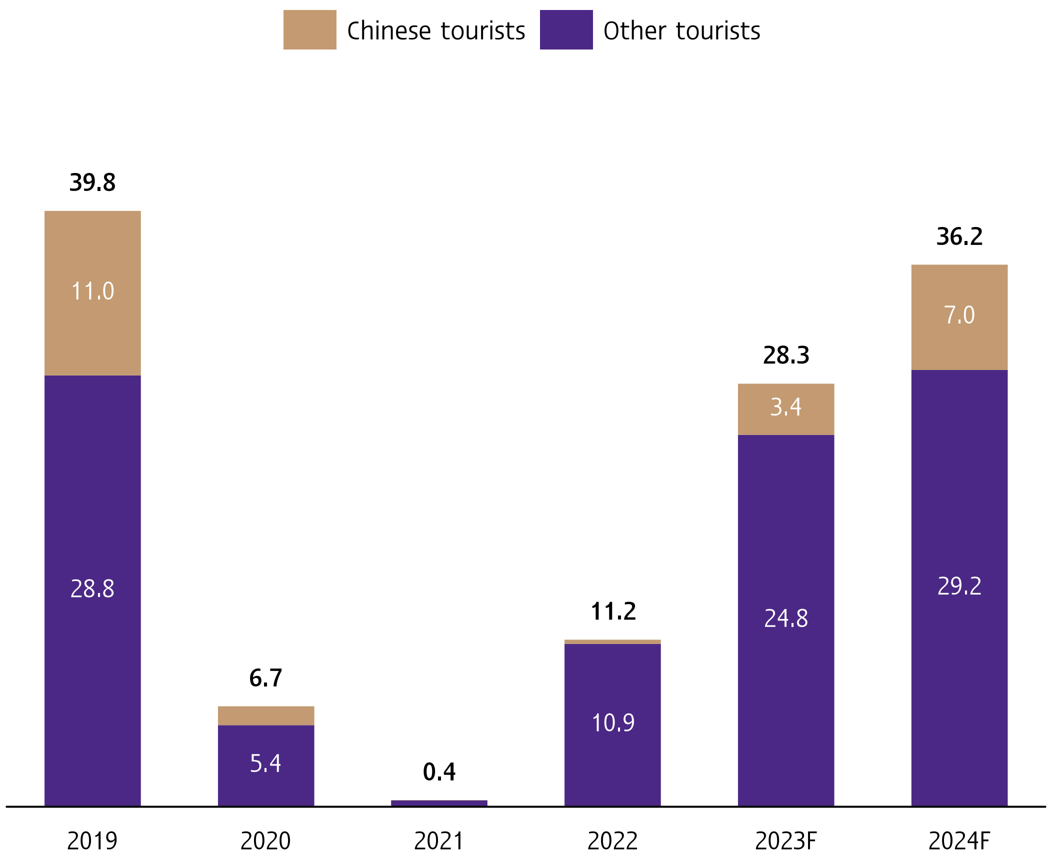


Note: The number of tourist arrivals in Dec is based on an estimate by the Economics Tourism and Sports Division.
Source: SCB EIC analysis based on data from the Ministry of Tourism and Sports.

SCB EIC lowered the number of foreign tourists visiting Thailand in 2024 to 36.2 million, as the return of Chinese tourists was slower than expected amidst growing competition to attract Chinese tourists.

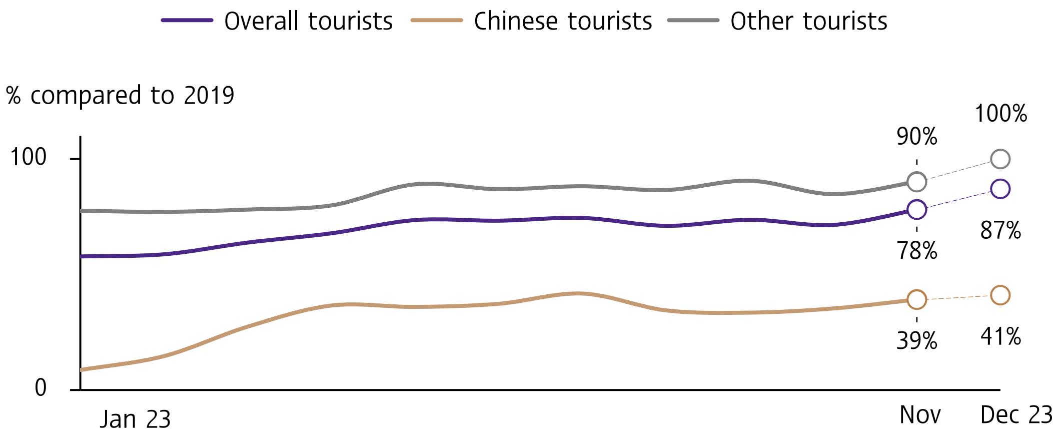
Foreign tourist arrivals forecast in 2024

Unit: Million persons



- **Chinese tourist arrivals taking more time to recover** from sluggish Chinese economic conditions **amidst competition from other countries to attract Chinese tourists,** such as Malaysia, which introduced free visas for Chinese tourists (effective December 1, 2023), as well as Kazakhstan, the Maldives, and Sri Lanka.
- **Nevertheless, Thailand's tourism stimulus measures will continue to attract targeted foreign tourists in 2024,** including free visas for Chinese, Indian, Kazakhstan, and Taiwan tourists, as well as increased length of stay for Russian tourists.

Recovery of foreign tourist arrivals

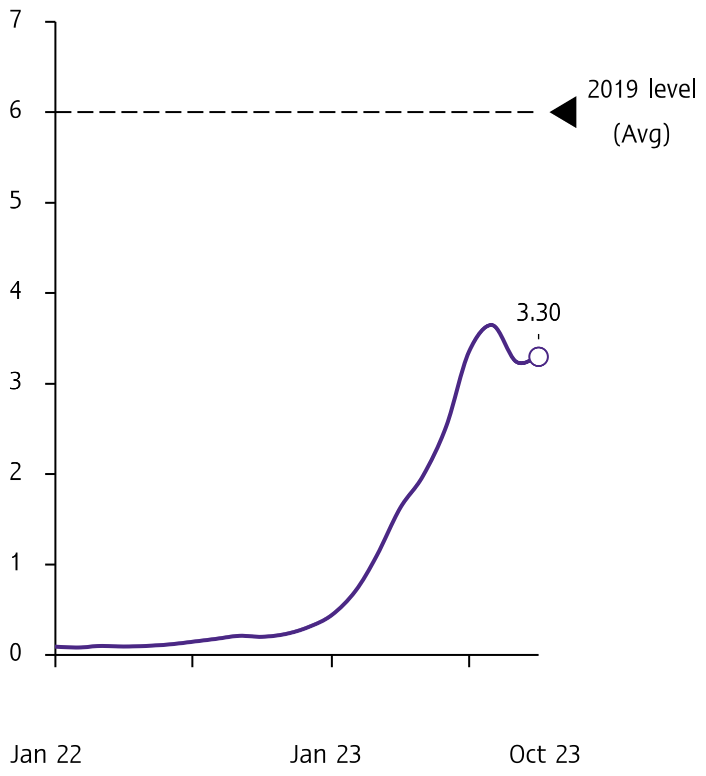


Source: SCB EIC analysis based on data from Ministry of Tourism and Sports, OAG, and various press.

China's outbound tourism has continued to recover. However, new measures from government to revitalize its tourism sector will attract more domestic travel.

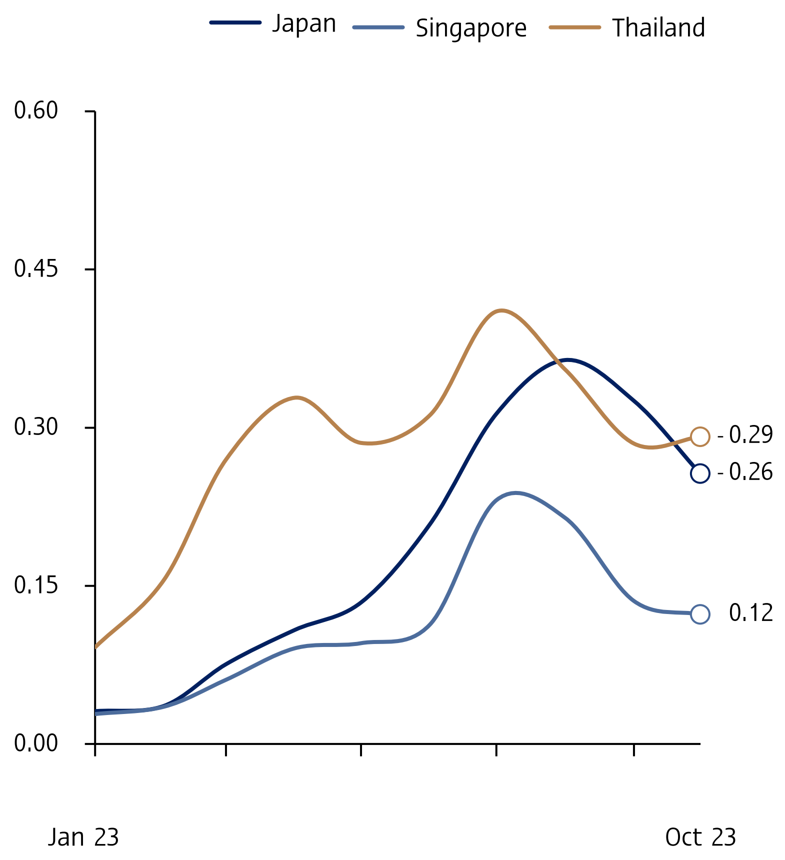
Number of international passenger flights in China*

Unit: Million persons



Chinese tourists entering Thailand, Japan and Singapore

Unit: Million persons



Chinese policy to promote domestic travels

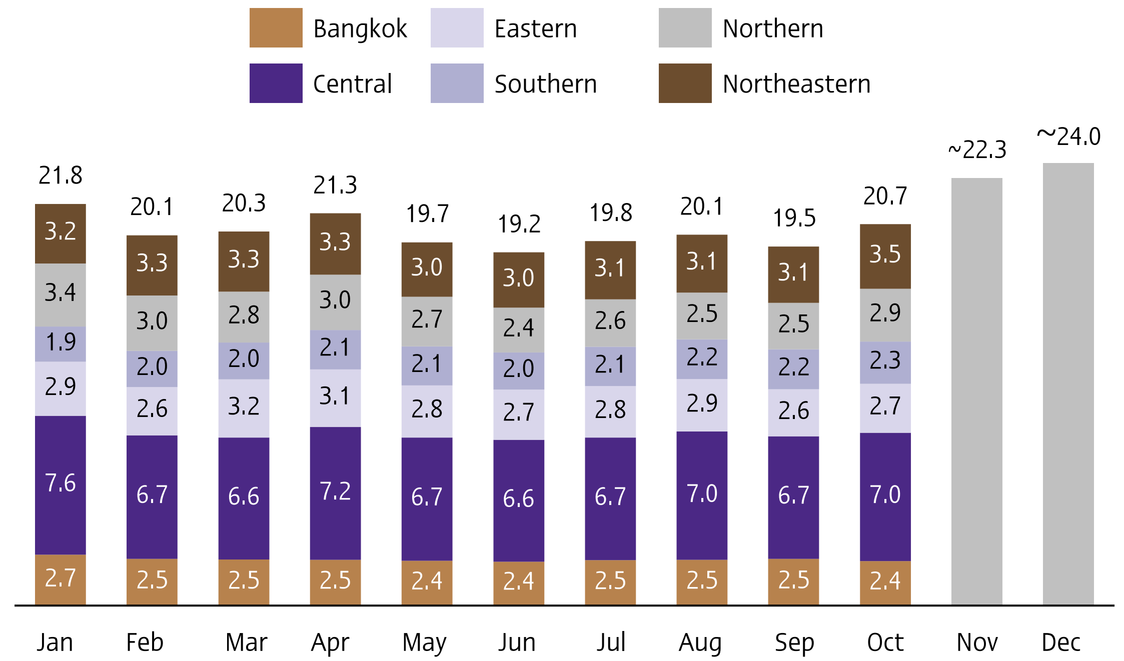
On 1 Nov 23, Chinese government had issued a policy to promote domestic travel on a 3-year period (2023-2025) by collaborating with local governments, China UnionPay, commercial banks and several platforms to launch domestic travel packages, such as

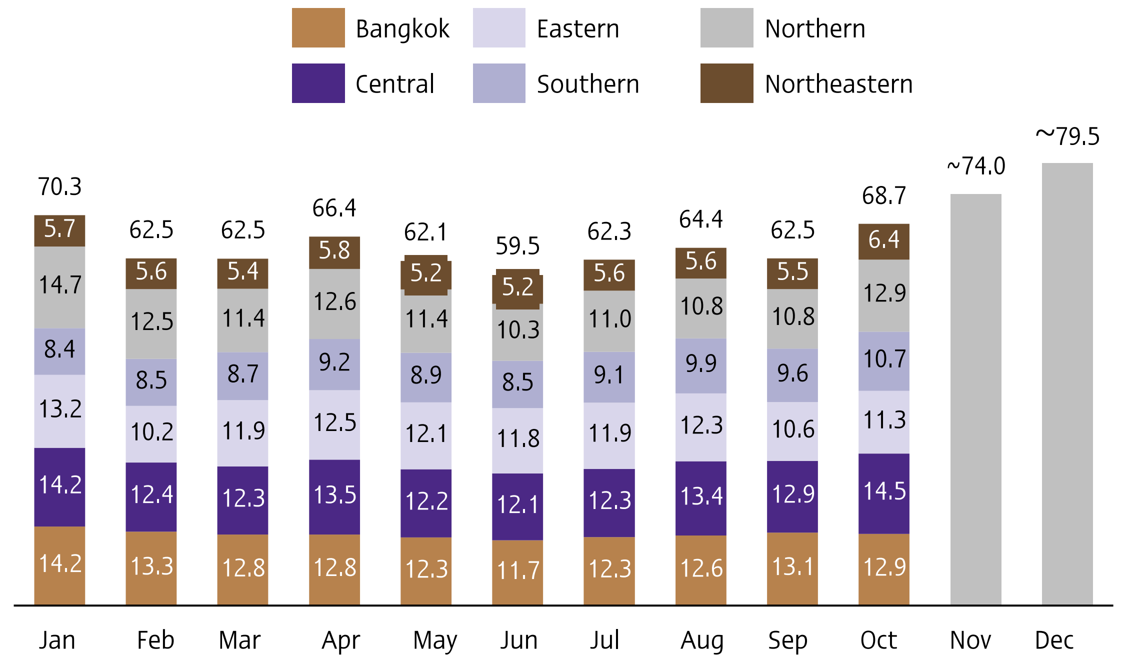
- Discount cards and coupons
- Plane/rail ticket promotions
- Points collection schemes for travel prizes

Note: *Excluding travels to Hong Kong, Macao and Taiwan

Source: SCB EIC analysis based on data from the Ministry of Tourism and Sports, Civil Aviation Administration of China, Japan National Tourist Organization, Singapore Tourism Board, China National Bureau of Statistics, local statistics bureaus.

Thailand's domestic tourism remain strong, both in numbers and tourism receipts.





The number of Thai visitors continue to grow strongly, especially provinces in southern Thailand such as Nakhon Si Thammarat, Surat Thani and Songkhla. Nevertheless, the top 5 visited provinces continue to be the provinces nearby Bangkok; Kanchanaburi, Chonburi, Phetchaburi, Prachuap Khiri Khan and Phranakhon Si Ayutthaya.

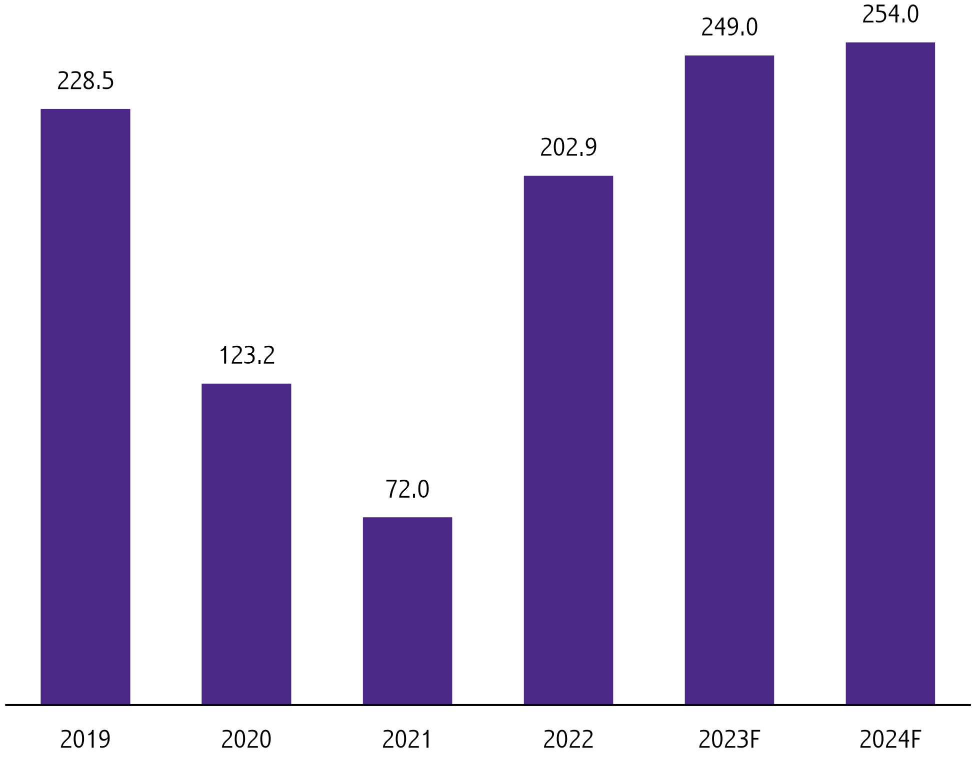
The expenditure of Thai visitors has increased by 4%MOM, spending an average of THB 3,320 per person per trip in October. Provinces with the highest domestic tourism expenditure per trip are Krabi, Phuket, Chiang Rai and Chiang Mai.

Note: Domestic tourism expenditure per trip is estimated by total domestic tourism receipts divided by number of Thai visitors
Source: SCB EIC analysis based on data from the Ministry of Tourism and Sports.

SCB EIC is projected the number of Thai visitors to reach 254 millions in 2024 as demand for travel continues to grow. However, the growth may be pressured by rising outbound travel.

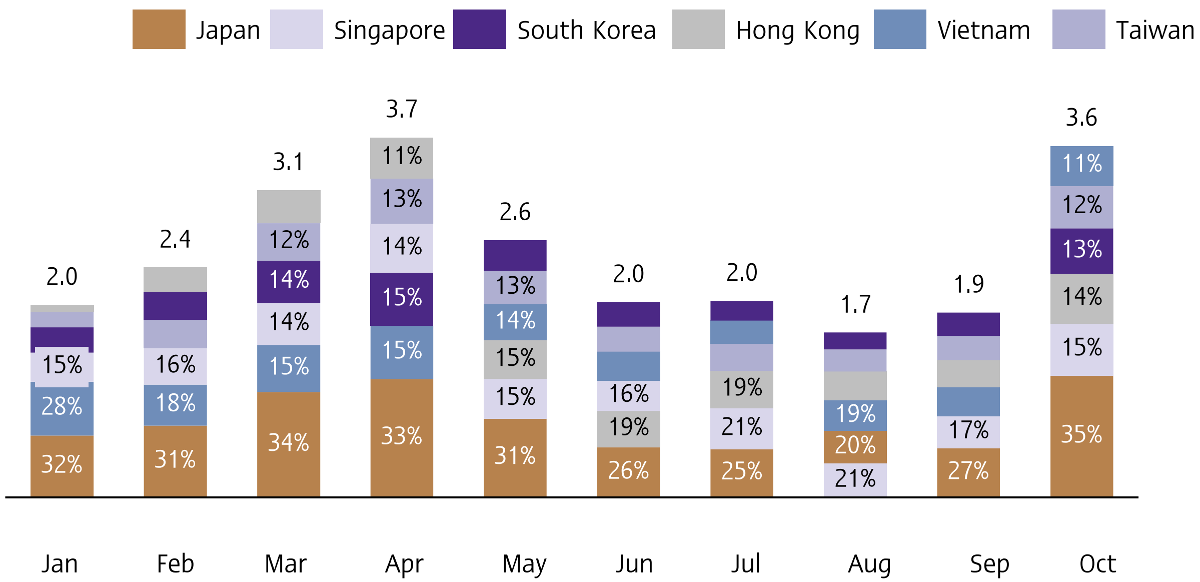
Number of Thai visitors forecast in 2024

Unit: Million persons



- **Government's domestic-tourism promotion campaign** such as festivals, concerts and a month-long Songkran will stimulate domestic travels in 2024.
- **However, Thai outbound tourism is also recorded an impressive growth** as seen in the rising number of outbound Thai travelers entering to top destinations such as Japan, Vietnam, Singapore and Hong Kong.

Number of outbound Thai travelers to top destinations in 2023 (Unit: Hundred thousand persons)

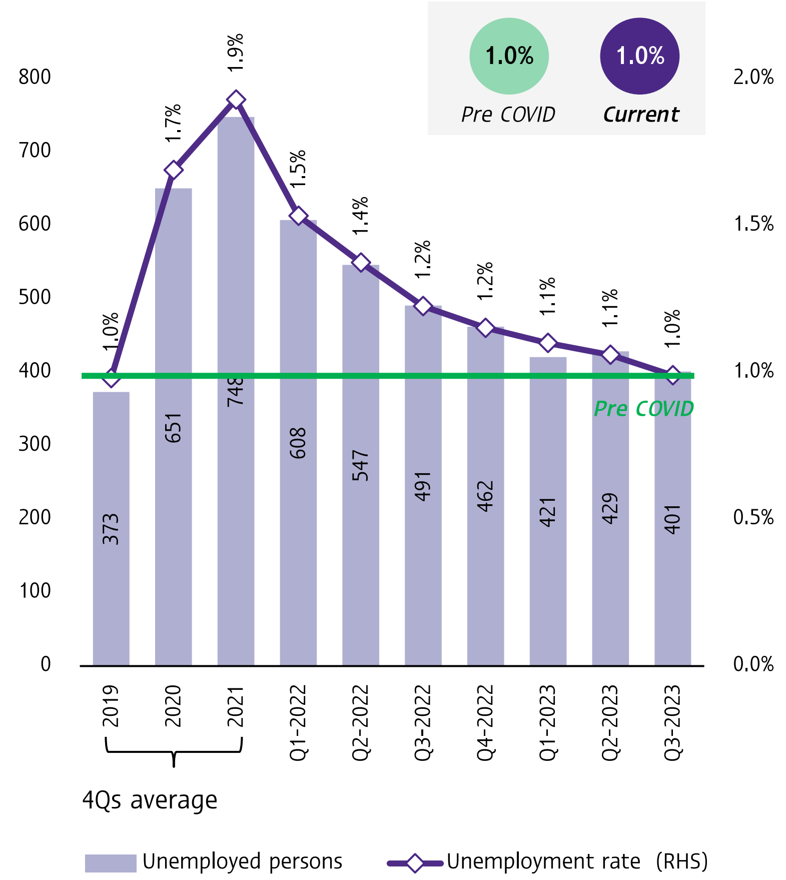


Source: SCB EIC analysis based on data from the Ministry of Tourism and Sports, CEIC and other news agencies.

Continuous rebound in the service sector had led the Thai labor market back to the pre-COVID level.

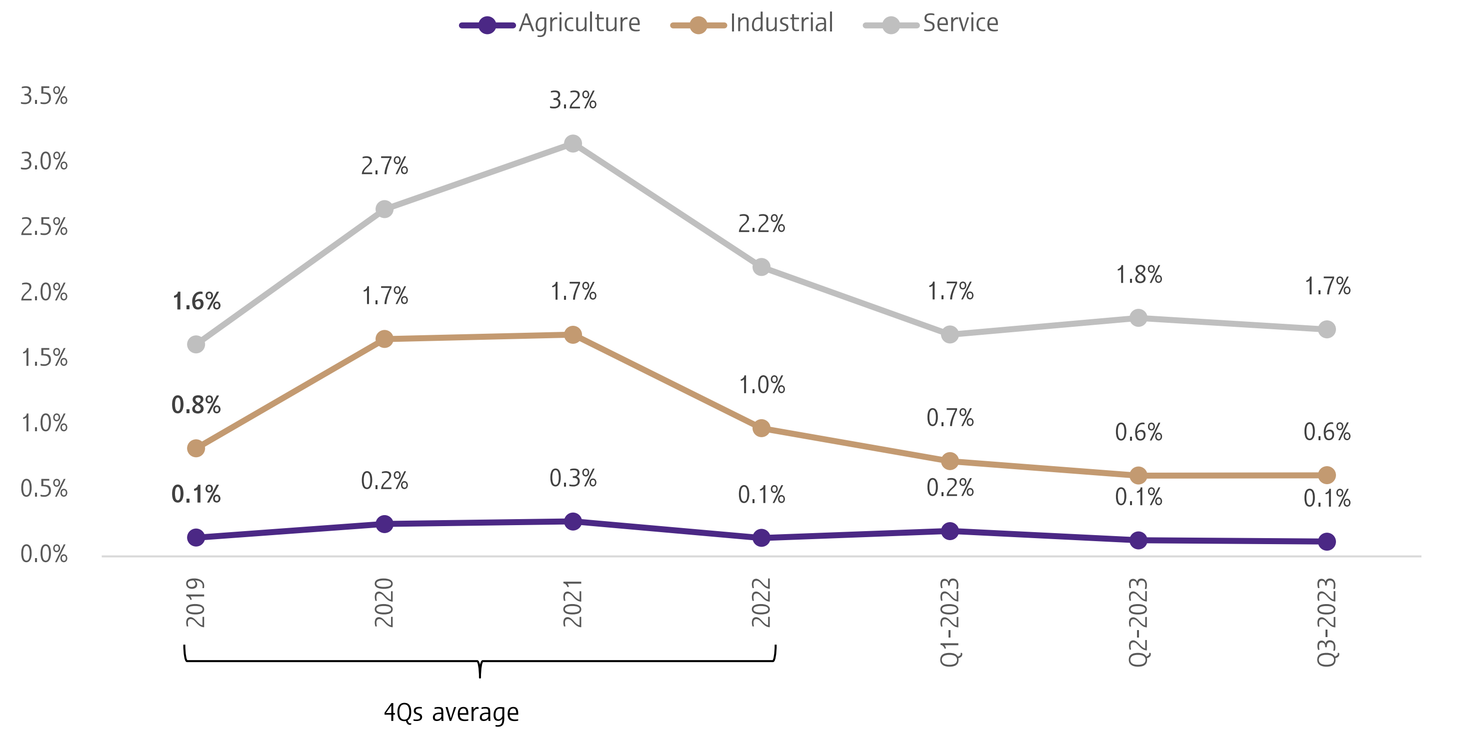
Number of unemployed persons and unemployment rate

Unit: Thousand persons | Unit: % of total workforce



Unemployment rates in different industries

Unit: % of total workforce in each industry



The average unemployment rates in the first 3 quarters of 2023 in agriculture and industrial sectors have reached the pre-COVID levels, while unemployment rate in service sector is close to reaching the pre-COVID level.

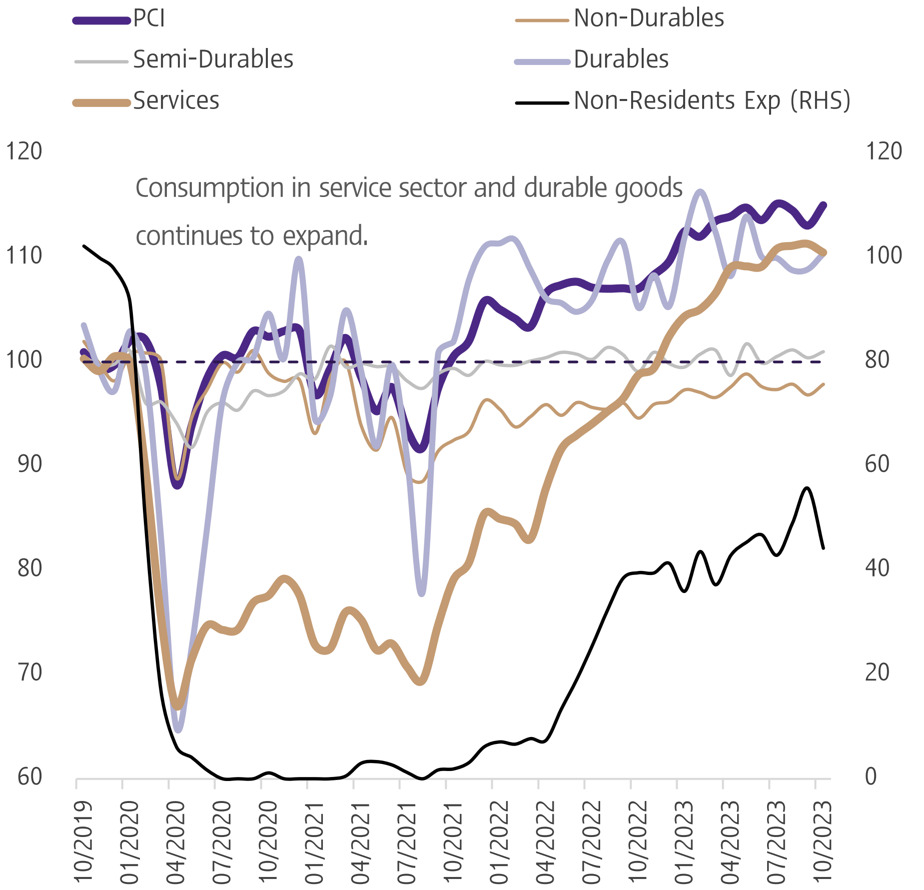
Source: SCB EIC analysis based on data from the National Statistical Office.

SCB EIC

Private consumption continues to recover with improved labor market and consumer confidence.

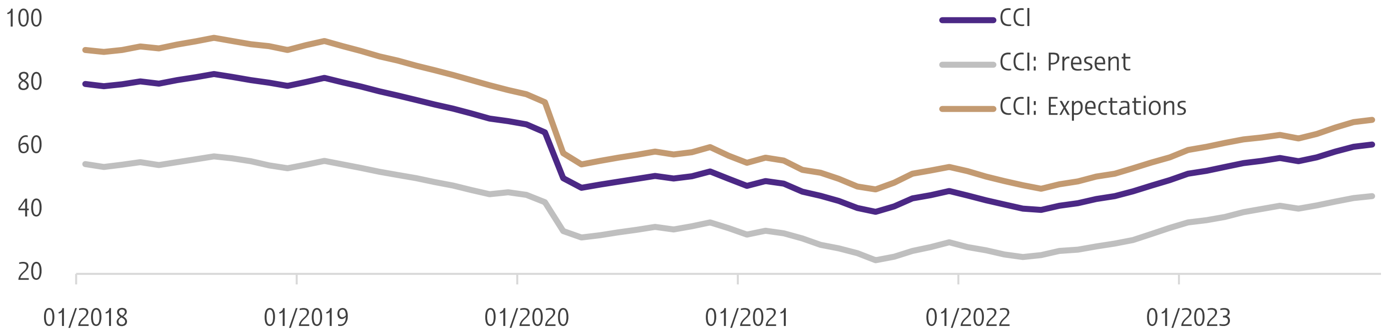
Private Consumption Index

Unit: Index (2019Q4 = 100), Seasonally adjusted



Consumer Confidence Index*

Unit: Index (100 = Sentiment unchanged, <100 = Declining sentiment)



Private consumption is in the recovering trend.

- **Private Consumption Index (PCI) continues to expand.** In addition, purchasing power will be supported by employment and consumer confidence, as well as government measures to reduce the cost of living and stimulate the economy with "Easy E-Receipt Project (previously called e-Refund)"
- **Consumer Confidence Index (CCI) rose to 60.9 in November** (not seasonally adjusted) with supports from stimulus and assistance packages from the government, such as Visa-free for tourists, reduction of electricity, diesel and benzene fuels prices. Moreover, improving farm income from higher prices gave a push to purchasing power, as well as improving exports.
- **Private consumption still face headwinds from high cost of living,** slow global recovery, geopolitical conflicts, and El Nino.

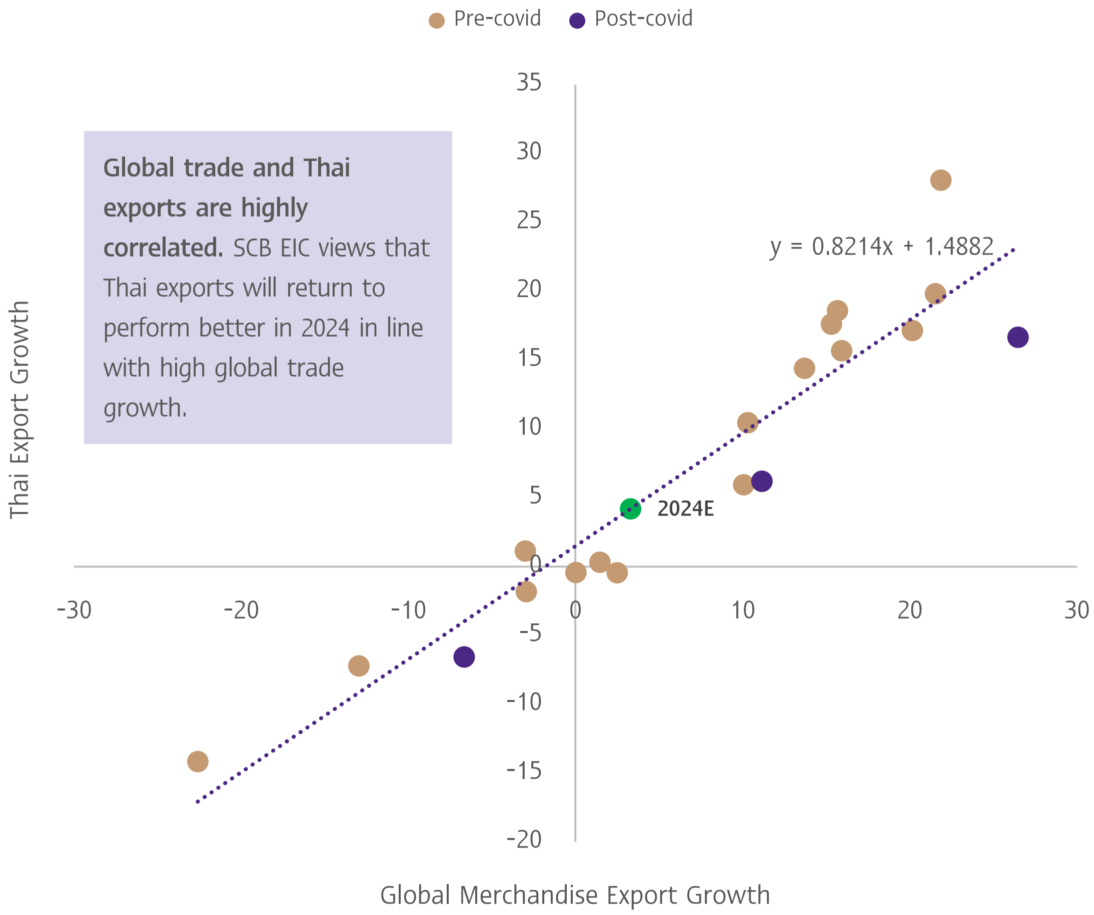
Note: *Consumer Confidence Index falling at a level significantly below 100 indicates that consumers still lack confidence in the overall economic situation.

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

Exports should contract in 2023, though growth should resume in Q4/2023 and continue into 2024 as global trade conditions improve.

Forecast of Thai export growth and global merchandise export growth in 2024

Unit: %YOY

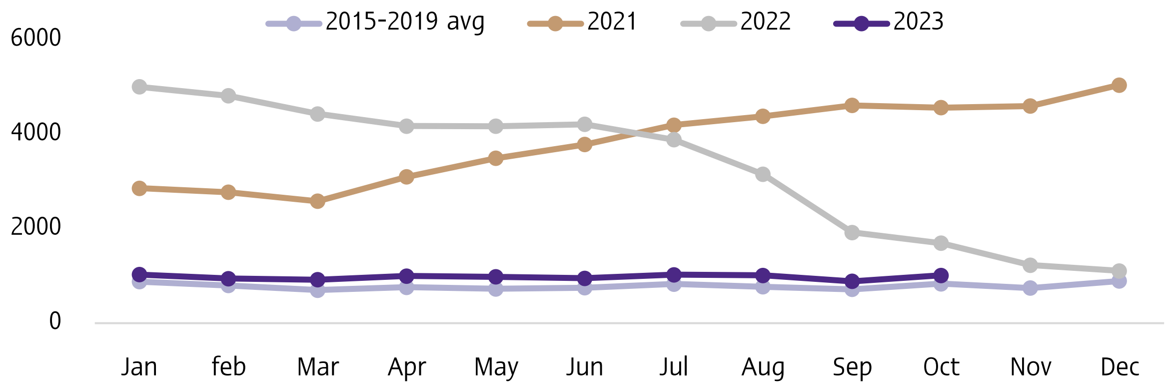


Purchasing managers' index for manufacturing: Continuous reduction in delivery time of goods

Unit: Index, > 50 indicates a faster transportation time

Shanghai containerized freight index (cost of ship chartering) decreases, approaching pre-COVID crisis levels.

Unit: Index, calculated from freight rates of 15 routes.



Source: SCB EIC analysis based on data from Ministry of Commerce, WTO, Shanghai Shipping Exchange, Bloomberg, JP Morgan and CEIC

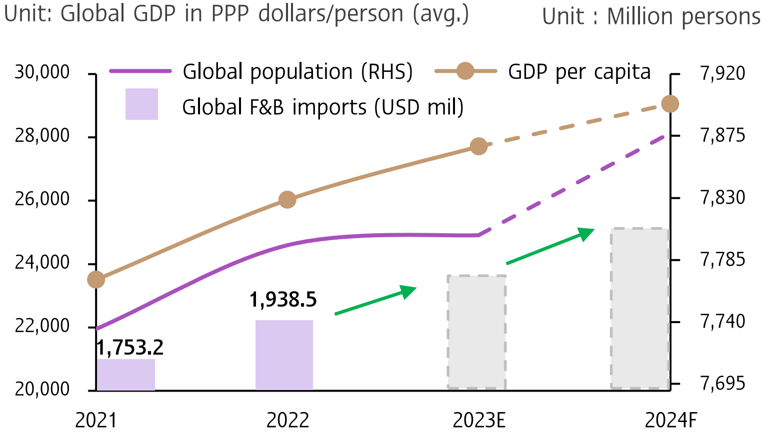
Exports is expected to improve in 2024, especially with rising demand for food & beverage and recovery of the electronics market.

Forecast of Thai Exports, by key industries

Unit: %YOY

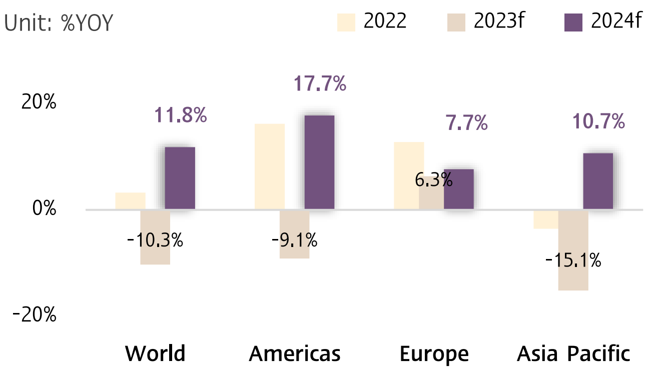
Key export items	Export share in 2022	%YOY			Contribution to growth	
		2022	2023F	2024F	2023F	2024F
Agricultural commodities	7.7%	3.7%	-5.3%	1.7%	-0.4%	0.1%
Food & beverage	6.1%	16.1%	7.5%	13.9%	0.5%	0.9%
Electronics & Electrical appliances	25.9%	5.1%	-4.7%	3.2%	-1.2%	0.8%
Automotive & Parts	10.4%	-11.4%	5.9%	3.2%	0.6%	0.4%
Building materials	0.3%	-5.4%	-24.1%	-4.7%	-0.1%	0.0%
Energy	8.9%	3.2%	-8.6%	1.9%	-0.8%	0.2%
Sub total export	59.3%	2.2%	-2.4%	4.0%	-1.4%	2.4%
Other export	40.7%	10.4%	-0.8%	3.2%	-0.1%	1.3%
Total export	100.0%	5.4%	-1.5%	3.7%	-1.5%	3.7%

Food and beverage



- **Demand for Food and Beverage is rising** with increasing population and higher income per capita.
- Food and Beverage products are essential for living and demand fluctuates less than other types of products.

Global semiconductor net billings



Electronics

Demand for Electronics is rising with the growth of automotive Industry, especially EV, AI development and Data Center to cater businesses in digital economy.

Electrical appliances

Exports of electrical appliances benefited from US policy to import more from Thailand to replace imports from China, especially for washing machines and air conditioners.

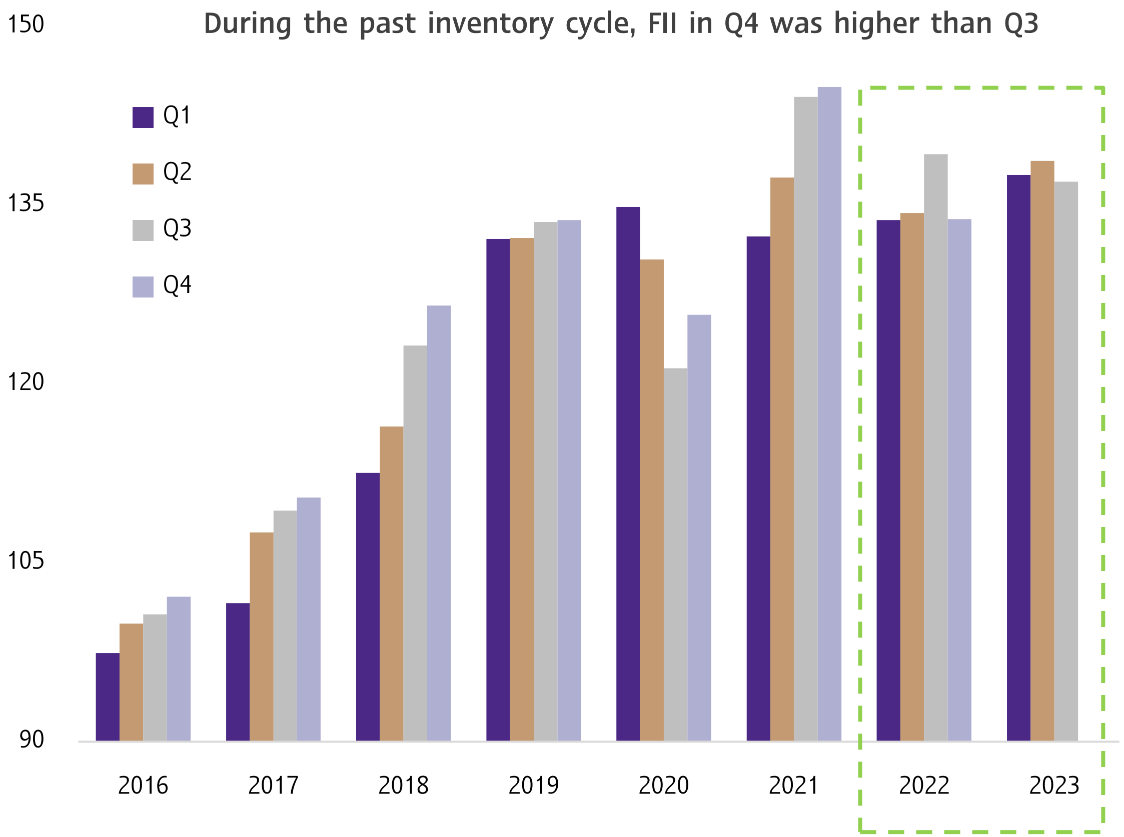
Note: SCB EIC's assessment on industrial exports covers approximately 59% of the total exports value in 2022, comprising of 1) Agri commodities which are rubber and related products, sugar, cassava, and animal feeds 2) Food & Beverage which are seafood, poultry, beverages and fruits 3) Electronics and Electrical appliances 4) Automotive, parts and motorcycle 5) Building material which are Iron and cement, and 6) Energy which are refined products, chemicals and plastics
Source: SCB EIC analysis based on data from Ministry of Commerce, World Semiconductor, Trade Statistics, IMF (WEO outlook) and Trademap database.

Various industrial products that saw high de-stocking (i.e., oil, petrochemicals) in Q3/2023 should see easing conditions in Q4/2023, partly from lower global crude oil prices and recovering Thai exports.

Re-stocking cycle should occur in Q4/2023 with growth from last year due to the low base

Finished goods inventory index (FII)

Unit: Index (2016=100)



Various industrial products with high de-stocking in Q3/2023 should see re-stocking in Q4/2023

Reasons for high de-stocking of some industrial products in Q3/2023 and better outcomes for Q4/2023

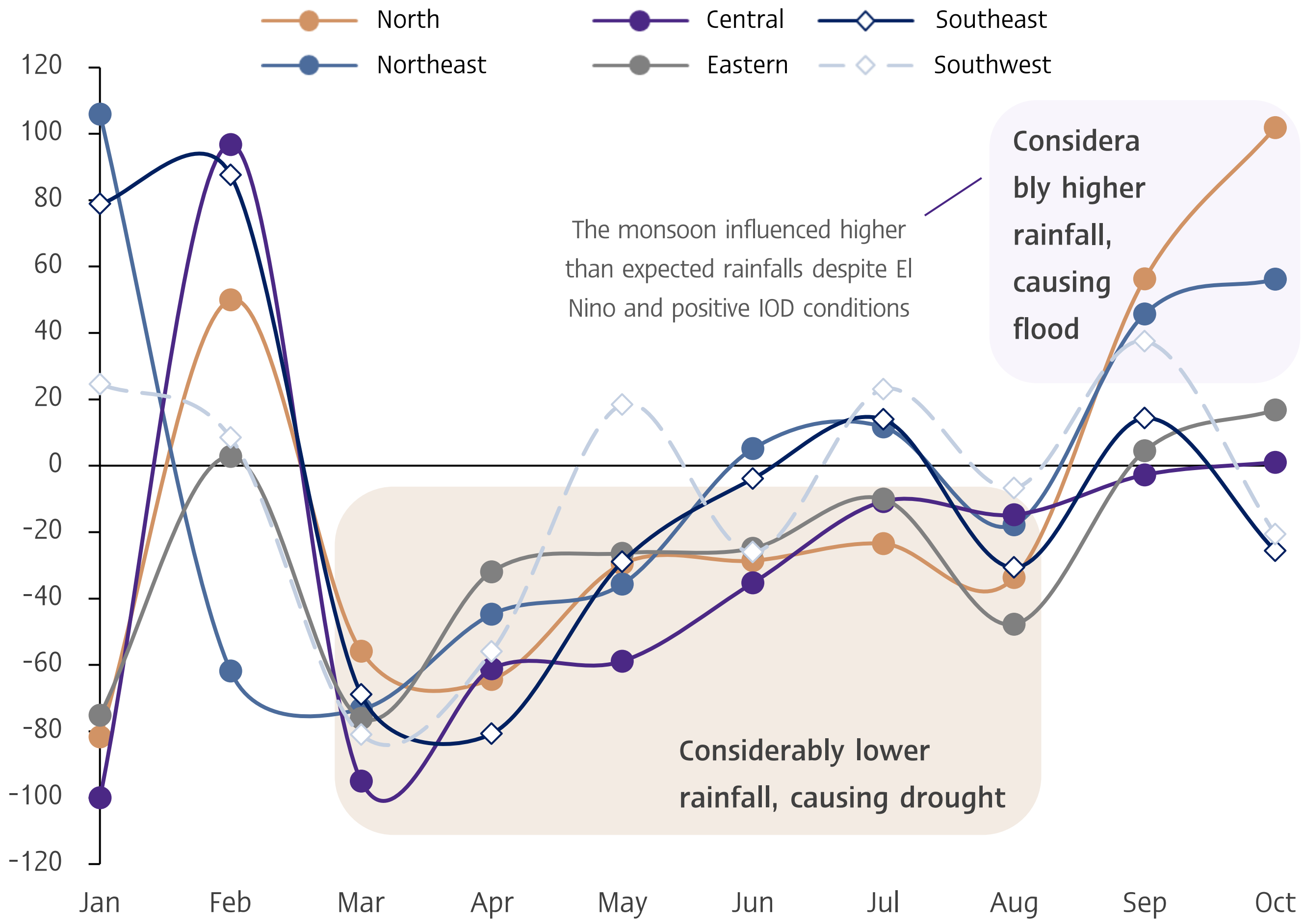
Products	Q3 VS Q2/23 (QOQ)	Q4 VS Q3/23 (QOQ)	Q4/23 VS Q4/22 (YOY)
Crude oil	Petro producers slowing raw material orders (high global crude oil prices & weakening Baht)	Traveling season & drastic drop in global oil prices prompting re-stocking of crude oil	Low base
Petro chemical	Continually weak exports & delays in raw materials orders (expensive oil price) for production	High season, inventory index recovering, plastic transportation index improving	High base & accumulating stock in preparation for major maintenance
Computer products	Lowering production capacity/ de-stock from slowing orders from trading partners	Sales still not fully recovered	Sales still not fully recovered
Sugar	Lower production than sales as not in crushing season	Lower production than sales & draining stock to prepare for the sugar production season	Drought lowering output, factories delaying production starting dates vs last year
Tapioca flour	Drought, outbreaks, production lower than sales	Drought, outbreaks, production lower than sales	Drought, outbreaks, production lower than sales

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

The "drought – flooding" incidents in 2023 should lower the GDP in 2023 and 2024 by a total of -0.34pp and increase inflation by +0.42pp (in comparison to such events not occurring).

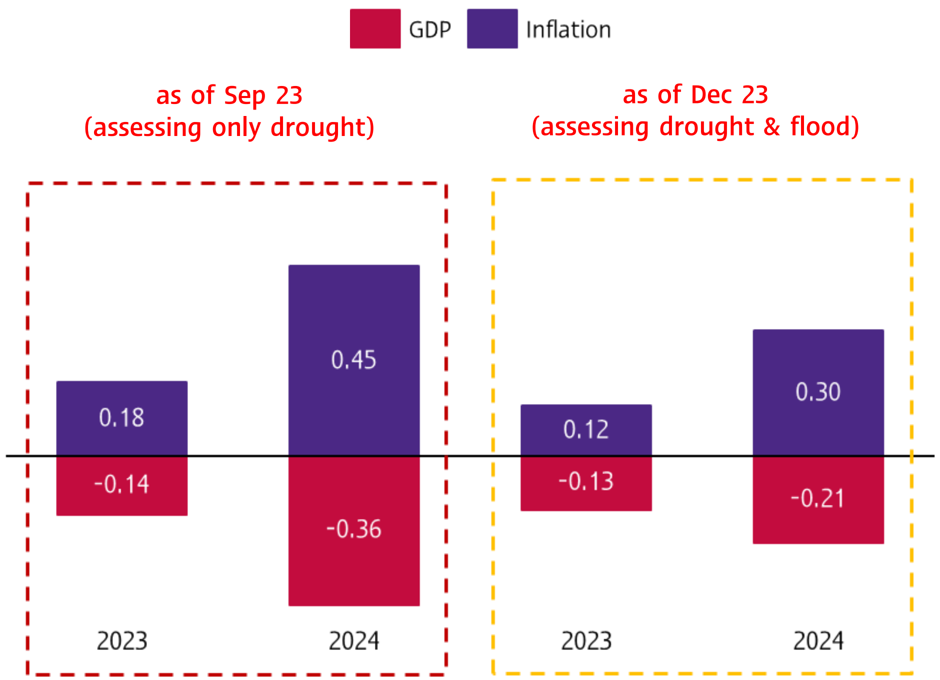
2023 rainfall difference than normal (30 years average)

Unit: %



Assessing the impact of "drought – flooding" on the Thai economy

Unit: Percentage points



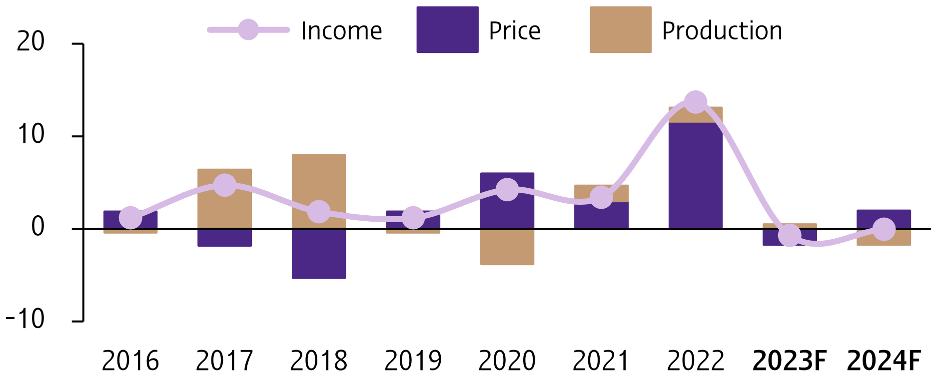
- **Lower economic impact compared to previous estimate as higher than expected rainfall during the year-end** increases the level of usable water in reservoirs and lowers damages on off-season rice in 2024 than previously anticipated
- **Impact on Thai economy mainly comes from the drought**

Source: SCB EIC analysis based on data from the Thai Meteorological Department, Office of Industrial Economics, and National Statistical Office.

Farm income is likely to be stable in 2024 with higher prices for agricultural products, especially unmilled rice and sugarcane, which will help shore up the impacts from lower productivity.

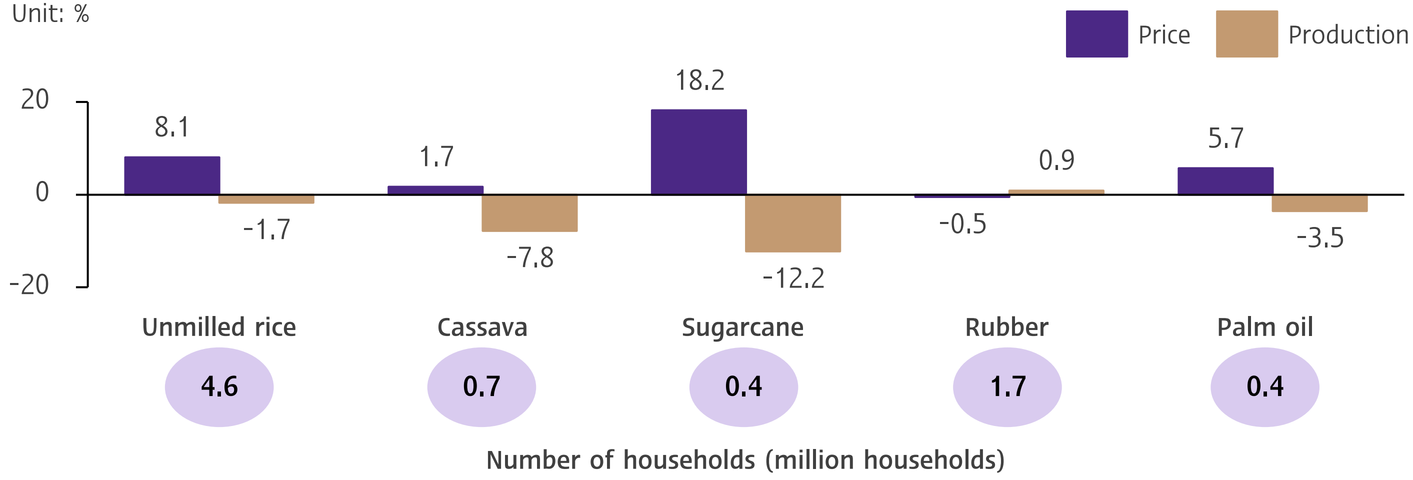
Index of Agricultural Income, Price, and Production

Unit: %YOY



Changes in Agricultural Production and Prices, by product, in 2024

Unit: %



Forecast of farm income in 2024

Unit: %YOY

Forecast	2022P*	2023F (10M23)	2024F
Income Index	13.7	-0.7 (-1.1)	-0.02
Price Index	11.6	-1.7 (-2.4)	2.0
Production Index	1.5	0.5 (1.1)	-1.7

Factors Affecting Production

- **Drought in 2023** had effects on off-season rice, sugarcane, oil palm and cassava.
- **Cassava brown leaf spot disease has spread** and affect cassava production.

Supporting Factors for Price

- **Indian rice and sugar export control** has led to higher prices in the global market.
- **Lower production of rice and sugar** will push the prices up.

Factors Affecting Price

- **Slowdown in global and Chinese economies** will put a small pressure on rubber price.

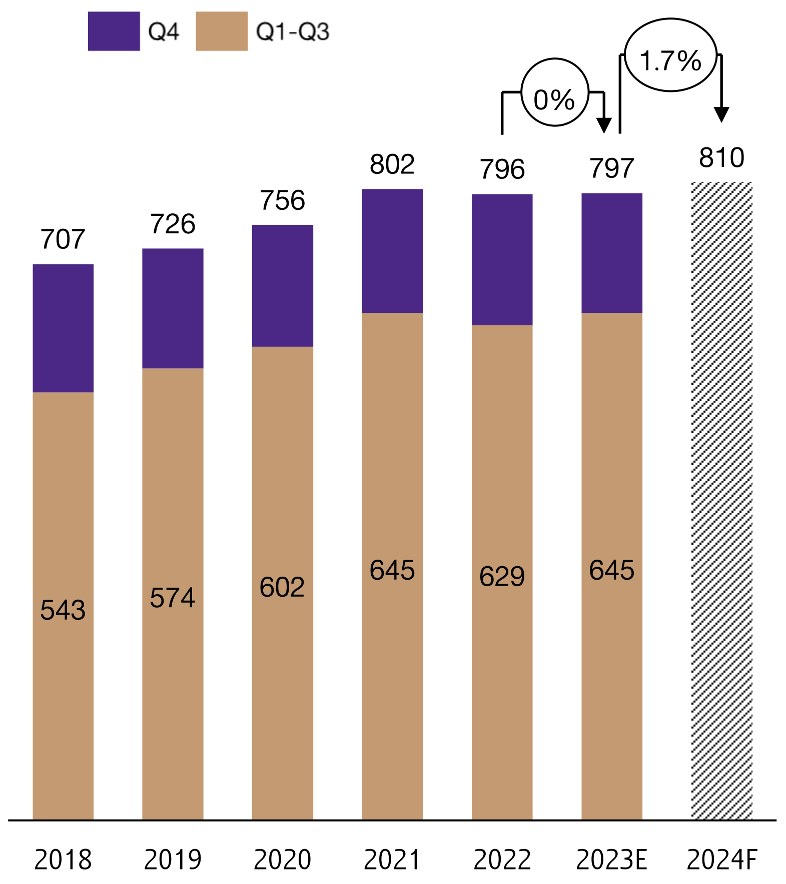
Note: *Preliminary data, subject to changes.

Source: SCB EIC analysis based on data from Office of Agricultural Economics, World Bank, IMF, ISO, USDA and IRSG.

The delay of the 2024 Budget Act should continue to put pressure on public construction in 2024 as investment budget disbursements slowed since the beginning of the fiscal year.

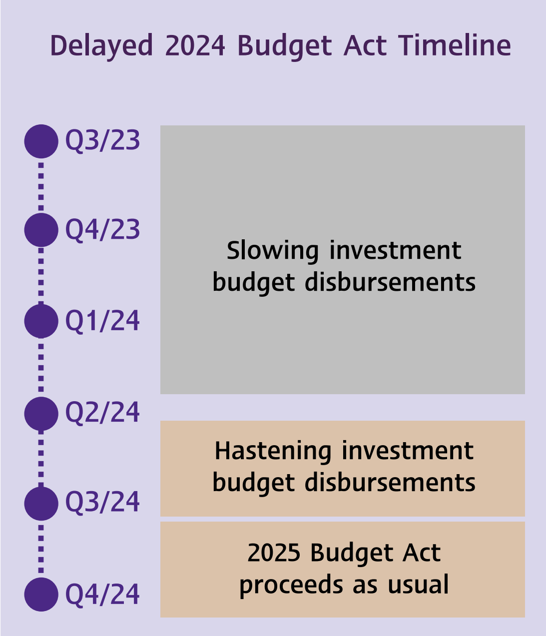
Public construction value

Unit: Billion baht



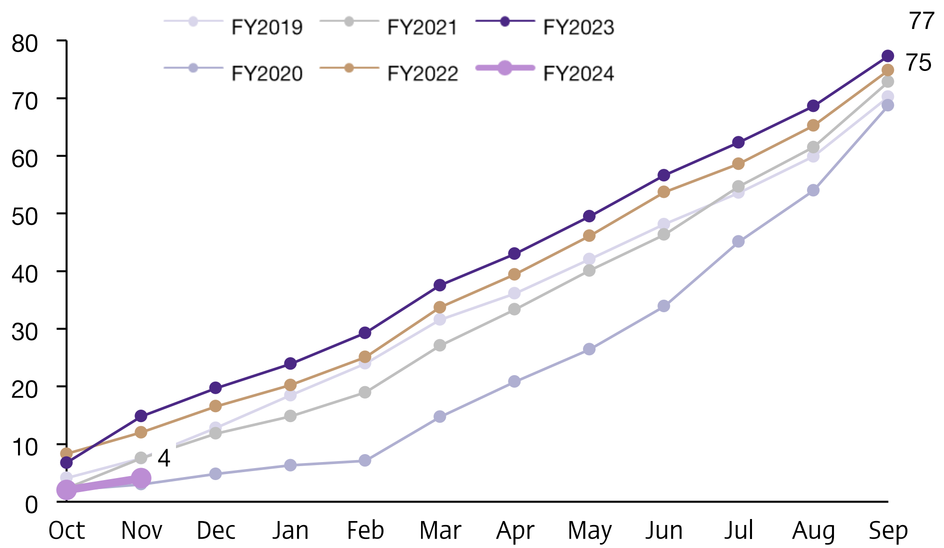
Challenges for contractors dependent on public construction

- No new bidding opportunities
- Delayed disbursements hurting liquidity



Cumulative investment budget disbursements from central agencies

Unit: %



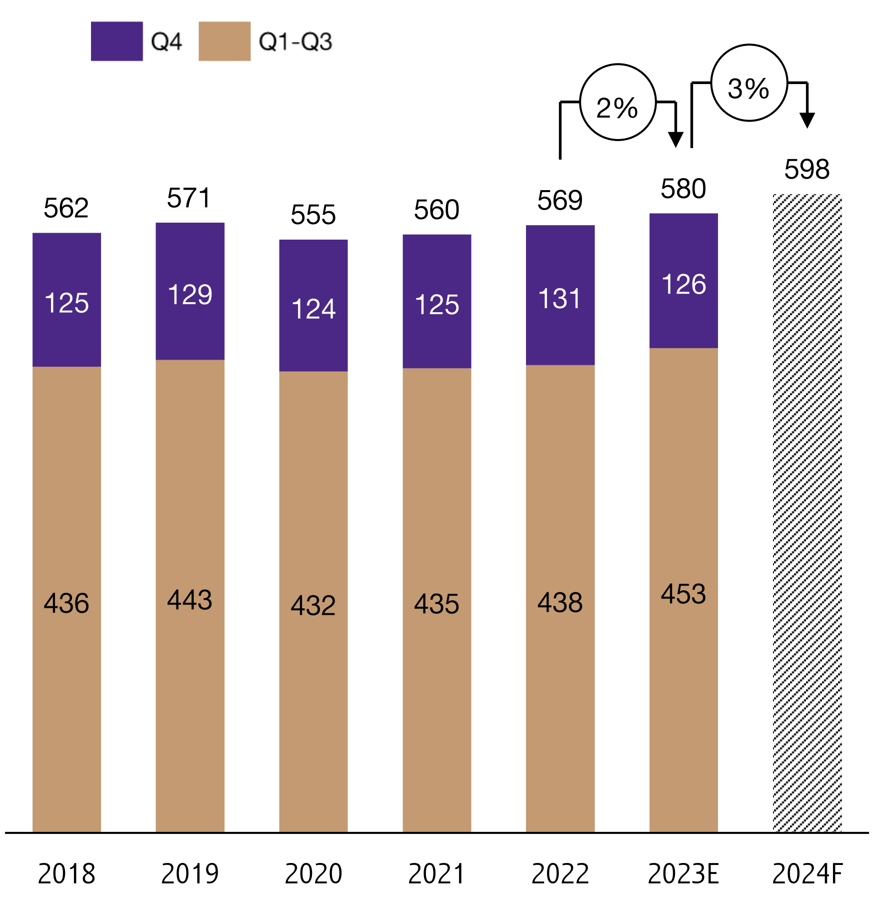
Agencies with high investment budget usage	End of Sep					End of Nov	
	2019	2020	2021	2022	2023	2022	2023
Department of Highways	74%	77%	86%	90%	96%	8%	6%
Department of Rural Roads	87%	82%	89%	91%	90%	2%	1%
Royal Irrigation Department	81%	81%	82%	83%	89%	9%	3%
Department of Public Works and Town and Country Planning	66%	65%	62%	47%	42%	14%	6%

Source: SCB EIC analysis based on data from the National Economic and Social Development Council and the Comptroller General's Department.

Private construction growth in 2024 continues as usual following residential and commercial construction projects. However, risks warrant monitoring.

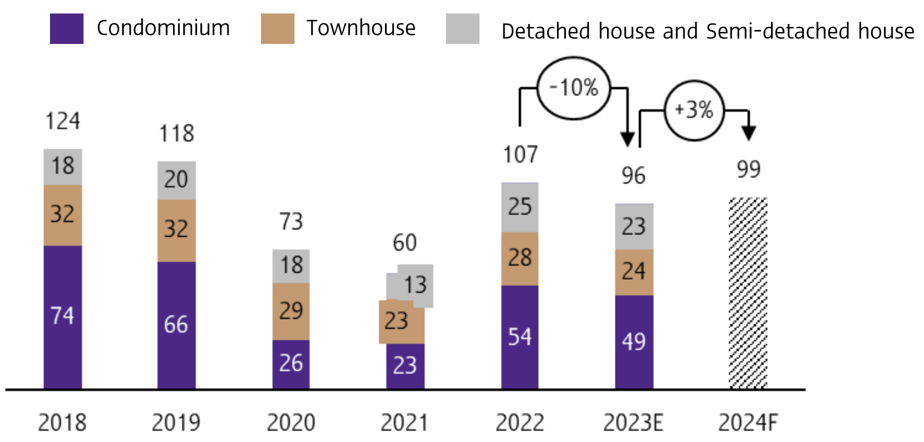
Private construction value

Unit: Billion baht



New launch of residential units in Bangkok-Vicinities

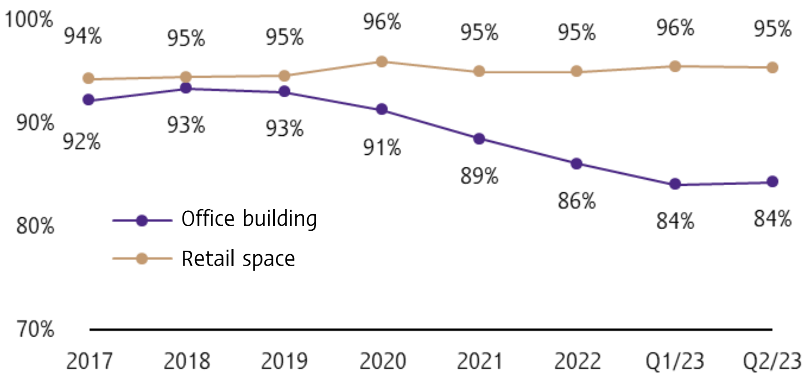
Unit: Thousand units



- **New residential projects see risks from high household debt & prices of new residential units increasing,** especially projects targeting the middle to low segments

Commercial rental space occupancy

Unit: %



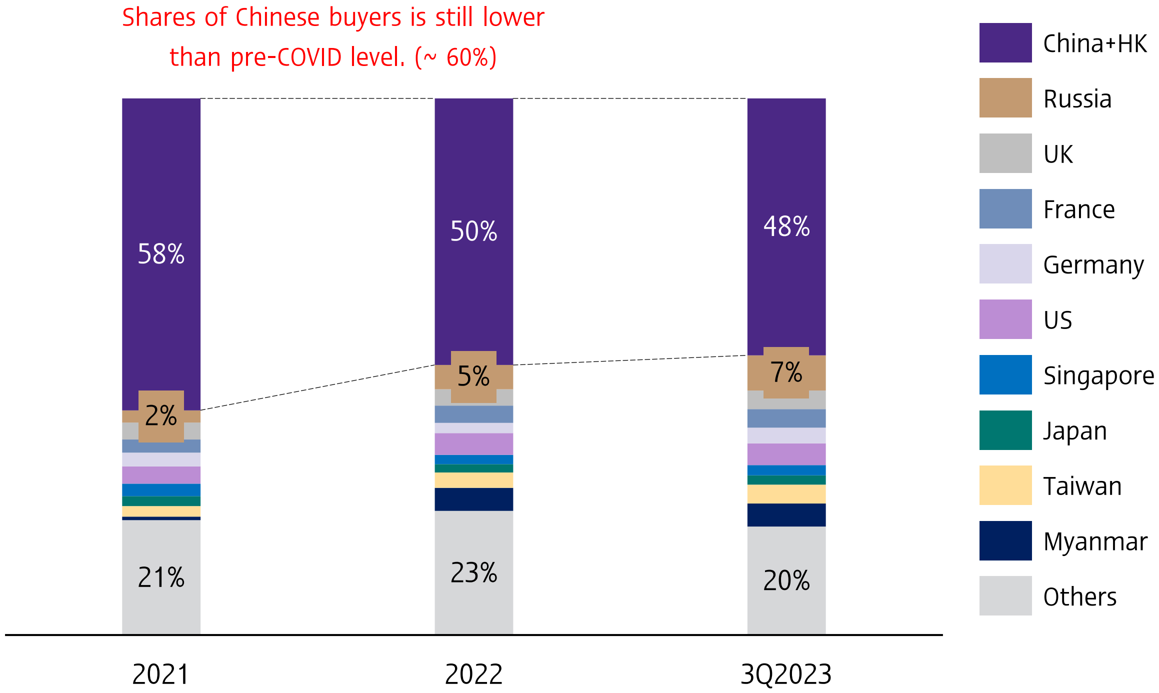
- **Large-scale commercial real estate projects** continue to be under construction
- **Potential oversupply** may delay/cancel low-potential projects, especially office building construction projects in certain areas

Source: SCB EIC analysis based on data from the National Economic and Social Development Council, AREA, and CBRE.

Purchasing power of Chinese buyers in the real estate market may slow down in some segments, especially condos in certain areas of Bangkok and major tourist destinations. Purchasing power from other buyers may also decline.

Shares of condos transfer value, by nationalities

Unit: %



Transfer value (THB million)	2022	%YOY	3Q23	%YOY
China + HK	29,439	+28%	25,020	+26%
Others	29,822	+85%	27,239	+38%
Total	59,261	+49%	52,259	+32%

Risks from Chinese and global slowdown will affect Thai real estate market.

- **Real estate crisis in China and lower prices** give rise to more domestic options for Chinese investors.
- **Global slowdown** may affect the purchasing power of investors from other countries.

Segments with the highest risks from Chinese economy

1. **Mid-high end condos** in inner and central Bangkok, as well as in other major tourist destinations
2. **Condos for rental** in major tourist destinations

Share of Chinese Tourists in 2019 (Pre-COVID)	Bangkok	Phuket	Chonburi	Chiang Mai
	49%	18%	15%	7%

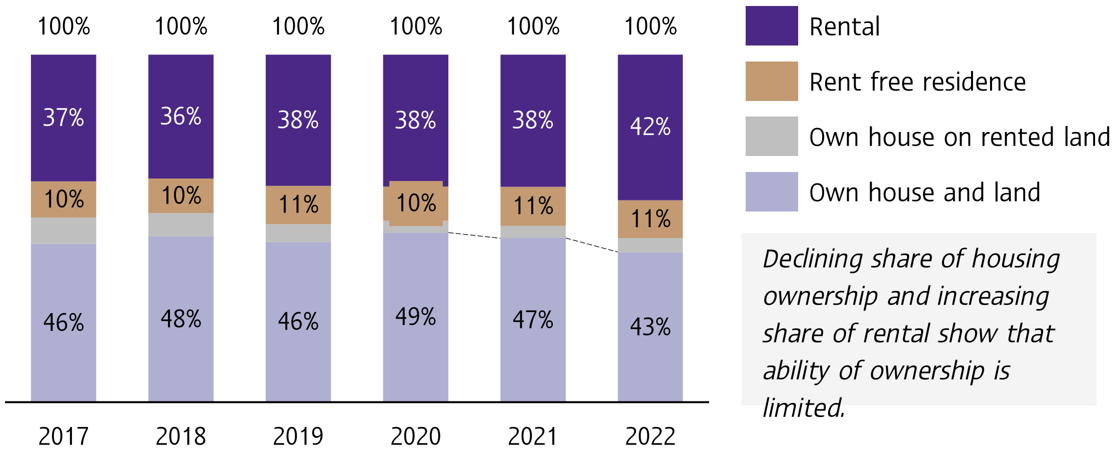
If Chinese economy underperform : areas that are popular among Chinese buyers such as Huay Kwang, Ratchada, Rama 9 Road, and other major tourist destinations such as Chiang Mai, Chonburi, and Phuket may be affected, as well as **areas that Chinese buyers often buy low-rise residences** such as Bangna-Trat, Srinakharin, Pattaya and Chonburi.

Source: SCB EIC analysis based on data from REIC.

Declining share of housing ownership is partly due to high household debt and increasing price of new housing, **which mainly affect mid to low end housing.**

Share of housing ownership in Bangkok and greater Bangkok

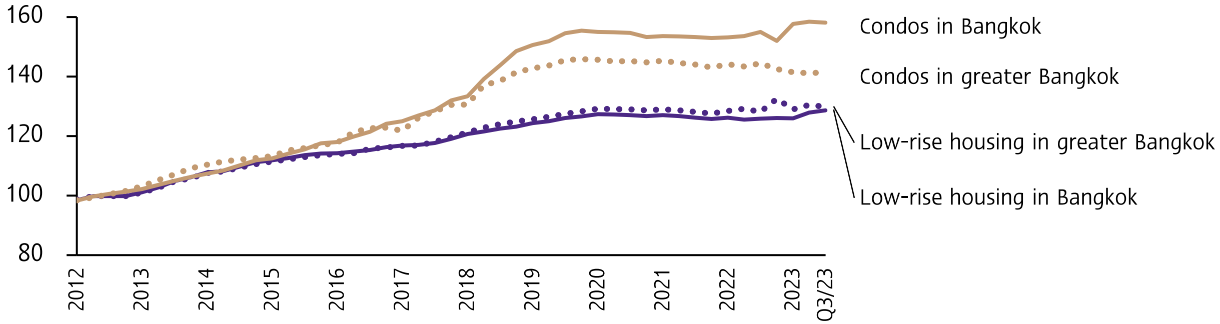
Unit: %



Price index of new housing sold in Bangkok and greater Bangkok

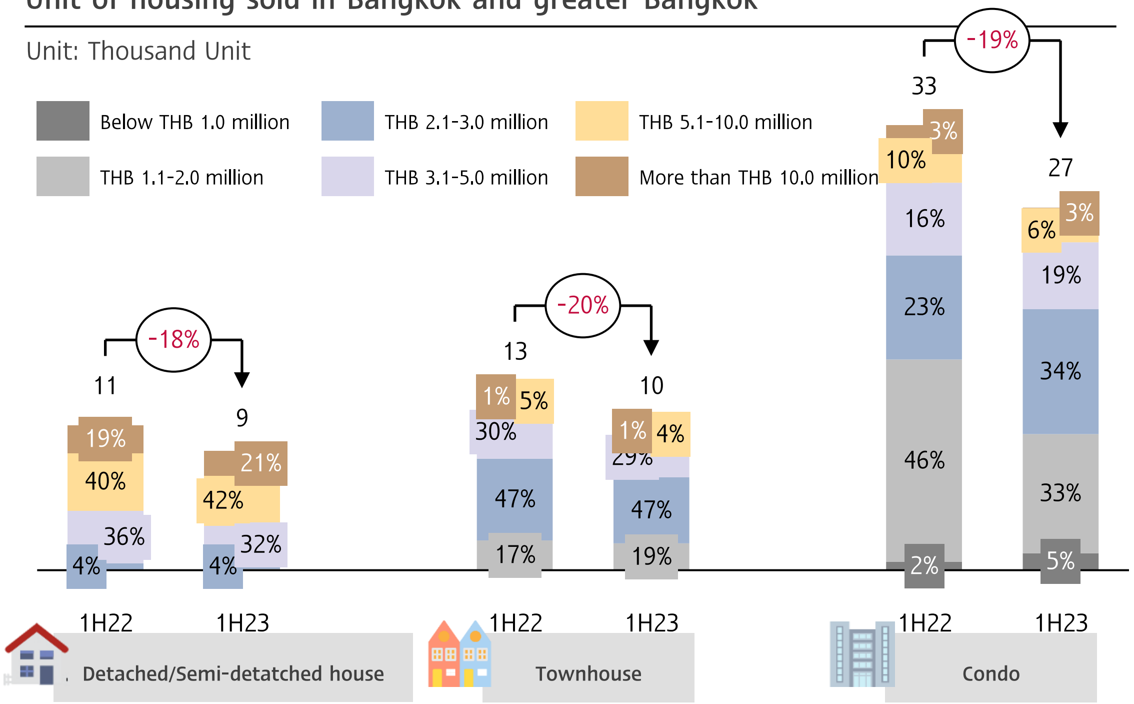
Index : 2012 = 100

Price of new housing continues to increase as land price increased with the expansion of infrastructure for transportation.



Unit of housing sold in Bangkok and greater Bangkok

Unit: Thousand Unit



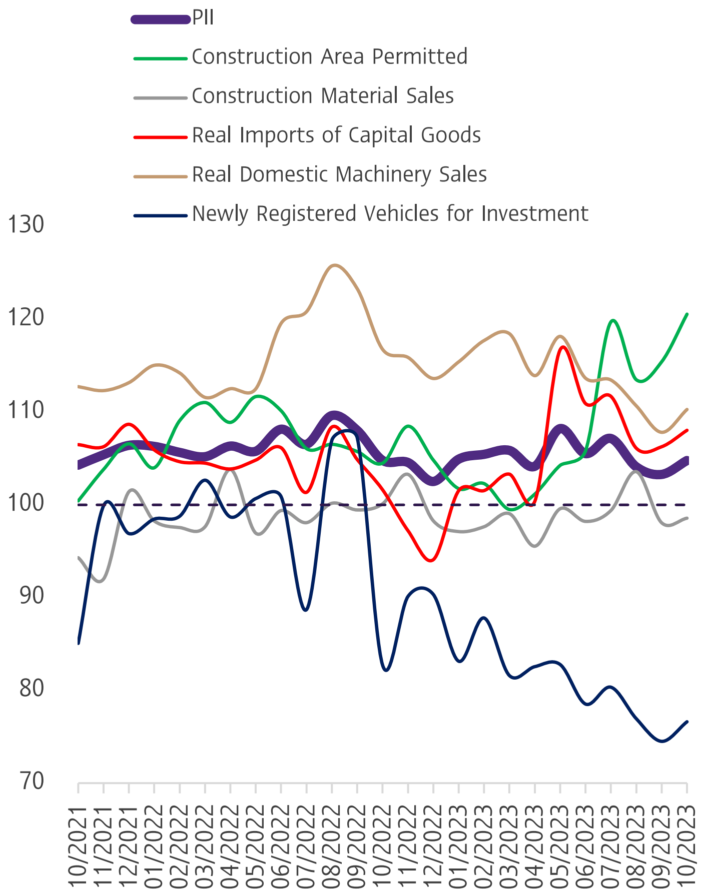
- **Limitation in housing ownership** led to a 19%YOY decline in sales in the first half of 2023.
- **Mid-range condos market, with prices below THB 3 million, should be closely monitored.** This segment had high number of sales in 2021-2022. If a large number of loans are not approved, ownership transfer will not be possible and will result in a significant increase in unsold units.
- **In the near future, household debt and housing price increase will weigh down the growth of housing market.** Growth may be lower than pre-COVID level.

Source: SCB EIC analysis based on data from National Statistical Office, REIIC and AREA.

Looking ahead, private investments should improve as Thailand attracts more foreign investments in strategic industries, including electronics and automotive, especially from China to expand its production base in the region.

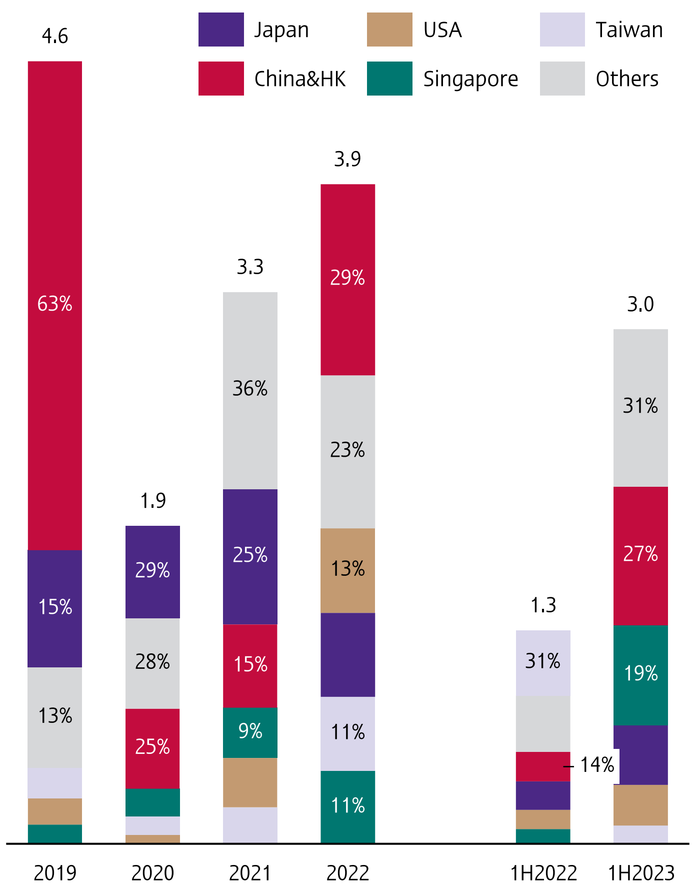
Private Investment Index

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



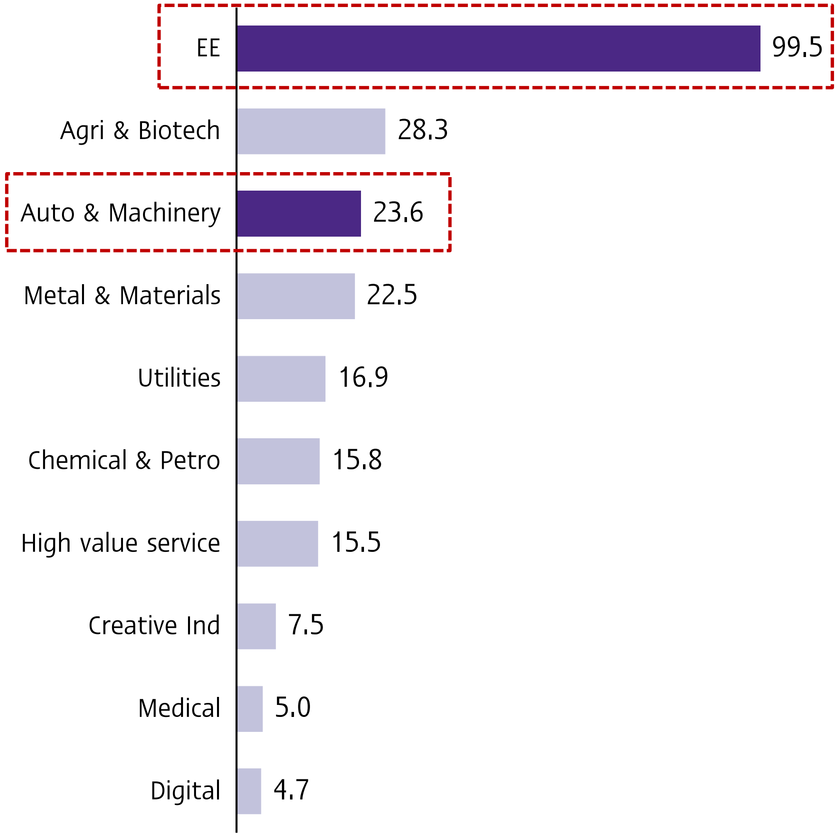
BOI investment promotion certificate value (FDI only)

Unit: 100 Billion baht, %



BOI certificates issued by sector (2023H1)

Unit: Billion baht



Source: SCB EIC analysis based on data from The Board of Investment of Thailand.

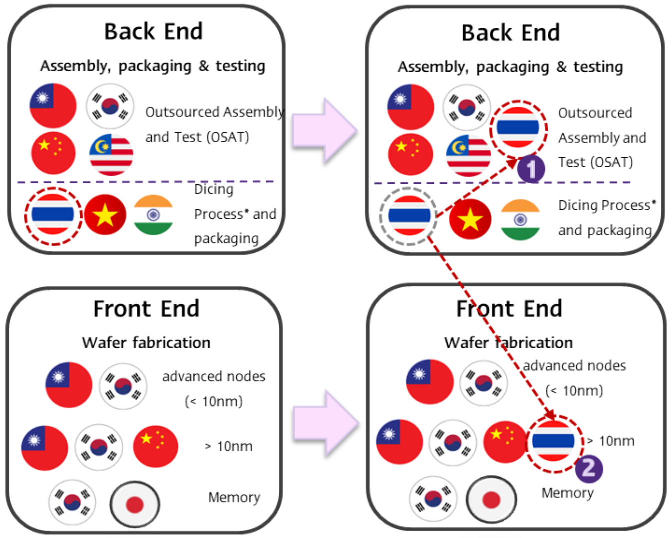
Foreign players are likely to invest more in electronics in ASEAN, including Thailand, hence supporting Thailand's development and upgrade towards the advanced chip production supply chain.

Potential position in the semiconductor supply chain

Current status: Thai chip industry focused in the back-end process

Manufacturing process
(Current Status)

New opportunity



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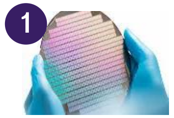


Short term: Back-end (OSAT)

Thailand has the potential to develop package services, including chip assembly and testing, with more advanced and complex capabilities as Malaysia as Thailand has been a strong EE base for a long time.

2

Medium to long term: Front-end Wafer fabrication

In the medium to long term, Thailand has the potential to manufacture wafer – an upstream process. Currently, Japanese (Sony) and South Korean (KEC) investors already invested in such capacities in Thailand.

What's next for Thailand?

- Explore partnerships and collaboration following the chip manufacturing supply chain relocation
- Promoting more research and development
- Developing digital workforce skills to support future market demands

SCB EIC views that the Thai chip industry has the potential to move up towards the advanced manufacturing supply chain, in which:

Thailand is equipped with a strong and complete supply chain, infrastructure readiness, and has been a production base for electronics for a long time. As such, there is an opportunity to expand into the production of advanced electronics products, including more complex chips.

BOI has specific measures and policies to support upstream electronics and chip investments, including measures to support competitiveness and growth

- **Front-end** wafer production – up to 13 years corporate income tax exemption
- **Back-end** semiconductor manufacturing & testing – up to 8 years corporate income tax exemption
- **Printed Circuit Board Assembly (PCBA)** – up to 5 years corporate income tax exemption

Key benchmark areas	Thailand	Vietnam	Malaysia
BOI policy direction with respect to E&E industry	SPECIFIC incentives for <u>semiconductors</u>	General incentives for high technology tax rate of 10 % for 15 years for R&D and high technology	Incentives for relocation EE tax rate of 0-10 % for 10 or 15 years for new companies
Tax holiday privilege	Yes, for 13 years	Yes, for 4 years	n.a.
Global Innovation Index	#9 in ASIA	#10 in ASIA	#8 in ASIA
GLOBAL KNOWLEDGE SKILLS*	#3 in ASEAN	#4 in ASEAN	#2 in ASEAN

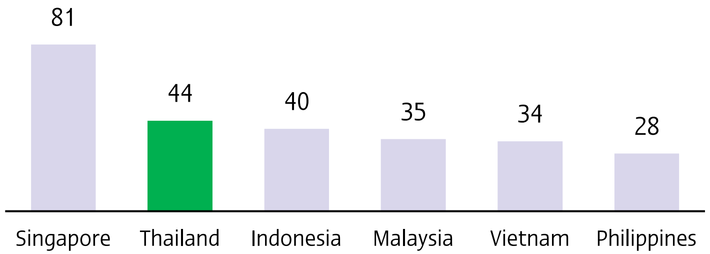
Note: *1) Global Innovation Index Ranking is based on innovation investments and modern technology developments 2) GLOBAL KNOWLEDGE SKILLS Ranking includes workforce readiness in terms of digital skills and high-level skills that are required for the advanced electronics industry

Source: SCB EIC analysis based on data from J.P. Morgan, SIA, Bloomberg, IHS Markit, WIPO, GTCI, BOI, and Industrial Estate Authority of Thailand.

Furthermore, Thailand has the opportunity to attract EV FDIs following readiness in terms of demand and strong & complete supply chain, with government policies aiming to become a center for EV production.

Global electric mobility readiness index 2023

Thailand ranked #2 in ASEAN for EV transition readiness



3 Strengths of Thailand.

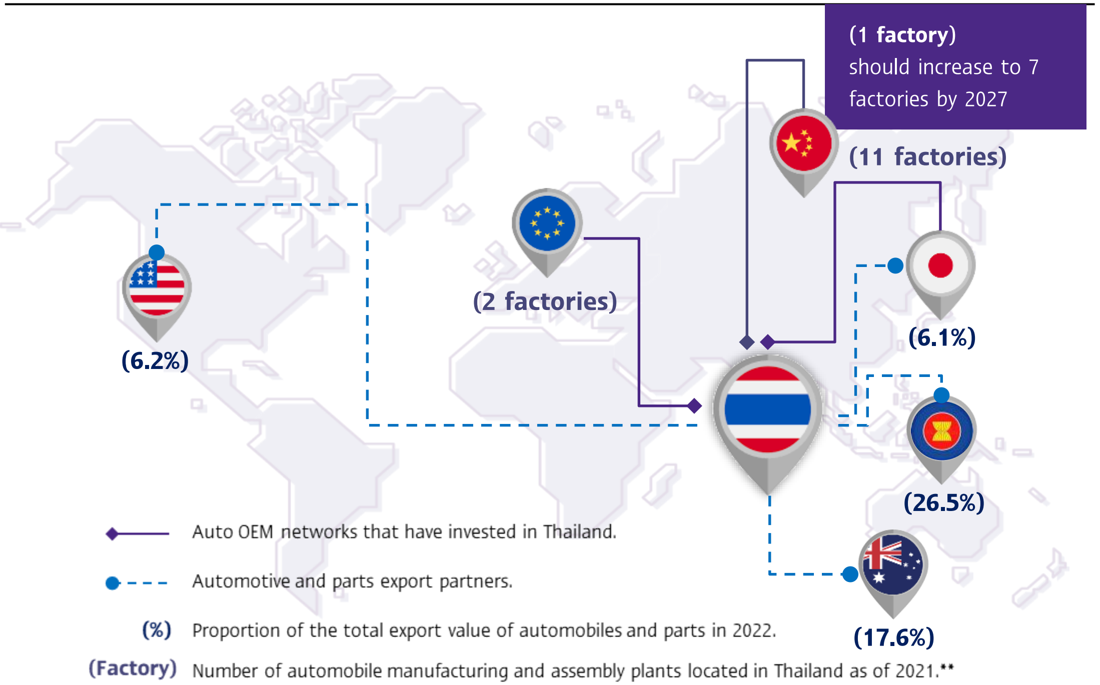
1. The world strongest EV market growth
   The EV market has the highest growth in the world at +263% (CAGR 2018 – 22).
2. The most variety EV tax incentive in ASEAN
   More diverse tax incentives for EV industry than neighboring countries.*
3. Top 10th auto parts producers and exporters
   Reflects the readiness of the local supply chain in supporting the automotive production industry.

1 Weakness of Thailand.

The sufficiency and coverage of charging stations are significant factors why Thailand scores lower in readiness compared to Singapore. The ratio of public EV chargers to EVs in Singapore is 1:1.6, while in Thailand, it is 1:37.3.

Exemptions/Reduction	TH	IN	MY	VT
Import Duty	✓	✓	✓	✓
Excise Tax	✓			
Corp Income Tax	✓	✓	✓	
Luxury Goods Tax	✓	✓		

Thailand's position in global auto supply chain



EV industry growth and the impacts on Thai economy

Investment flow
+1.2 hundred billion baht
from >20 EV projects (as of 2018 – Aug 23)

Domestic EV production capacity
+900,000 units/year by 2030
(from 90,000 units/year in 2022)

GDP growth
+0.2% from every 100k EV produced domestically

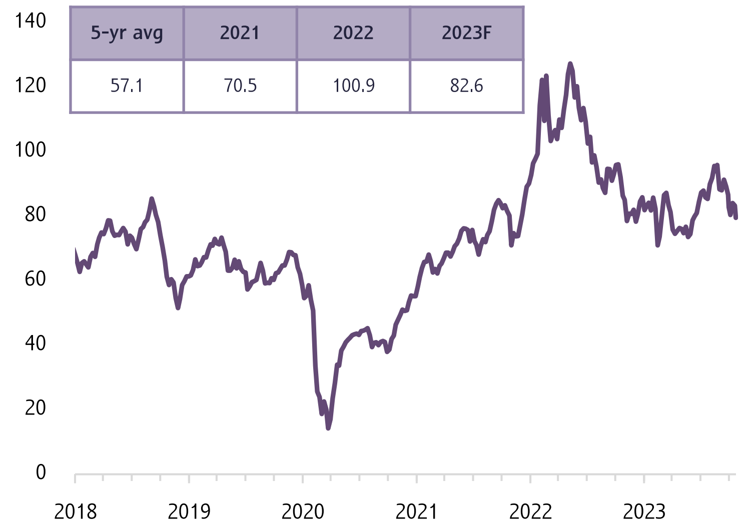
Note: *Details of the offered tax deductions and exemptions, i.e., tax holidays from each country was similar at 3 – 8 years, depending on the value and type of investment, with Thailand offering the widest array of tax benefits.
**Number of automotive production and assembly plants located in Thailand as of 2021, including 1 factory (Ford – a US brand)
Source: SCB EIC analysis based on data from BOI NESDC GEMRIX and IEA.

In Q4-2023, energy prices have been under pressure from increased production capacity in the US. Although OPEC had decided to further cut production, there are concerns over the cooperation among members.

Brent Crude Price

Unit: USD/Barrel

5-yr avg	2021	2022	2023F
57.1	70.5	100.9	82.6

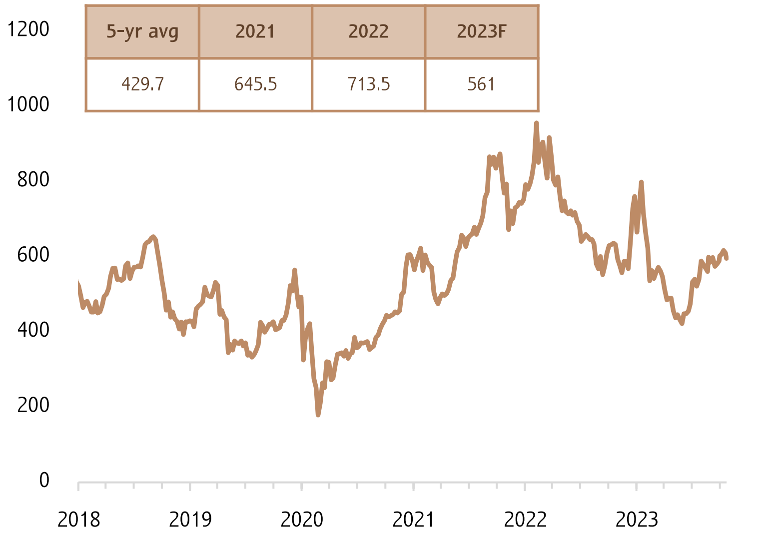


- **Supply**: OPEC+ announced additional voluntary production cut of 1 million barrels per day, totaling about 2 million barrels per day. **The cut has been extended to the first quarter of 2024**, as it was intended to run until then end of 2023. **On the other hand, the US has continued to increase production.**
  Demand: Economic uncertainties are still adding pressure on demand, especially uncertainties in the recovery of China.
- The latest delay of OPEC meeting in Nov 2023 has raised some concerns over the strength of cooperation in production cut among OPEC members.

Aramco LPG Price

Unit: USD/Ton

5-yr avg	2021	2022	2023F
429.7	645.5	713.5	561

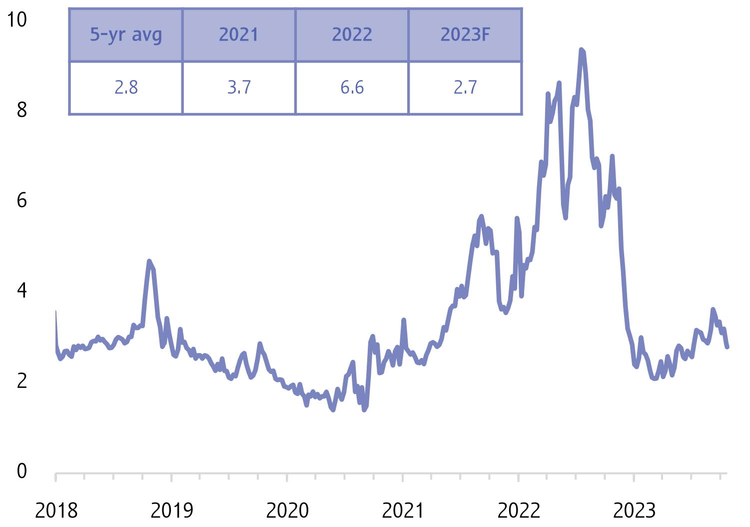


- **Demand of petrochemicals is slowly rising.** Manufacturing PMI in China had reached 50.7 in November. It remains to be seen whether this level can be maintained or not.
- Nevertheless, PDH factories using propane as raw material has much larger production plans this year, **which may cause the price of propane to climb in the last quarter.**

Henry hub 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 to loosen** as concerns over economic recession and oil switching to power has declined since earlier of this year.
- As winter begins in Q4/2023, price will start to climb as stocks are being to refilled to prepare for cold weather. Prices are expected to be in the range of $2.8-3.3/mmbtu (but may be higher if the weather is colder that expected)

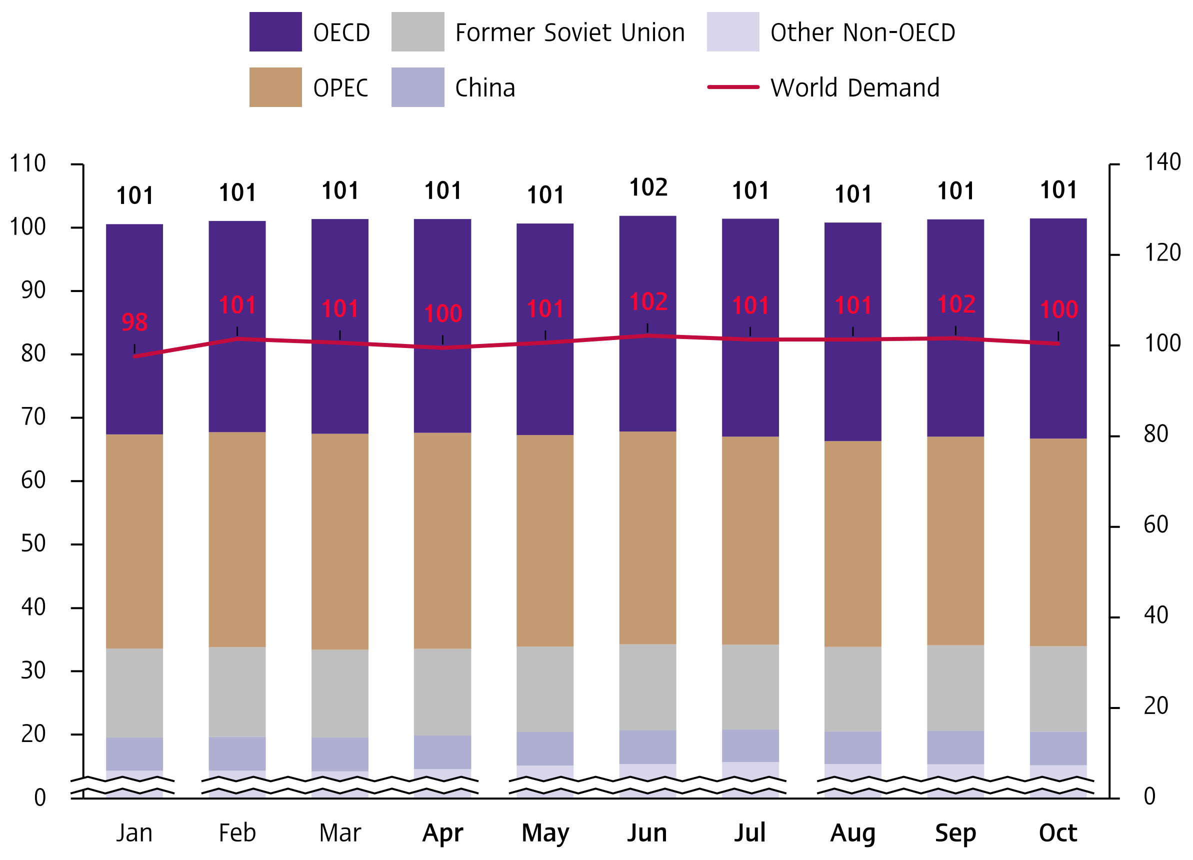
Note: 5-year period = 2015-2019; Data and analysis from Dec 2023.

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

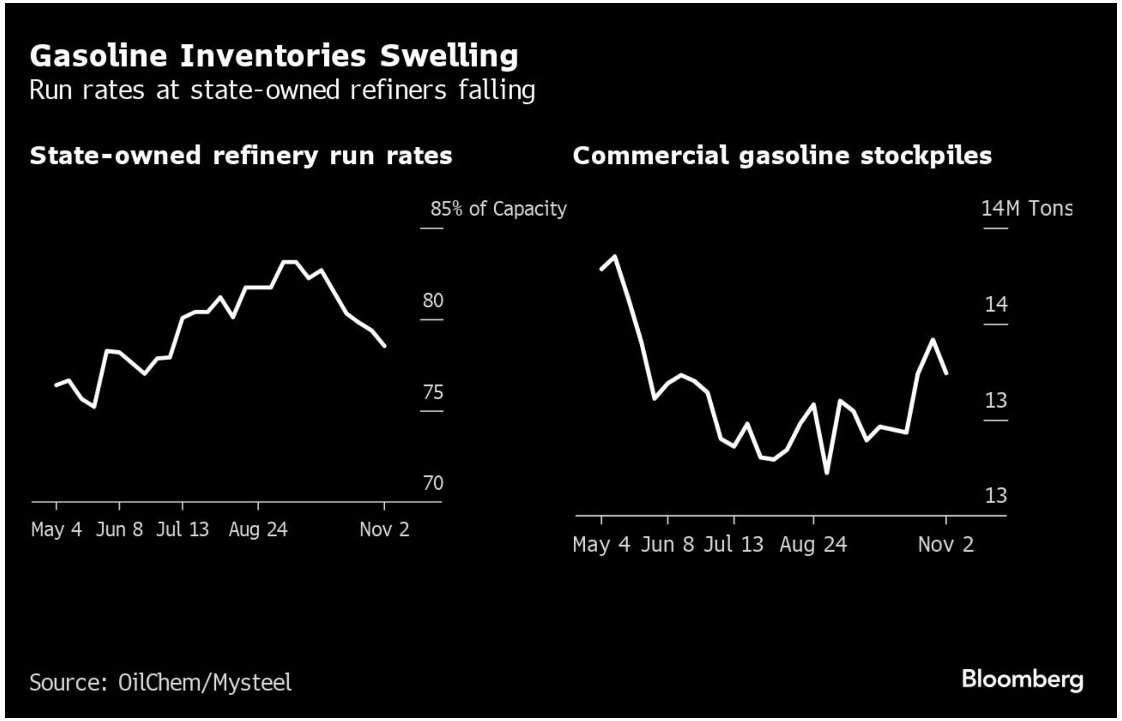
During Sep-Oct, global crude oil market is in the period where supply is higher than demand by 1-2 million barrels per day. Demand is low due to slow growth in China, as reflected in higher inventories.

Global crude oil Production / Consumption 2023

Unit: Million barrels per day (Supply= LHS, Demand = RHS)



Oil demand slowdown in China



China, which is the largest importer of crude oil, is facing with declining demand despite government's effort to stimulate growth. Operating rate of refineries have slowed down since September, meanwhile crude oil and gasoline inventories increased amid the decline of refining profit.

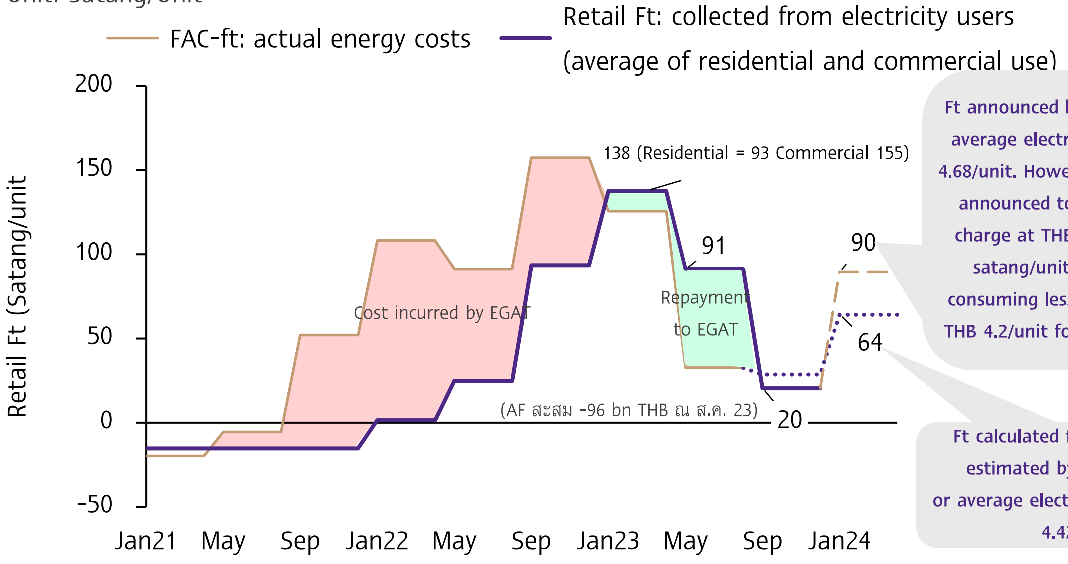
Source: SCB EIC analysis based on data from EIA and Bloomberg.

ERC announced an average electricity charge of THB 4.68/unit for Jan-Apr 2024, an increase from previous period despite the pressure from the government to lower the electricity price.

Energy prices are expected to remain high in 2024.

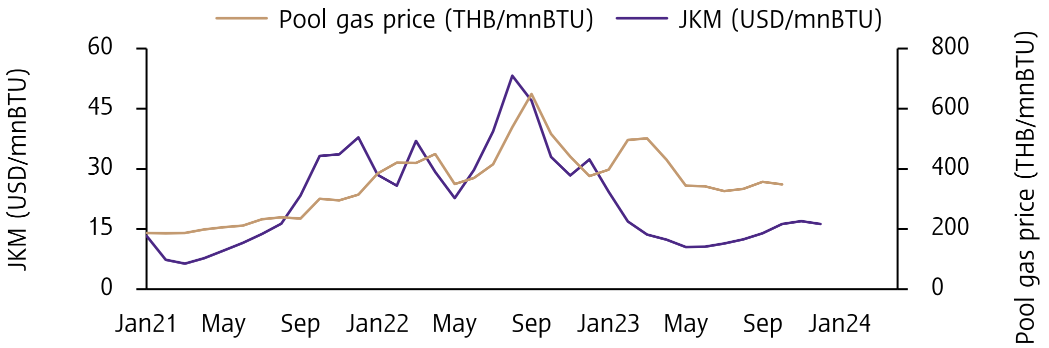
Ft is declining as energy price lowered, while outstanding debt (AF) still await reimbursement.

Unit: Satang/Unit



Ft announced by ERC (29/11/23) or average electricity charge of THB 4.68/unit. However, the Cabinet had announced to fix the electricity charge at THB 3.99/unit (Ft = 20 satang/unit) for households consuming less than 300 unit and THB 4.2/unit for other households.

Ft calculated from energy cost, estimated by ERC (29/11/23) or average electricity charge of THB 4.42 /unit.



- **Ft has began to decline in mid-2023 after reaching a record breaking level. Ft declined as gas prices began to lowered, but accumulated factor (AF) from outstanding debt to EGAT will prevent Ft from declining as much as gas prices.** Gas prices had increased sharply in 2021-2022, while Ft rose at a much slower pace as the costs are incurred by EGAT. At the end of Aug 2023, AF has reduced to THB 96 billion.

- **During Sep-Dec 2023, Ft has reached a 16-month low at 20 Satang/unit due to government's policy to hold electricity price at THB 3.99/unit.** (ERC announced electricity price of THB 4.45/unit on 26 Jul 2023, but the government had announced to lower electricity price to THB 4.10/unit on 13 Sep, and later announced a further reduction to THB 3.99 THB/unit). In addition, the government had announced a price control on pool gas at THB 304.79/MMBTU.

- **Although electricity price at the end of 2023 was lowered by government policy, the outstanding AF will put pressure on future electricity price, as reflected in the Ft for Jan-Apr 2024 that ERC announced on 29 Nov 2023** at 90 satang/unit or average electricity charge of THB 4.68/unit, 25 satang/unit of which is for AF repayment.

- **The Ft and electricity price may differ from ERC announcement** as the Prime Minister had recently said that the Cabinet had urged the ERC to reconsider the electricity price. Following such announcement, **the Cabinet had announced to keep the electricity price at THB 3.99/unit (Ft = 20 satang/unit) for households consuming less than 300 units during Jan-Apr 2024. In addition, the Cabinet is likely to keep electricity price at THB 4.20/unit (Ft = 42 satang/unit) for other households and businesses, with subject to the cost of natural gas before making an official announcement.** Nevertheless, EGAT still has a large sum of AF that needs to be reimbursed, which will keep electricity price at a high level until the end of 2024 despite the decline in natural gas prices. Reforms on energy price structure will need to be monitored. (If the government wants to lower electricity price in the long run, the government will need to increase the share of natural gas from the Gulf of Thailand, which currently average around 40%, to lower the pool gas price and, subsequently, the energy costs)

Note: Electricity charge for Jan-Apr 2023 was calculated from base electricity cost of THB 3.7811/unit, according to ERC announcement on 29 Nov 2023

Source: SCB EIC analysis based on data from ERC, EPPO, EGAT, Bloomberg and EIC's Macroeconomic team & FM team.

SCB EIC expects headline inflation to remain in the negatives **as the prices of energy and meat continue to decline.** However, core inflation is expected to increase in 2024 due to supply side factors.

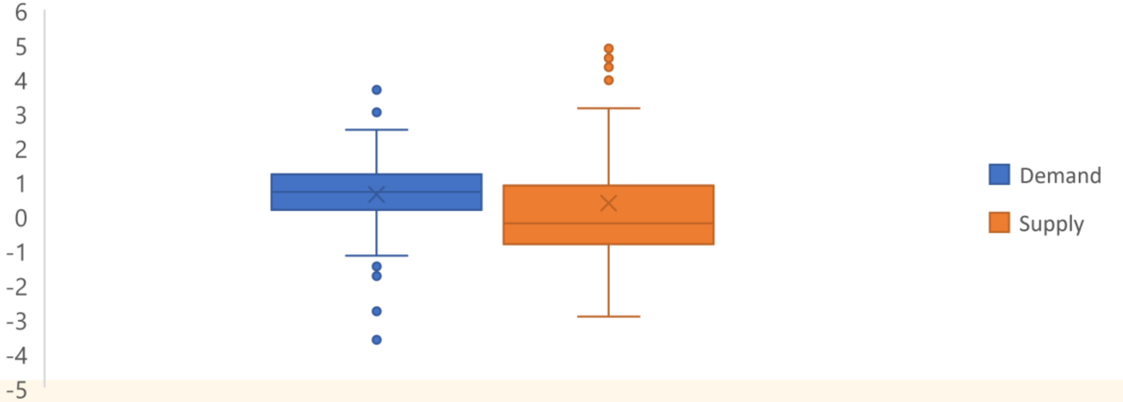
Sources of Headline Inflation

Unit: Index (2019 = 100)

%YOY	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23
Total	0.2%	0.4%	0.9%	0.3%	-0.3%	**-0.4%**
Food and non-alcoholic beverages	3.4%	1.5%	0.7%	-0.1%	-0.6%	**0.2%**
Fresh produce	3.9%	1.4%	0.0%	-1.3%	-2.4%	-0.8%
Meat	-11.3%	-13.7%	-16.0%	-16.5%	-17.9%	-17.7%
Food – at home consumption	3.5%	2.1%	2.0%	1.5%	1.7%	**1.7%**
Food – away from home	3.3%	1.5%	1.5%	1.1%	1.1%	**0.9%**
Apparel and Footwear	0.5%	0.3%	0.3%	0.3%	0.1%	**0.0%**
Residences	2.0%	1.9%	1.8%	-0.7%	-0.7%	**-0.8%**
Electricity, energy and water	7.3%	6.9%	6.6%	-3.1%	-3.2%	-3.2%
Medical and Personal Care	1.8%	1.8%	1.4%	1.2%	1.3%	**0.9%**
Transport and Communication	-6.9%	-3.3%	0.3%	1.7%	0.0%	**-1.8%**
Recreation Education and Religion	0.7%	0.6%	0.6%	0.6%	0.6%	**0.6%**
Tobacco and alcoholic beverages	0.6%	0.6%	0.5%	0.6%	1.1%	**1.0%**
Core Inflation	1.3%	0.9%	0.8%	0.6%	0.7%	0.6%

Sources of Inflationary Pressure, Demand and Supply Sides (Mar 2016 – Aug 2023)

Unit: %YOY



- In the past, inflation in Thailand has been 0.6%YOY due to supply and 0.4%YOY due to Supply.
- **Factors on the supply side are usually more volatile than demand side and tend to have a right-skewed distribution,** which signify that they are the main causes that push inflation above the upper bound of the target.

Government policies to lower the cost of living

- **Benzene fuels price cut** from 7 Nov 2023 - 31 Jan 2024
- **Electricity price cut** from THB 4.45/unit to THB 3.99/unit in Sep – Dec 2023

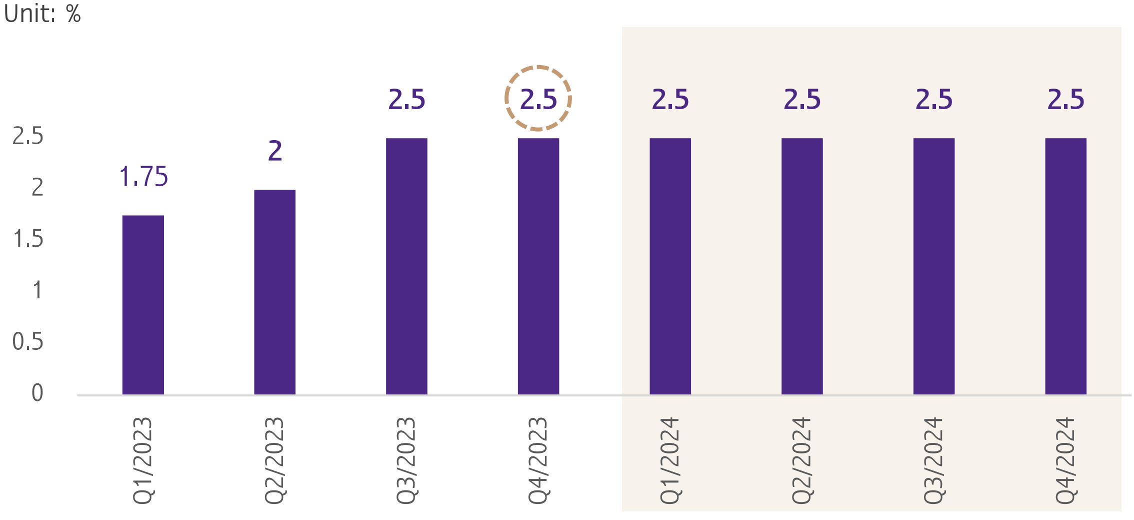
Inflationary pressure in 2024

- **The escalation of the Israel-Hamas war** may cause Iran to close down the Hormuz strait, which is responsible for the transit of 20% of the oil consumed globally, will put pressure on oil price in 2024.
- **Drought and India's export control** may lead to higher prices of rice and sugar.
- **Government stimulus policies**

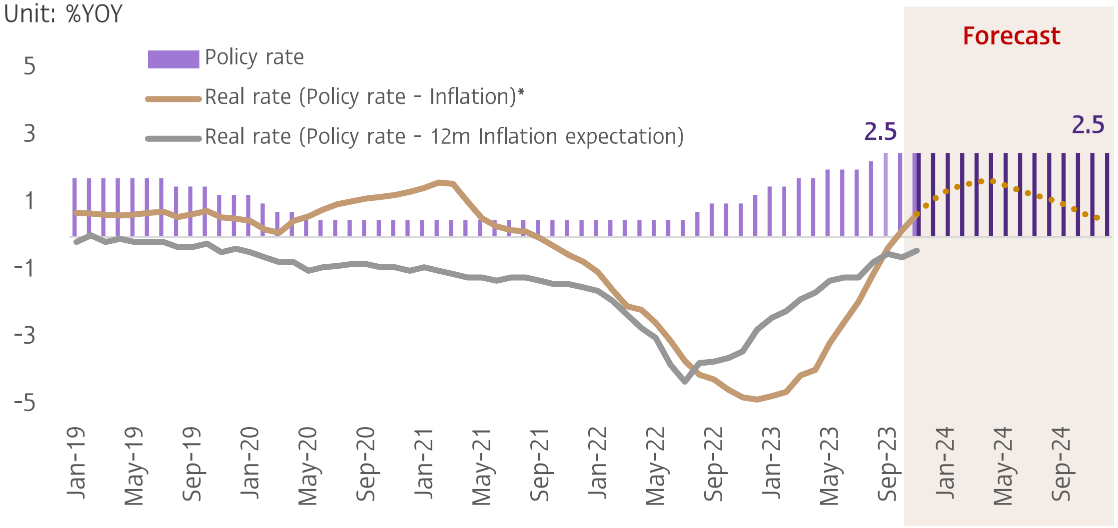
Source: SCB EIC analysis based on data from Ministry of Commerce, Bank of Thailand and CEIC.

SCB EIC views that the MPC will hold the policy rate at a neutral rate of 2.5% throughout 2024, as the rate is suitable for long-term economic growth.

Thai policy rate forecast by SCB EIC



Thailand's real policy rate



SCB EIC views that the MPC will hold the policy rate at a neutral rate of 2.5% throughout 2024, due to:

1. The Thai economy is likely to continue to expand at a rate near its long-term potential level
2. **Inflation may increase in 2024** from higher supply-side pressures with potentially higher costs passed through, too low interest rates from businesses, thus increasing product prices
3. **The real policy rate reverting to positive, fostering long-term financial stability** and reducing new household debt and underpricing of risks from too low interests

Digital wallet policy impact on the policy rate

- **SCB EIC views that the MPC will hold the policy rate at a neutral rate of 2.5%**
- **SCB EIC evaluates that in the past, supply-side induced inflation is more volatile than demand-side** with a right-skewed distribution, suggesting higher contribution
- **Even though the D-wallet policy will help stimulate the economy to expand higher than its potential level with inflationary pressure,** the impact will only be temporary and the Thai economy will return to grow according to its original potential level. Thus, the impact on inflation is low and the inflation should stay within the Bank of Thailand's 1-3% target.

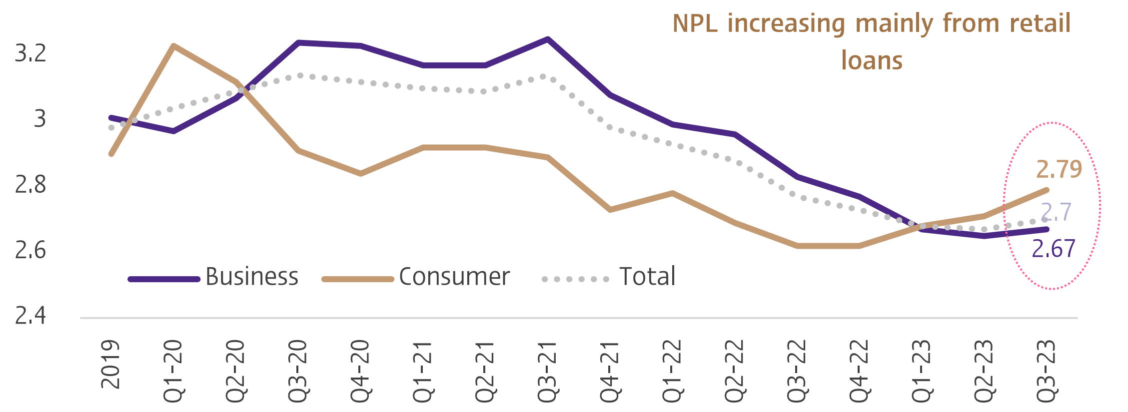
Note: * Calculated using the 12-month rolling headline inflation rate to reduce the fluctuation in inflation numbers
Source: SCB EIC analysis based on data from the Bank of Thailand and CEIC.

SCB EIC

Financial risks which warrant monitoring from the prolonged period of high interest rate include 1) debt repayment ability of vulnerable groups 2) liquidity risks in certain non-bank businesses. And...

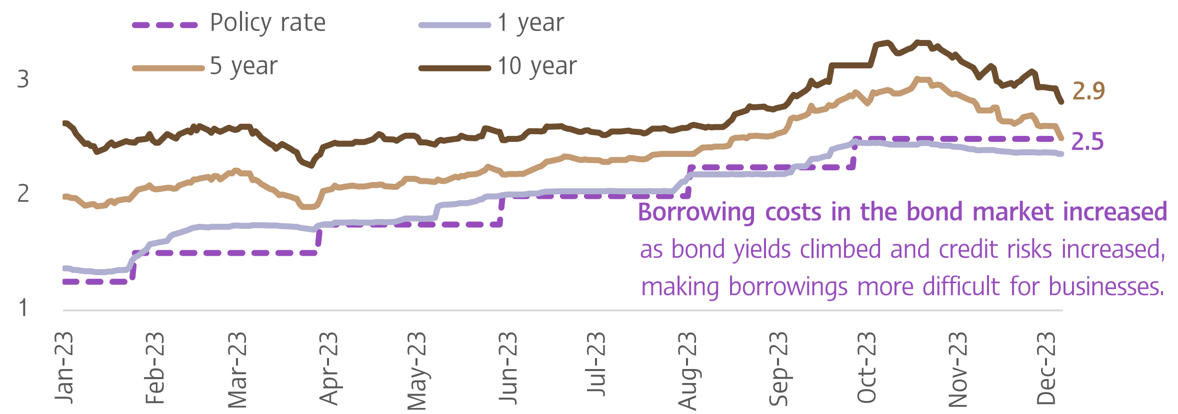
Stage 3: Commercial vs consumer loans NPL

Unit: %



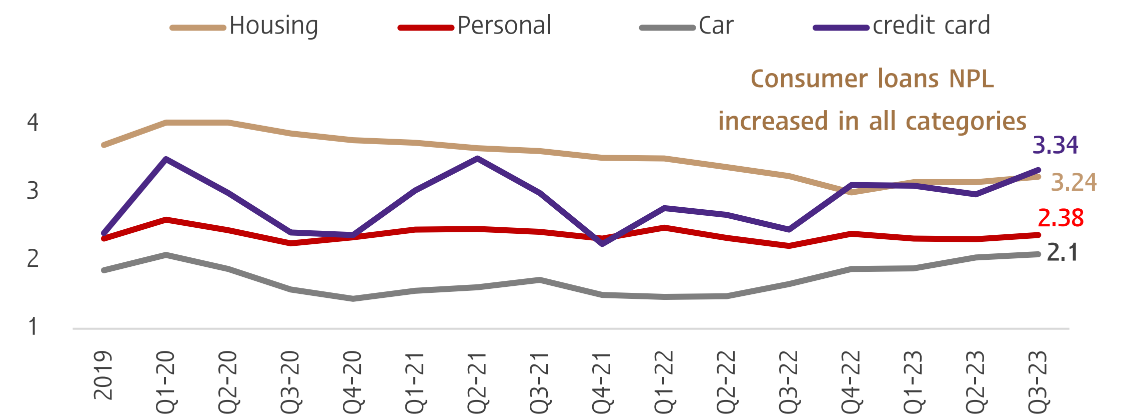
Government Bond Yields

Unit: %



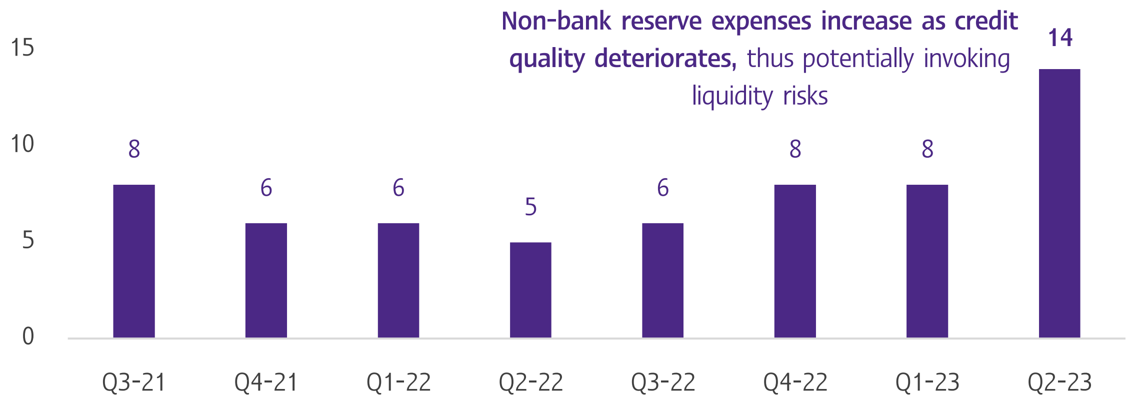
Stage 3: Consumer loans NPL

Unit: %



Number of non-banks with Interest Coverage Ratio (ICR) < 1.5 times

Unit: Numbers (BOT calculation from a sample of 31 companies with loans under supervision)



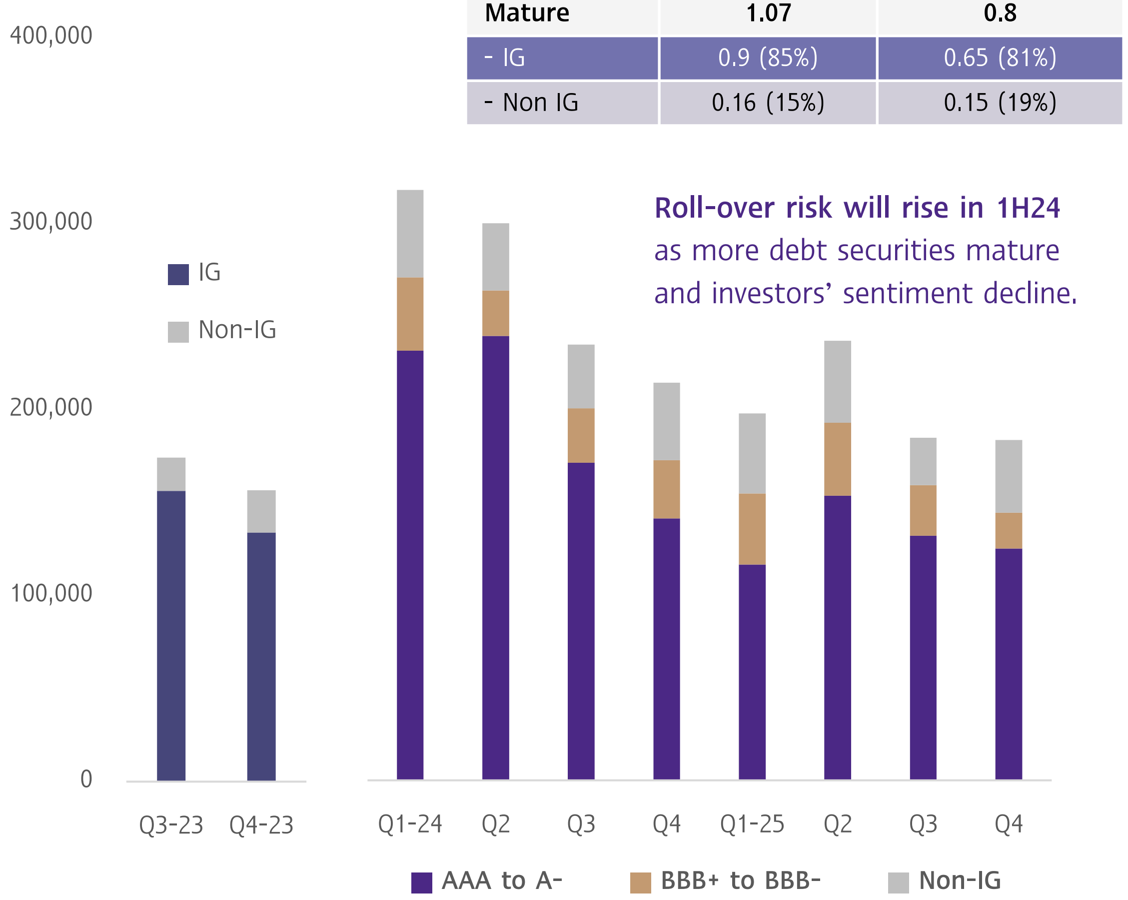
Source: SCB EIC analysis based on data from the Bank of Thailand.

3) Roll-over risk of corporate bonds during high interest period. With a large share of bonds coming to maturities in the first half of 2024, businesses that cannot raise funds in the bond market as targeted will have to rely on loans from financial institutions instead.

Corporate debt securities coming to maturities, by credit ratings

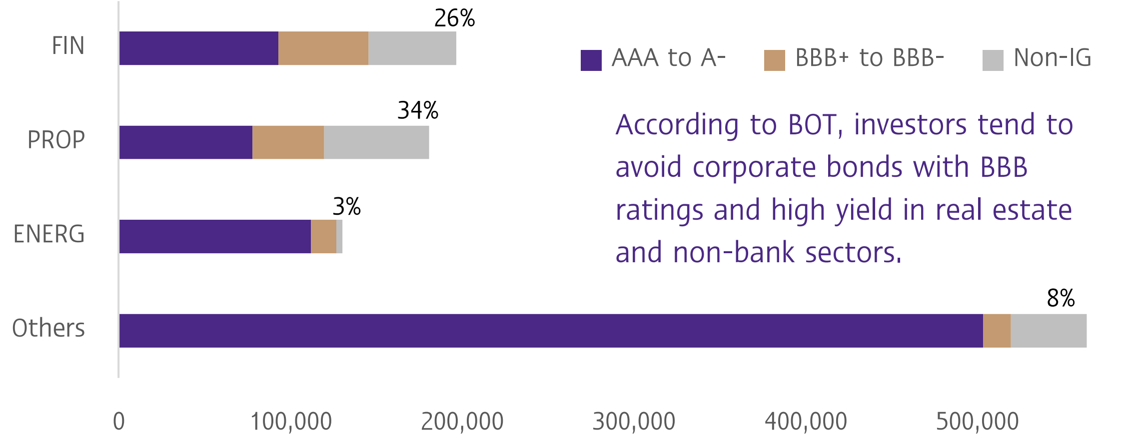
Unit: THB Million

THB Trillion	2024	2025
Mature	1.07	0.8
- IG	0.9 (85%)	0.65 (81%)
- Non IG	0.16 (15%)	0.15 (19%)



Top 3 businesses with the largest amount of bonds coming to maturities

Unit: THB Million



According to BOT, investors tend to avoid corporate bonds with BBB ratings and high yield in real estate and non-bank sectors.

Corporate bonds that did not receive full subscription began to increase in proportion

Source: FS snapshot Q3/2023 by BOT

Source: SCB EIC analysis based on data from ThaiBMA.

Various challenges continue to pressure Thai economic growth and influencing uneven business recovery.

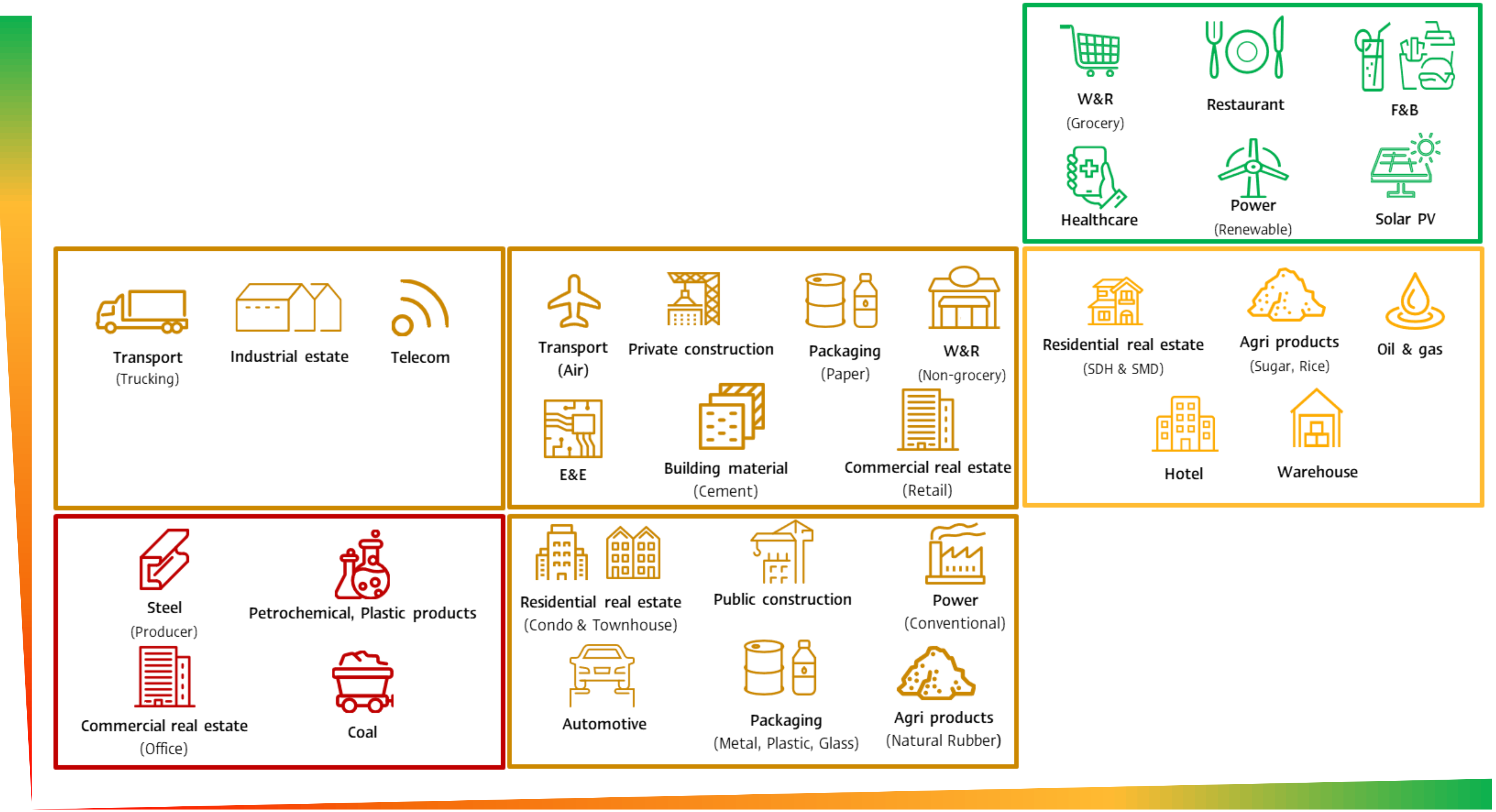
Business risks

Upside Risks

- ✓ Gradual consumption recovery
- ✓ Government stimulus
- ✓ Businesses that align with ESG trends
- ✓ Business that benefit from digitization trends
- ✓ Policies that control agricultural exports from competing countries

Downside Risks

- ✓ Global economic slowdown
- ✓ Geopolitics conflict
- ✓ High household debt and interests
- ✓ Strict credit policy from high NPLs
- ✓ Delayed Budget Act and risks from reducing mega project investment budget to stimulate consumption first
- ✓ Climate change pressures
- ✓ Oversupply conditions
- ✓ More intense competition
- ✓ Risks from adapting to technological changes



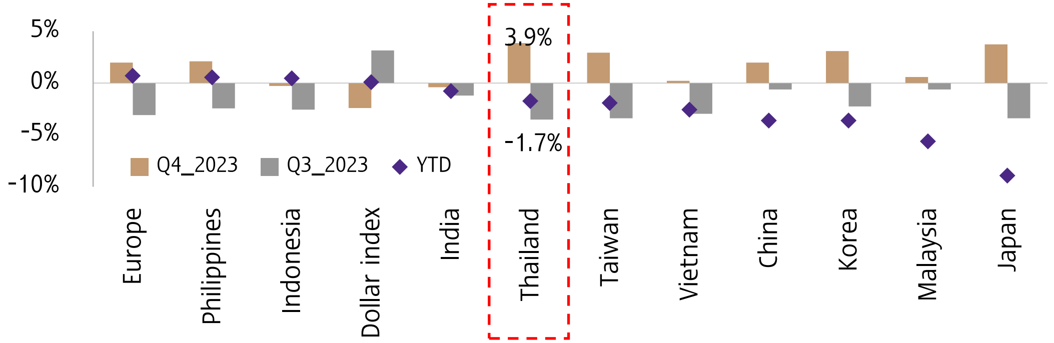
Business sector income growth trends in 2024

Going forward, the baht should continue to strengthen given that the Thai economy continues to show signs of recovery, support from government stimulus, and the Fed lowering interest rates.

The baht appreciated and is within the range forecasted by SCB FM

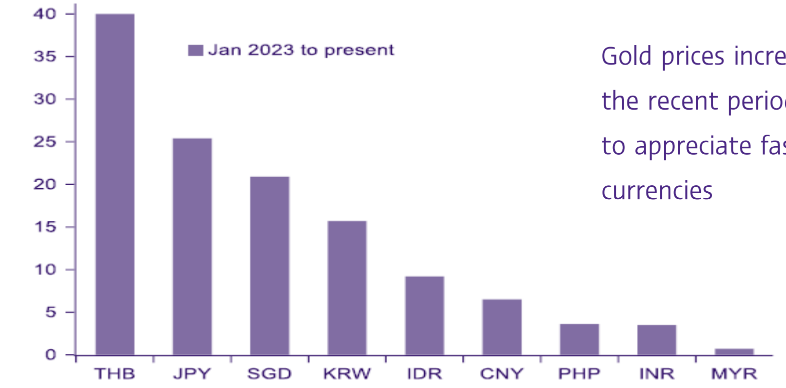
Change of each currency against the US dollar

Unit: % (data as of 12 Dec 2023)



Daily variance in FX explained by gold prices

Unit: %



Gold prices increased rapidly during the recent period, causing the baht to appreciate faster than other currencies

Factors that strengthened the baht in recent periods

- **US Treasury yields dropping and the US dollar depreciating** following weaker than anticipated US economic results
- **Regional currencies strengthening,** i.e. the Chinese Yuan and the Japanese Yen, causing the Baht to also strengthen
- **Rapid gold price increases** after the US bond yield fell sharply
- **The Thai economy continually showing signs of recovery** following export and foreign tourists growth
- **The baht should be in the 35-36 THB/ USD range during the remainder of 2023**

Factors that will strengthen the baht to 32-33 THB/USD by the end of 2024

- **Large scale government stimulus measures will allow the Thai economy** to expand further in 2024; such higher public debt level will not yet downgrade Thailand's credit rating
- **Fed may cut interest rates in 2024**
- **Better Chinese economic sentiment, while BOJ may ease its monetary policy stance,** causing the JPY and other currencies in the region to appreciate

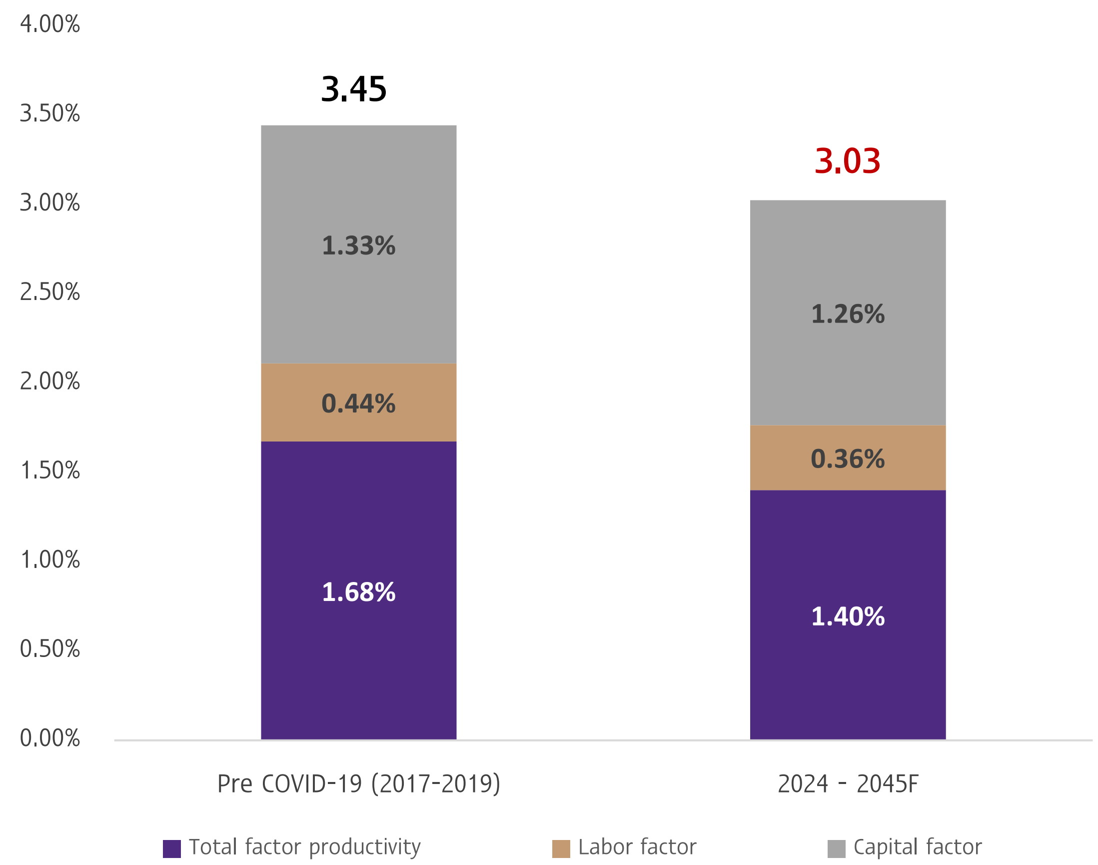
Source: SCB EIC analysis based on data from Bloomberg and BNP Paribas.

Thai economy in the long run:
Lackluster, fragile, and uncertain

In the long term, (1) Thai economy will likely lose momentum and growth potential, **owing to inherent structural problems.**

Forecast and breakdown of Thailand's potential GDP growth

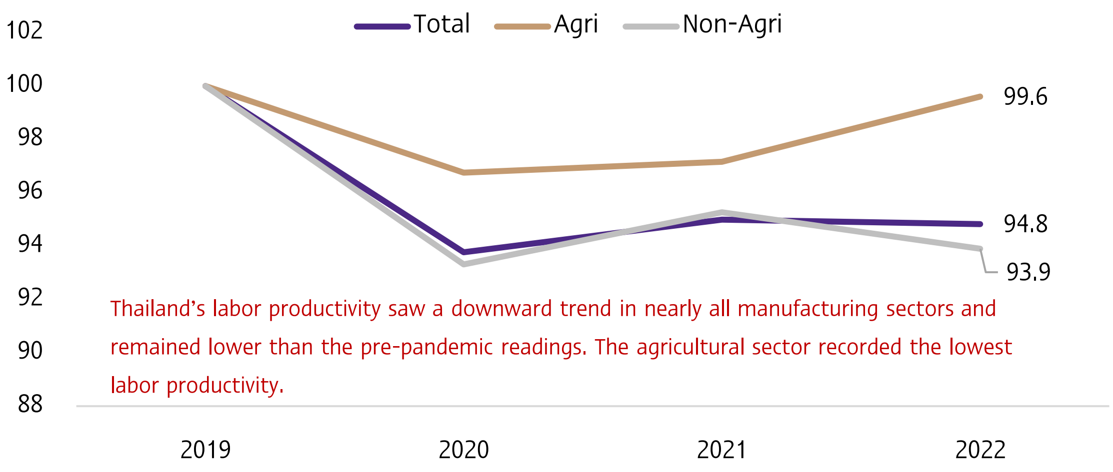
Unit: %YOY



- **Total factor productivity (TFP):** Low investment in technology and R&D, worsening labor reallocation
- **Capital:** Domestic capital accumulation has been persistently low.
- **Labor:** Thailand is aging fast amidst a shrinking labor force.

Labor productivity: Agricultural and non-agricultural sectors

Unit: Index (2019=100)



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

Thailand's competitiveness rankings in many categories—such as government efficiency, infrastructure, and labor productivity—reflected deep-rooted structural weakness and COVID scarring effects.

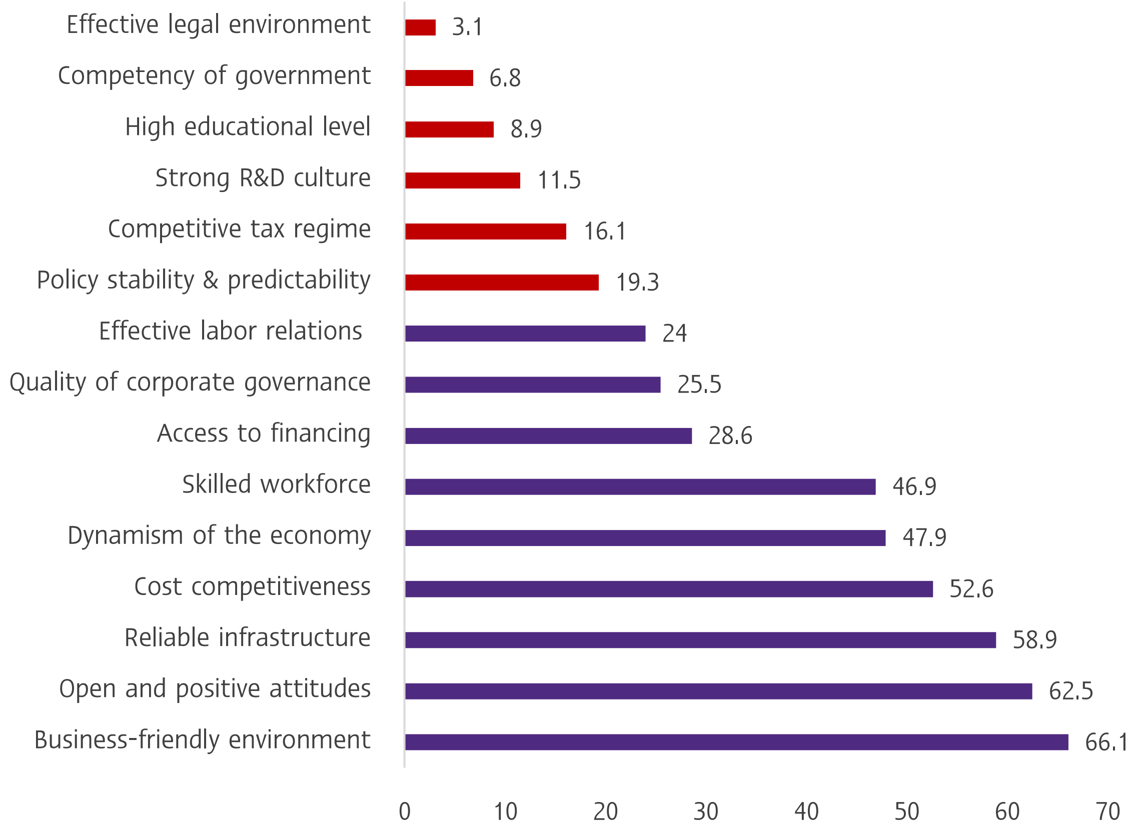
Thailand's competitiveness ranking by IMD

Unit: Rank (out of 64 countries)

	2019	2022	2023
Overall	25	33	30
Economic performance	8	34	16
Government policy	20	31	24
Business efficiency	27	30	23
Infrastructure	45	44	43

Thailand's key attractiveness indicator by IMD

Unit: % of total respondents

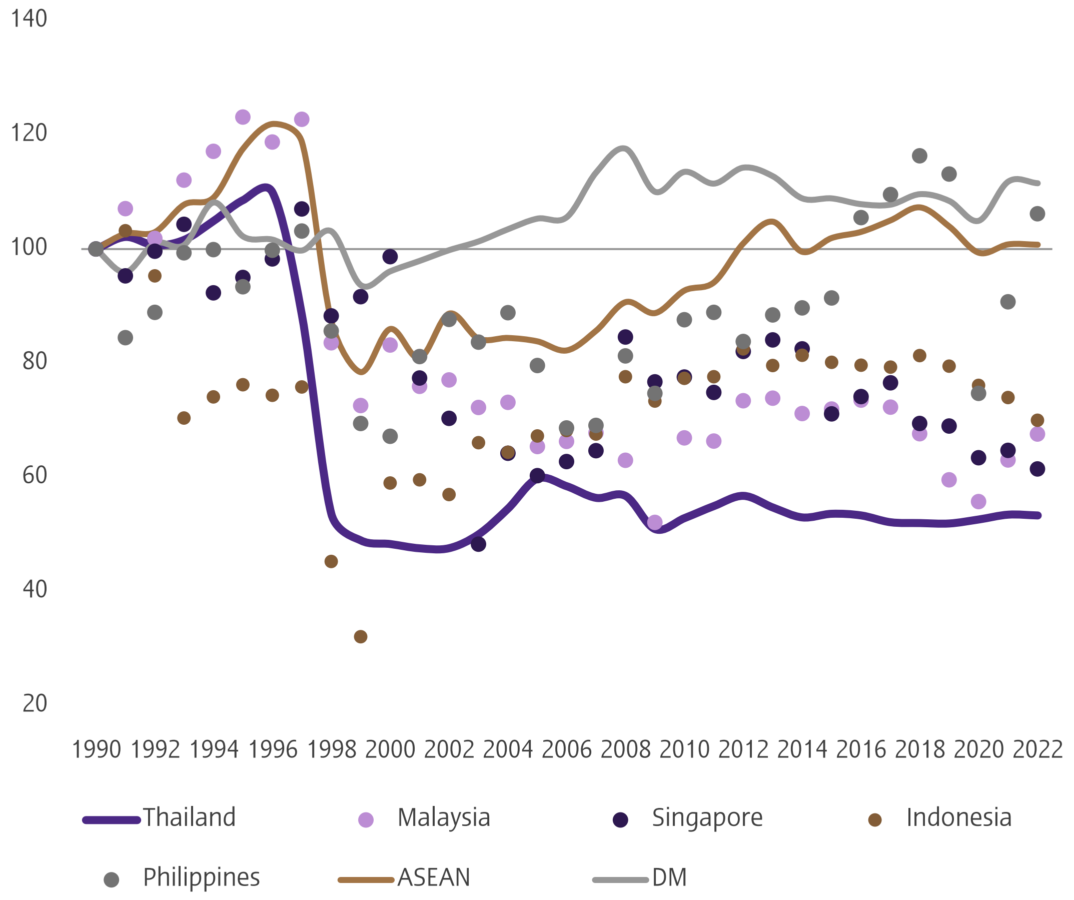


Source: IMD World Competitiveness Ranking 2023.

Low public and private investment and low FDI attractiveness

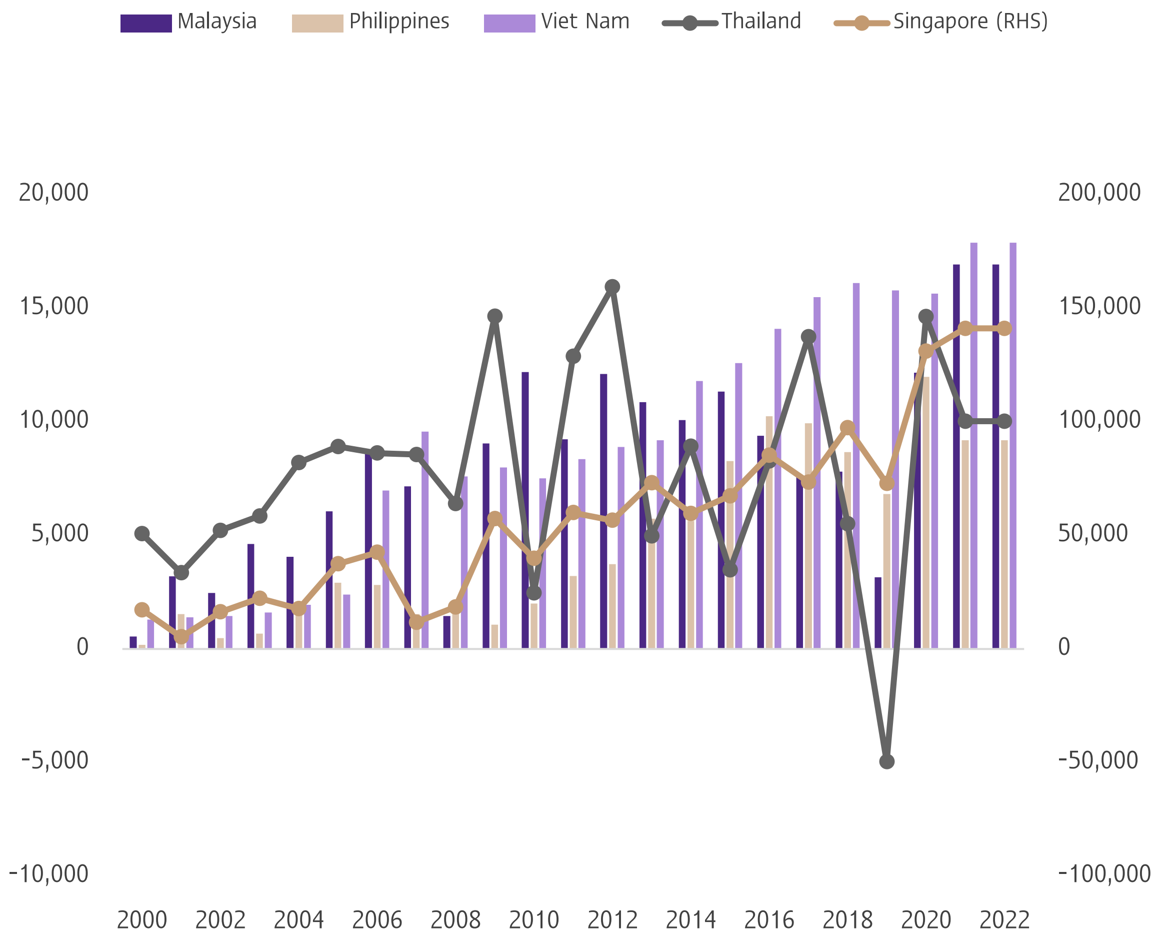
Thailand's investment to GDP has been subdued for over two decades and lower than regional average

Unit: Index 1990 = 100



Thailand's FDI attractiveness fell behind its regional peers.

Unit: Net inflows, million USD

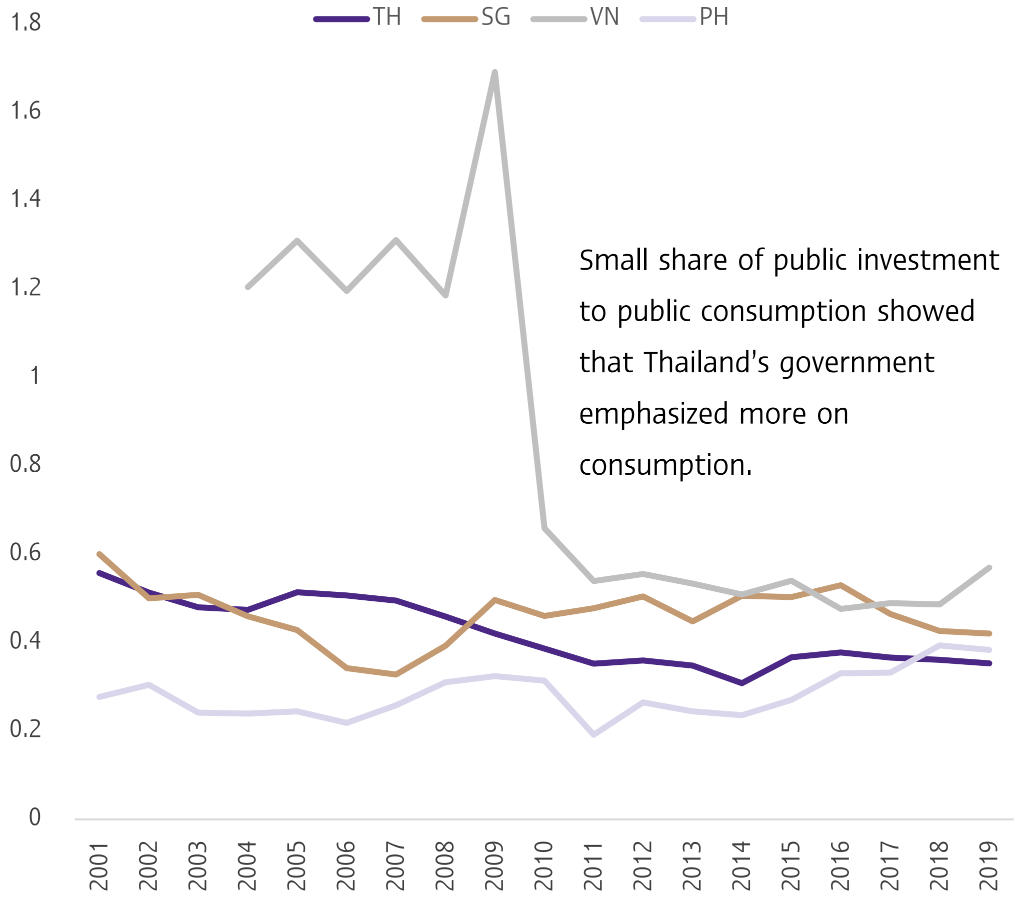


Source: NESDC, IMF, UNCTAD, and Budget Bureau.

Investment in education and public health has been particularly low.

Public investment to consumption ratio

Unit: Ratio



Small share of public investment to public consumption showed that Thailand's government emphasized more on consumption.

Share of total public investment

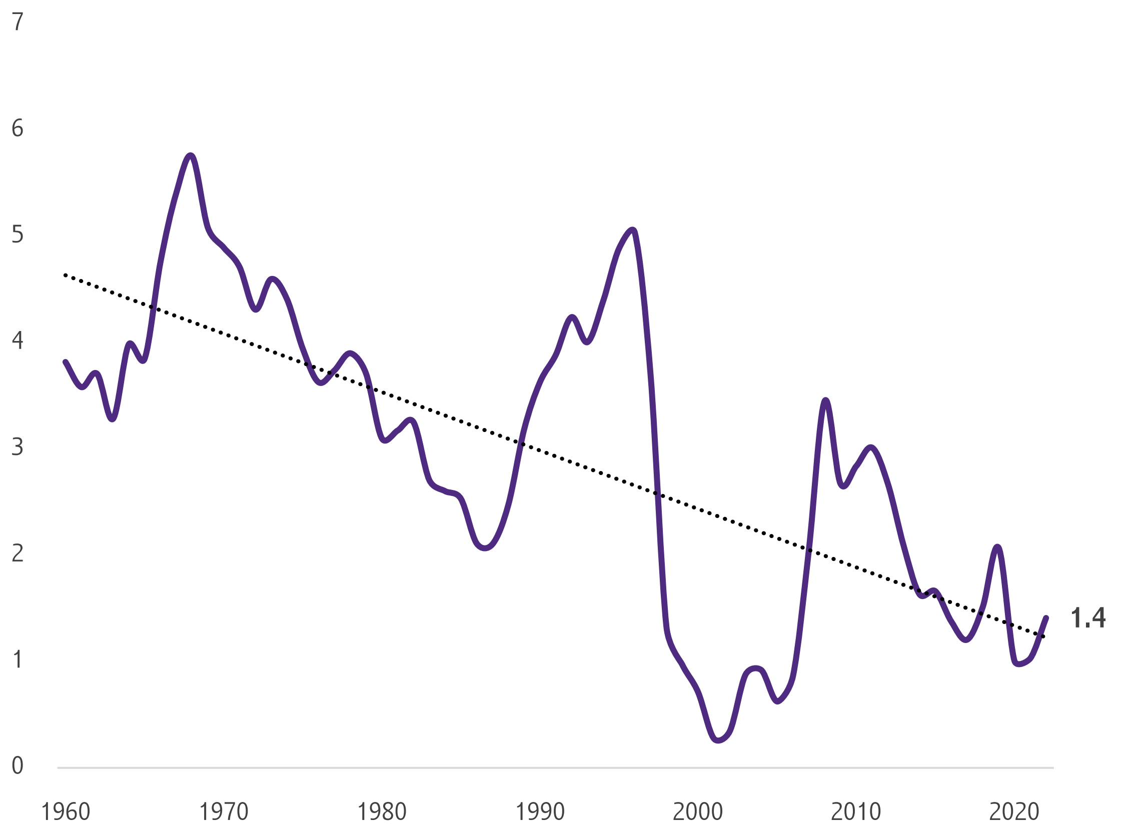
Unit: %

Source: SCB EIC analysis based on data from Public Debt Management Office, CEIC, National Statistical Office, and Thai Labor Market Dynamics and Challenges (2023) https://www.pier.or.th/abridged/2023/20/

(2) Thai economy remains weak and fragile due to uneven recovery of household income and also business revenue. In particular, low-income households and small enterprises are wrestling with high debt and slow income growth.

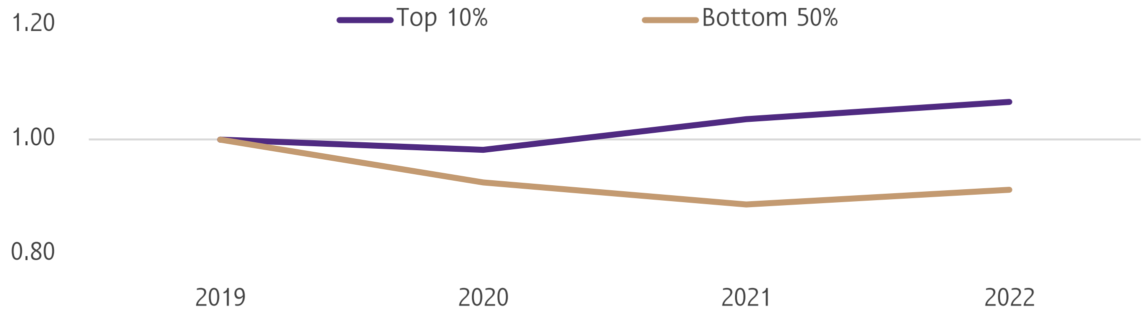
Growth of Thailand's national income per capita (Year 1960–2022)

Unit: %YOY, 10-year moving average



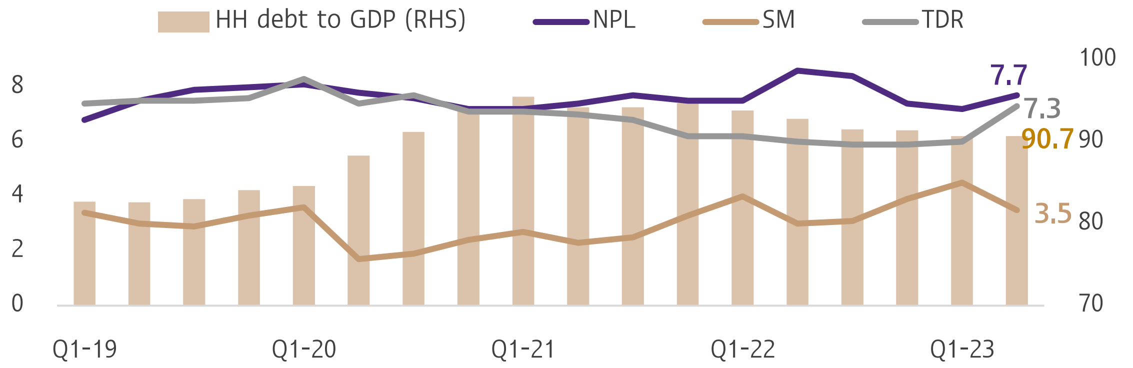
Average earnings before taxes by income group

Unit: 2019 = 1



Thailand's household debt and delinquency rate

Unit: % of GDP (household debt) and % of consumer loan (NPL, SM, TDR)



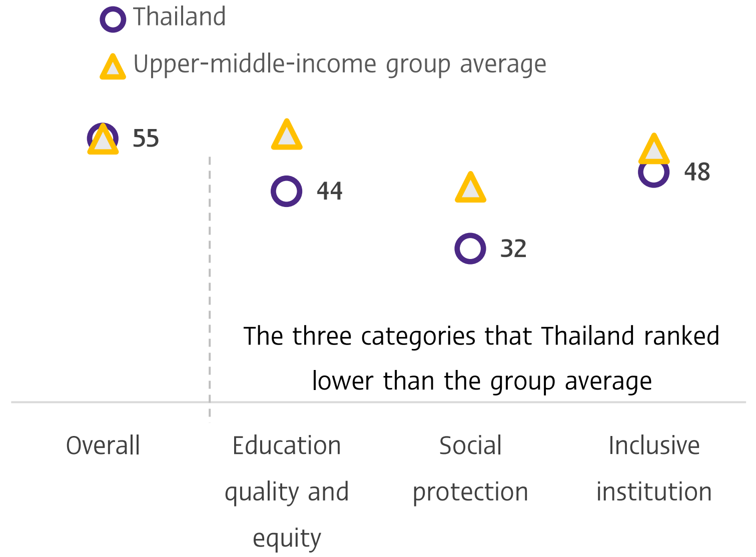
Source: SCB EIC analysis based on data from NESDC, World Inequality Database, and Credit Bureau.

Aside from lacking access to economic opportunities, low-income earners suffer more from economic impacts while grappling with slower income rebound and longer indebtedness.

- **Thai people struggle to uplift their socio-economic status,** given unequal life opportunities due to persistent disparity in education (the number of teachers to students at the tertiary level), social protection, and access to socio-economic institutions—most of which remained inaccessible for some households.
- **Negative economic impacts took a heavier toll on low- and middle-income earners.** The bottom 50% (percentile) suffered more from the COVID impacts due to insufficient income to cover expenses and longer periods of indebtedness, thus resulting in a slow recovery.

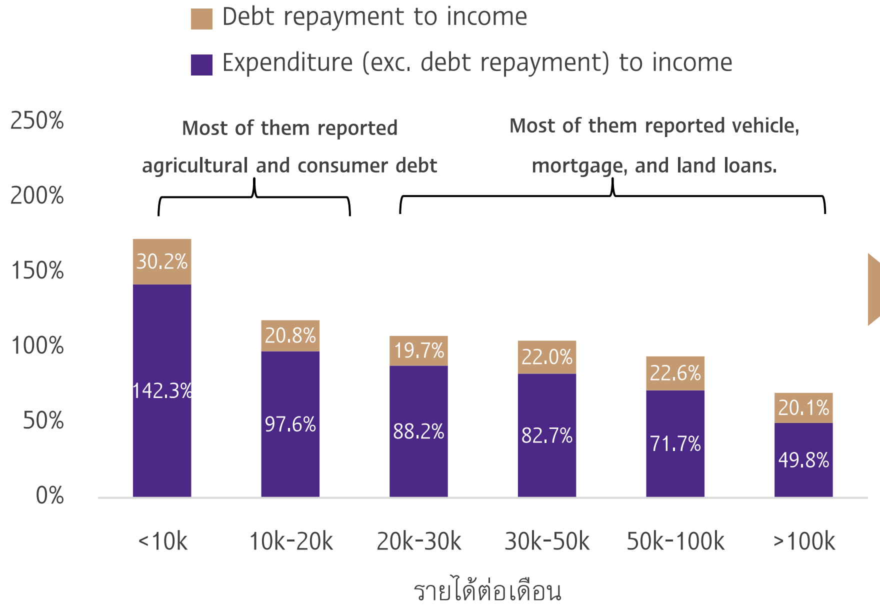
Social mobility index

Unit: out of 100



Household expenditure (incl. debt repayment) to income

Unit: % (2021 data, monthly average)



Based on the SCB EIC Consumer Survey 2023 (Nov 2023),

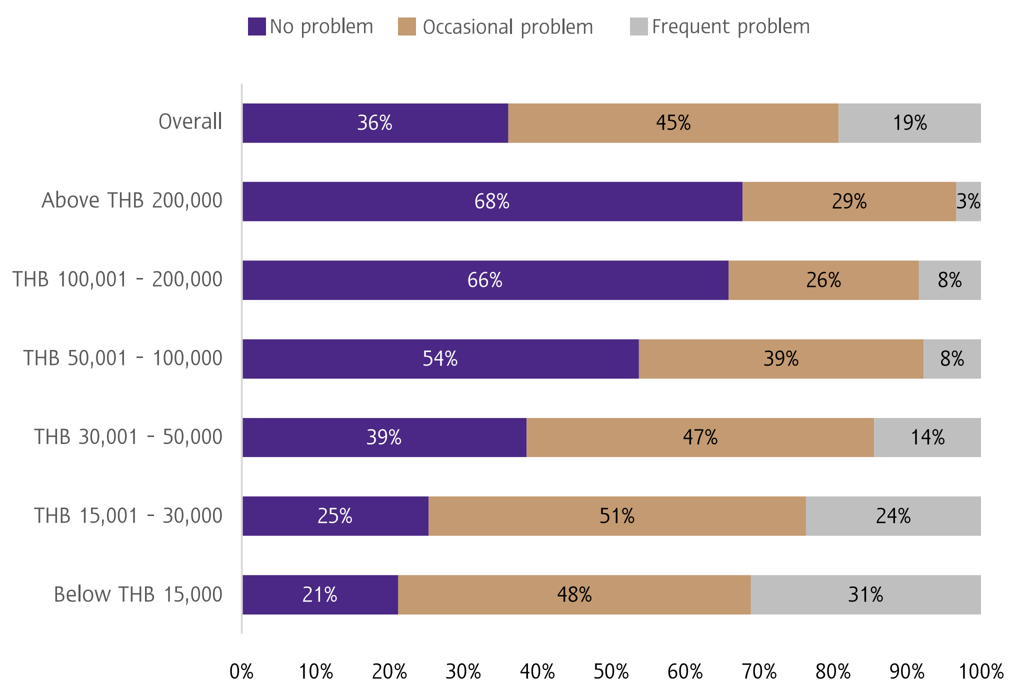
- Among respondents earning THB 15,000-30,000 or lower, over 50% paid off debt with minimum payment or sometimes defaulted on their debt.
- **Low- and middle-income earners tended to be indebted for a longer period.**

Source: SCB EIC analysis based on data from World Economic Forum, World Inequality Database, DBD, National Statistical Office, and SCB EIC Consumer survey during 20 Oct-3 Nov 2023 (2,409 respondents; 1,368 of which were indebted).

Consumers with low income are facing with the problem of income recovering more slowly than expenses. Moreover, they tend to be in debt for a long period.

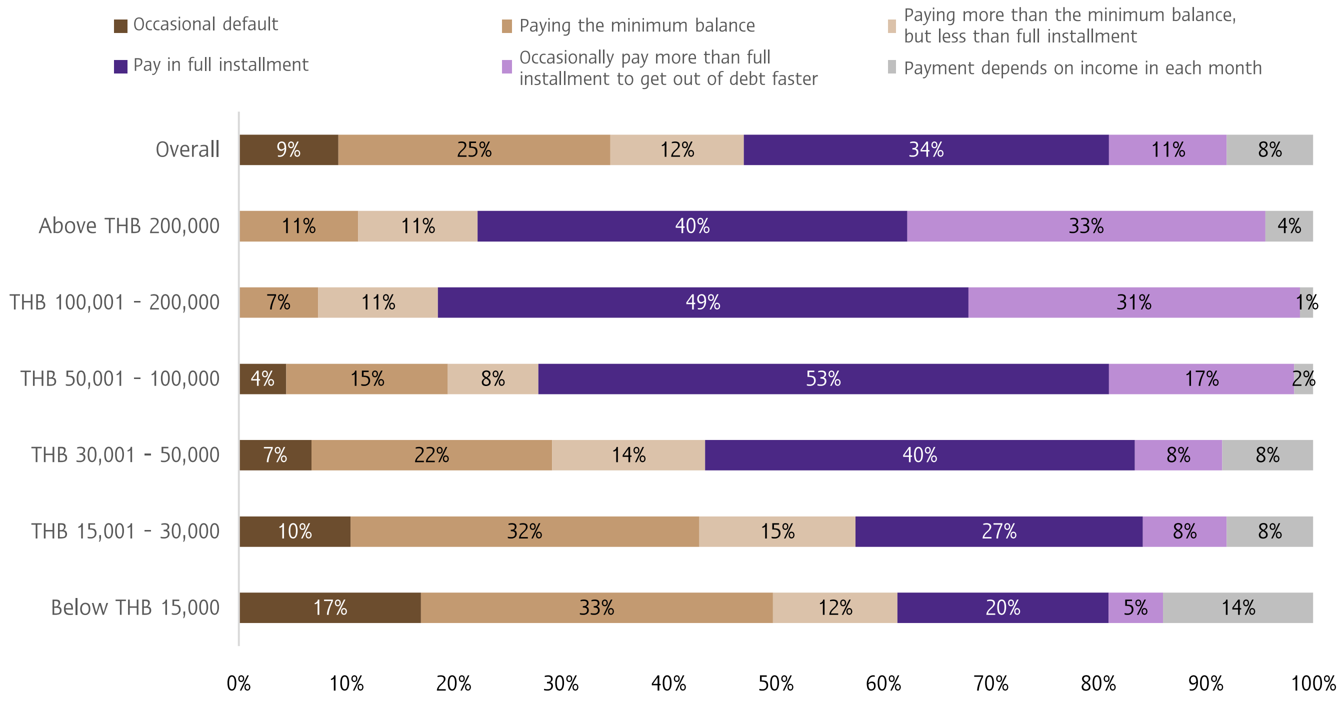
Share of individuals who do not have enough income to cover their expenses (including debt repayment), by income levels

Unit: %



Debt repayment pattern of survey responders, by income

Unit: %



The group with income below THB 50,000 per month do not have sufficient income to cover their expenses. This accounted for more than 50% in each group, with the group with the most problems being the group with income below THB 15,000 per month.

The group with income below THB 30,000 per month have the habit of paying the minimum balance or occasional default, which accounted for more than 50%. As a result, people in this group tend to be in debt for a long period.

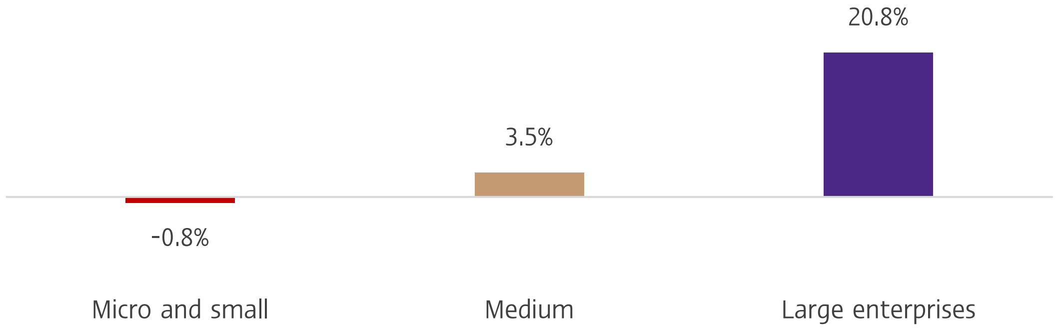
Source: SCB EIC analysis based on data from SCB EIC Consumer survey 2023, surveyed on 20 Oct – 3 Nov 2023 (Sample size = 2,409 persons, 1,368 of which have loans outstanding).

SCB EIC

Businesses also recovered on uneven ground. Small firms observed a slow and fragile rebound with smaller share of total revenue.

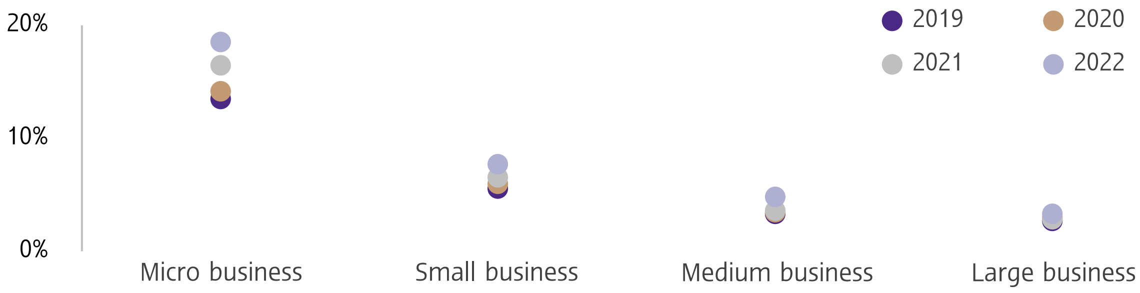
Business recovery index, 2022 (Income)

Unit: change vs. 2019

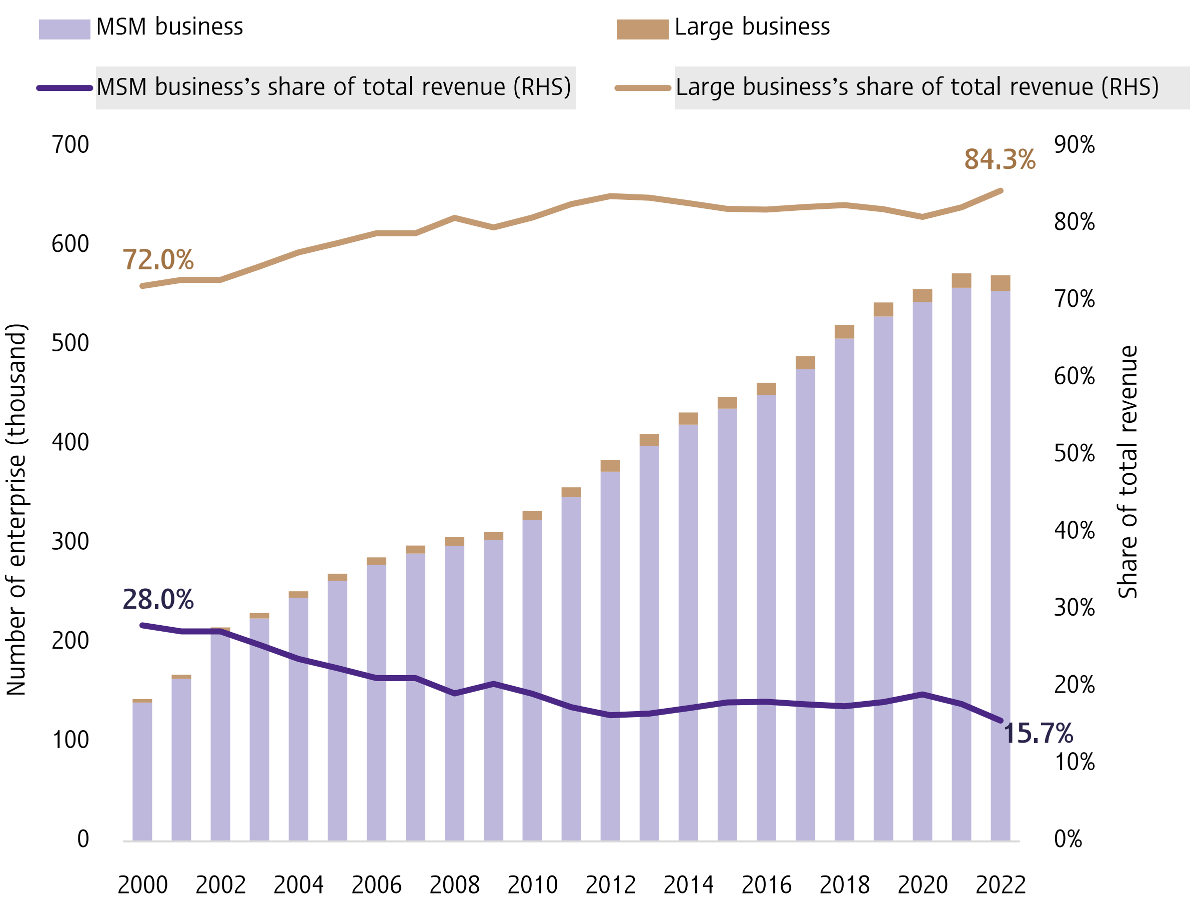


Share of zombie firm during 2019-2022, by business size

Unit: %



Share of Thai business revenue during 2000-2022, by business size



Note: (1) MSM business = Micro, Small, and Medium businesses

(2) Large business = Annual revenue > THB 500 million for the manufacturing sector; and > THB 300 million for the trading and service business

Medium-sized business = Annual revenue ≤ THB 500 million for the manufacturing sector; and ≤ THB 300 million for the trading and service business

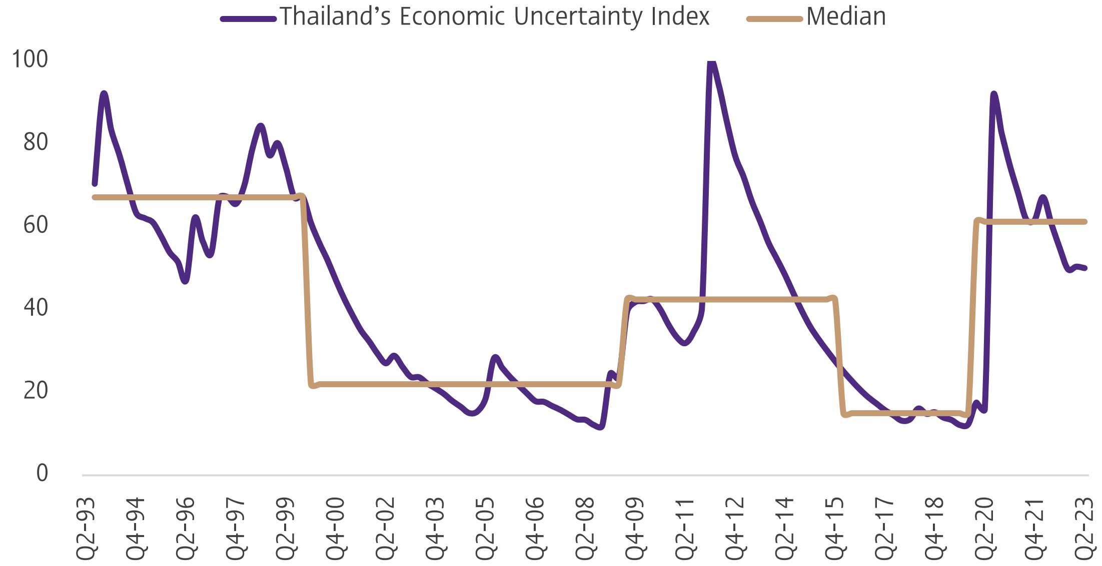
Micro and Small business = Annual revenue ≤ THB 100 million for the manufacturing sector; and ≤ THB 50 million for the trading and service business

Source: SCB EIC analysis based on data from DBD.

(3) Thai economy is confronted with uncertainties even higher than in the pandemic era. These include external factors—climate change and geopolitical issues—and domestic factors from the government policies.

Thailand's Uncertainty Index

Unit: Index



- Despite trending downward from 2023, **Thailand's Uncertainty Index in 2024 will likely stay above the pre-pandemic average.**
- In 2024, Thailand's economic uncertainties will mainly come from global economic volatility and domestic fiscal policies—which could cause immediate impacts on exports and consumption in each quarter.
- Uncertainties from monetary policies and domestic political situations have subsided.

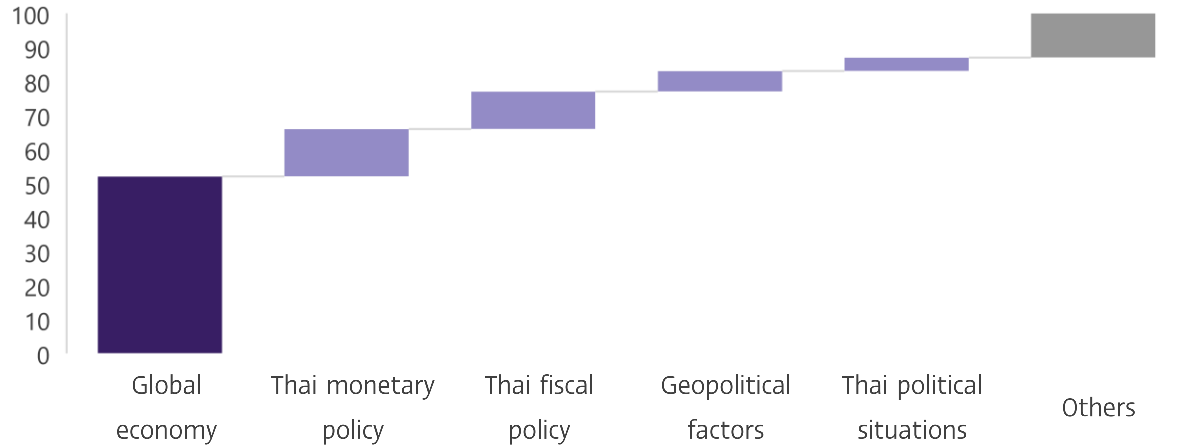
World Uncertainty Indices (WUI): rising global uncertainties in various aspects.

Unit: GDP-weight index

Uncertainty Indices (Source)	2011-15	2016-19Q3	2019Q4-22Q2	2022Q3-
World Uncertainty (IMF)	21,671	26,600	28,564	25,203
World Trade Uncertainty (IMF)	0.6	27.6	26.9	6.5
Geopolitical Risk (C)	93.0	155.7	203.0	219.8
Climate Policy Uncertainty (G)	93.6	153.3	200.9	228.2
3M Ahead Financial Uncertainty (L)	0.88	0.89	1.09	1.09

Transmission of external and domestic uncertainties into Thailand's economy

Unit: Index



Source: SCB EIC analysis based on data from IMF, Bank of Thailand, NESDC, Conflict and Mediation Event Observations, and matteoiacoviello.com
World Uncertainty Indices from Ahir et al (2020, IMF) "The IMF's World Uncertainty Index", Gavriilidis (2021, G) "Measuring Climate Policy Uncertainty", and Caldara et al (2021, C), "Policy News and Stock Market Volatility"

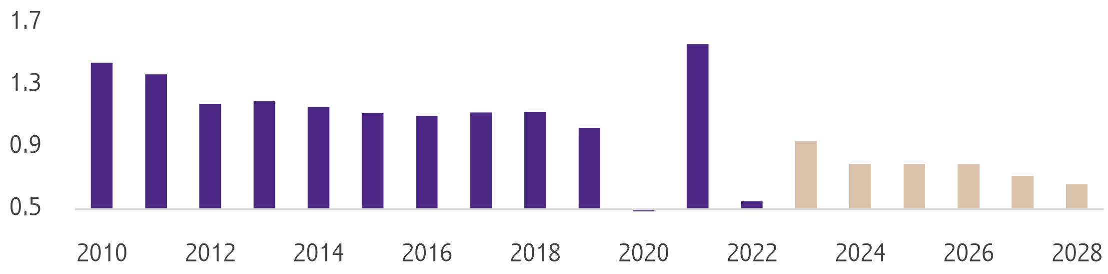
Downside risks remained high from four major headwinds: 1. China's economic slowdown, 2. Geopolitical issues...

1. Structural issues dragged on China's growth.

- China's economy will contribute less to global growth due to deep-seated structural challenges.
- A rebound in the number of Chinese tourists continued to lose pace and will likely drop further if China faces a sharp economic deceleration.

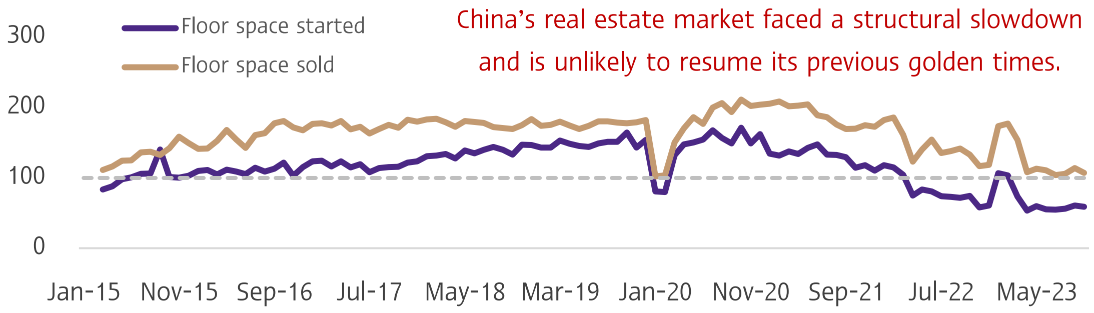
China's contribution in global GDP growth (IMF estimation)

Unit: %YOY



Floor space construction started and sold in China

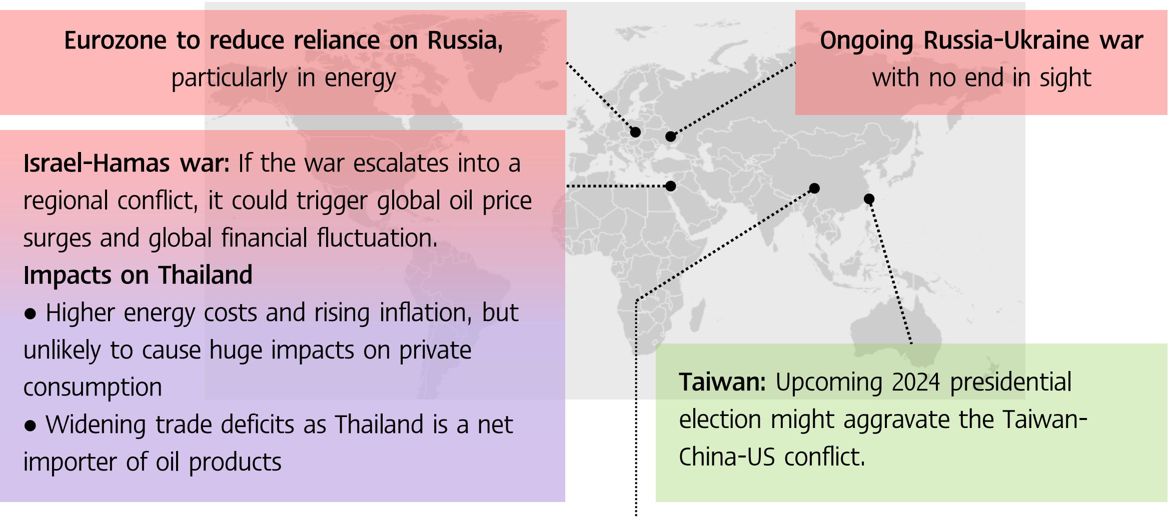
Unit: Index, seasonally-adjusted (Jan 2015 = 100)



2. Economic decoupling might exacerbate geopolitical tensions

- Geopolitical conflicts have become more threatening to the global economy.
- Economic decoupling continues, particularly in the China-US technological race. Thailand is poised to benefit from such decoupling trends.

Geopolitical challenges around the world



Economic Decoupling: Manufacturing relocation out of China

● The US and its alliances tend to cut reliance on China by concentrating investments within their own countries or allies, while imposing trade barriers to safeguard technology competitiveness.

Impact on Thailand: The relocation will benefit the auto & parts and E&E sectors.

Source: SCB EIC analysis based on data from IMF, UNCTAD, Trademap, Ministry of Tourism and Sports, Bloomberg, CEIC, National Bureau of Statistics, and news agencies.

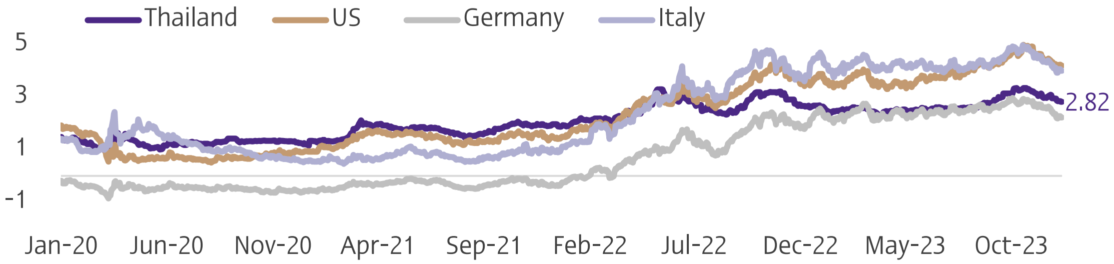
….3. Global Financial Condition, and 4. Climate change

3. Tightening global financial condition might impair EM financial markets

- Global financial conditions have become increasingly tightened, thus resulting in the build-up of vulnerability. External shocks could deter the EMs, where external stability has been low, and eventually threaten the real economies.

10-year government bond yields

Unit: %



Global financial market risks from the high-for-long interest rates

Global Markets

High for long
↓ stems
Financial Condition
↓
Vulnerability Buildups
↓
Systemic Risk

Interconnectedness

Financial Leverage
Liquidity Mismatch

Global Spillover →

- Risk-off appetite
- Asset reallocation
- Capital outflows
- Debt sustainability

Emerging Markets

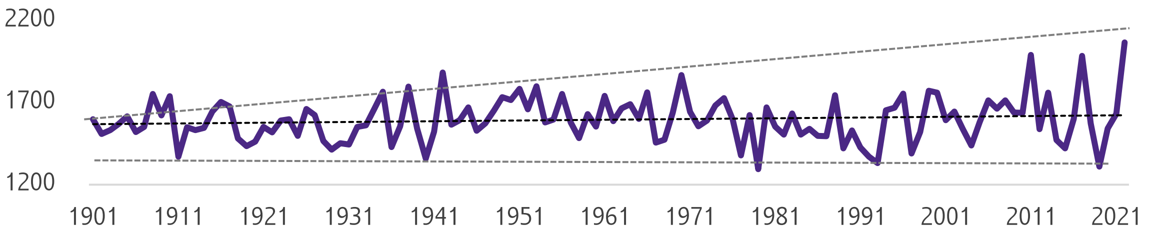
Financial Condition
Financial Markets
Real Economy

4. Risks from climate change and global transitions

- Thailand is facing more frequent and unprecedented risks from climate change.
- Pressing challenges for Thai businesses in adapting to climate regulations, which have become increasingly stringent.

Rainfall

Unit: Millimeter



Transition risk

Regulatory transition | Technology transition | Changing consumer behaviors

EU

Agricultural and forestry products regulation (2024)
Construction materials regulation (2026)
Corporate Sustainability Due Diligence (CSDD) applies to EU and non-EU companies. (2027–2030)

2023 2024 2025 2026 2027 2028 2029 2030

Thailand

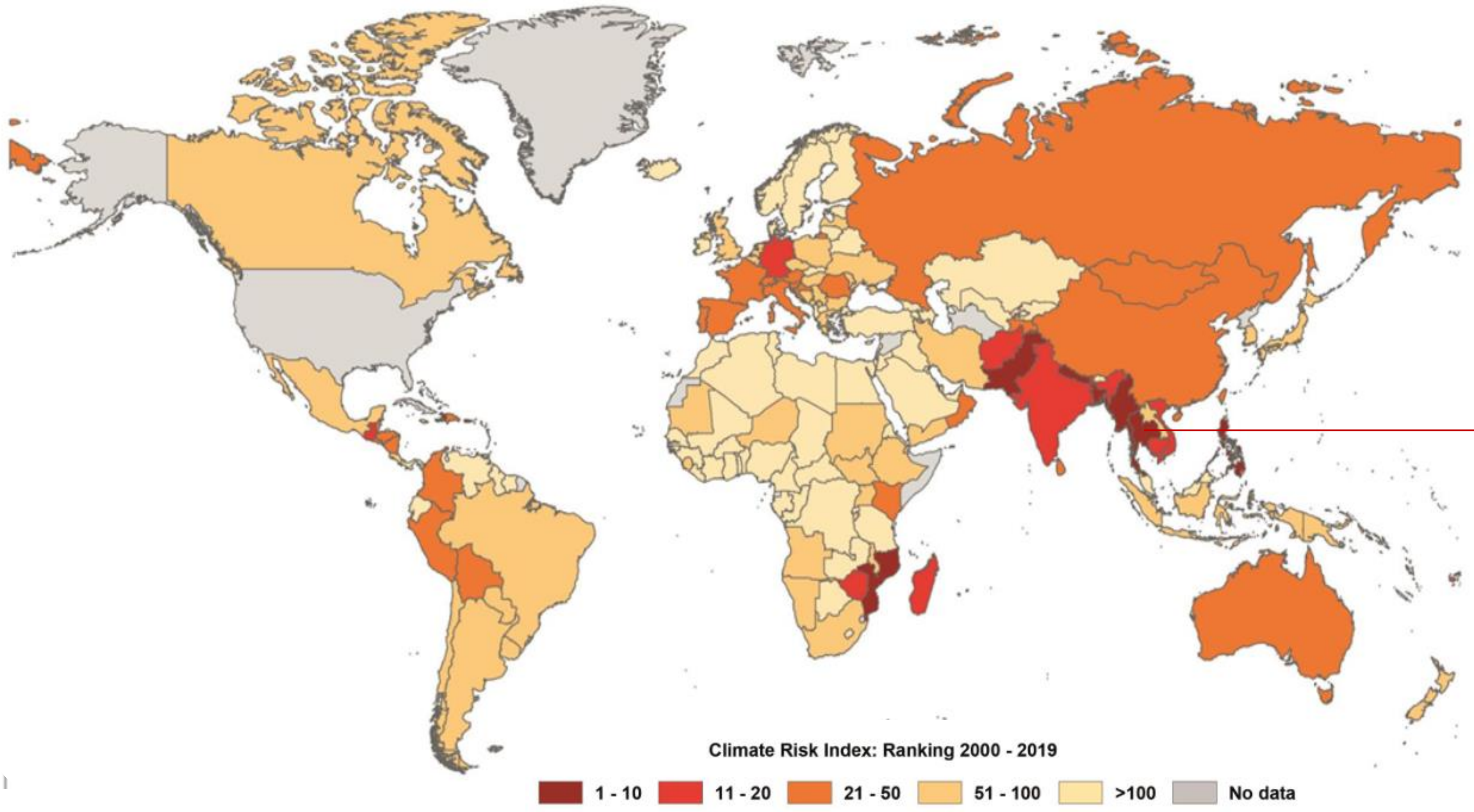
Taxonomy

- GHG reduction remains a voluntary pledge
- Not yet enforce any climate change regulation

Source: SCB EIC analysis based on data from World Bank, Climate Action Tracker, IPCC (2021), Science, Goldman Sachs, Bloomberg, and IMF Global financial stability report (Apr23, Oct23).

Thailand is considered highly vulnerable to the effects of climate change.

Global Climate Risk Index, 2021



Thailand ranked 9th as the countries that are most affected by natural disasters in 2000 – 2019.

Source: SCB EIC analysis based on data from Germanwatch.

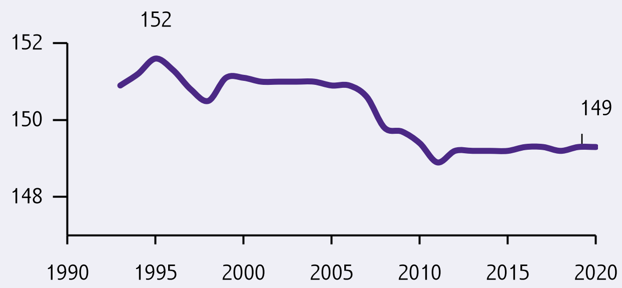
Agricultural sector is one of the most vulnerable sectors due to structural problems.

Thai agricultural industry will continue to "weaken" if such problems are not resolved.

3 structural problems in Thai agricultural sector

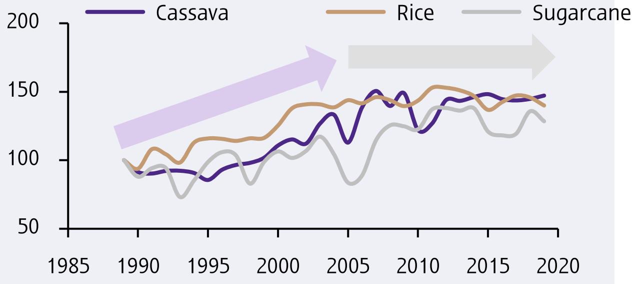
1 Shrinking farm lands

Land for agriculture (Million Rai)



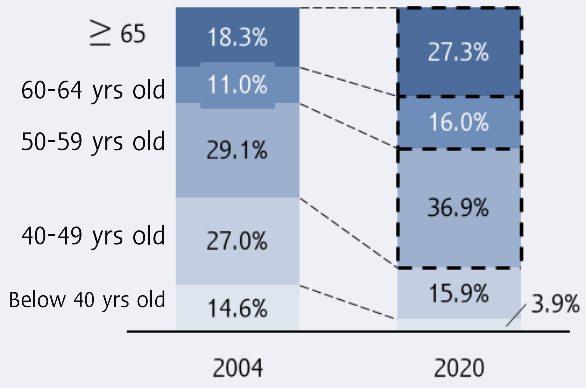
2 Yields per rai has not increased for more than 2 decades.

Yield per rai index (1989 = 100)



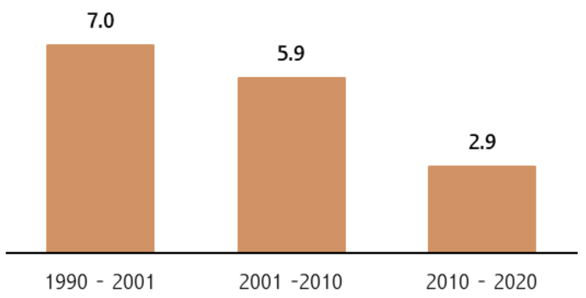
3 Most farmers are entering old age

Head of farming households, by age (%)



Growth of farm income

Unit : %YOY



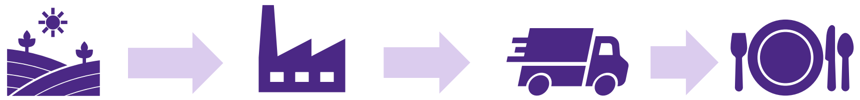
Slow growth of farm income will deter growth in agricultural industry.

Thai agricultural industry needs major adjustments to prepare for several challenges.

Economic uncertainties | Climate change | Moving towards low carbon society | ESG and sustainability trends

Adaptability of upstream farmers with new necessities, such as sustainability standards and water storage, is an indicator on the survival and sustainability of Thai agricultural industry.

Value Chain in the Agricultural Industry



Agricultural Produce → Primary/Advanced Processing → Distribution/Marketing → Consumption

Low farm income with slower growth is dragging down Thai farmers' ability to adapt.

Debt Trap

Low income growth → Income insufficient for expenses → High Debt Burden → Lack the will and ability to invest for changes

Source: SCB EIC analysis based on data from the Office of Agricultural Economics.

Enhancing the "Progressive, Robust, and Secure" Thai economy

(1) Nurture an economic immunity for households via inclusive and sufficient social assistance and social insurance.

Self Insurance

Risk Sharing

Informal Mechanism

Social Capital

Formal Mechanism

Insurance Market

Government Mechanism

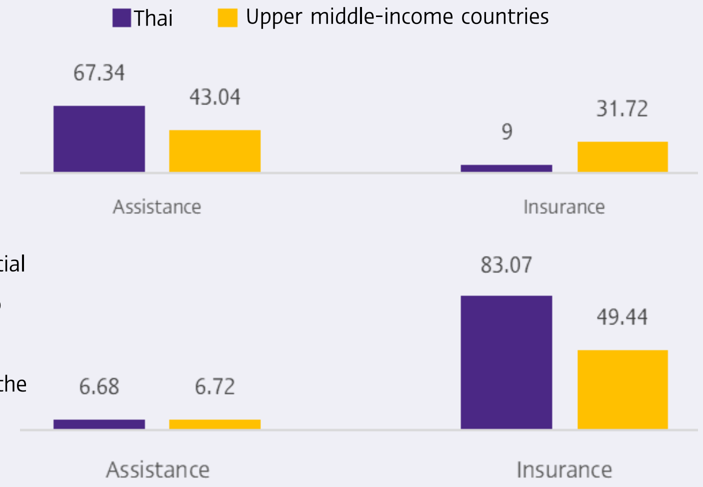
Social Assistance

Social Insurance

Inclusiveness and sufficiency of Social Assistance and Social Insurance

Inclusiveness: Share of households able to access the mechanisms (%)

Sufficiency: Share of financial aids or insurance money to income, included only households able to access the mechanisms (%)



Source: SCB EIC analysis based on data from World Bank

Initiatives

Short-term:

Foster social assistance efficiency and social insurance coverage in an early phase, when most households remain unable to insure themselves or purchase insurance packages from insurance companies

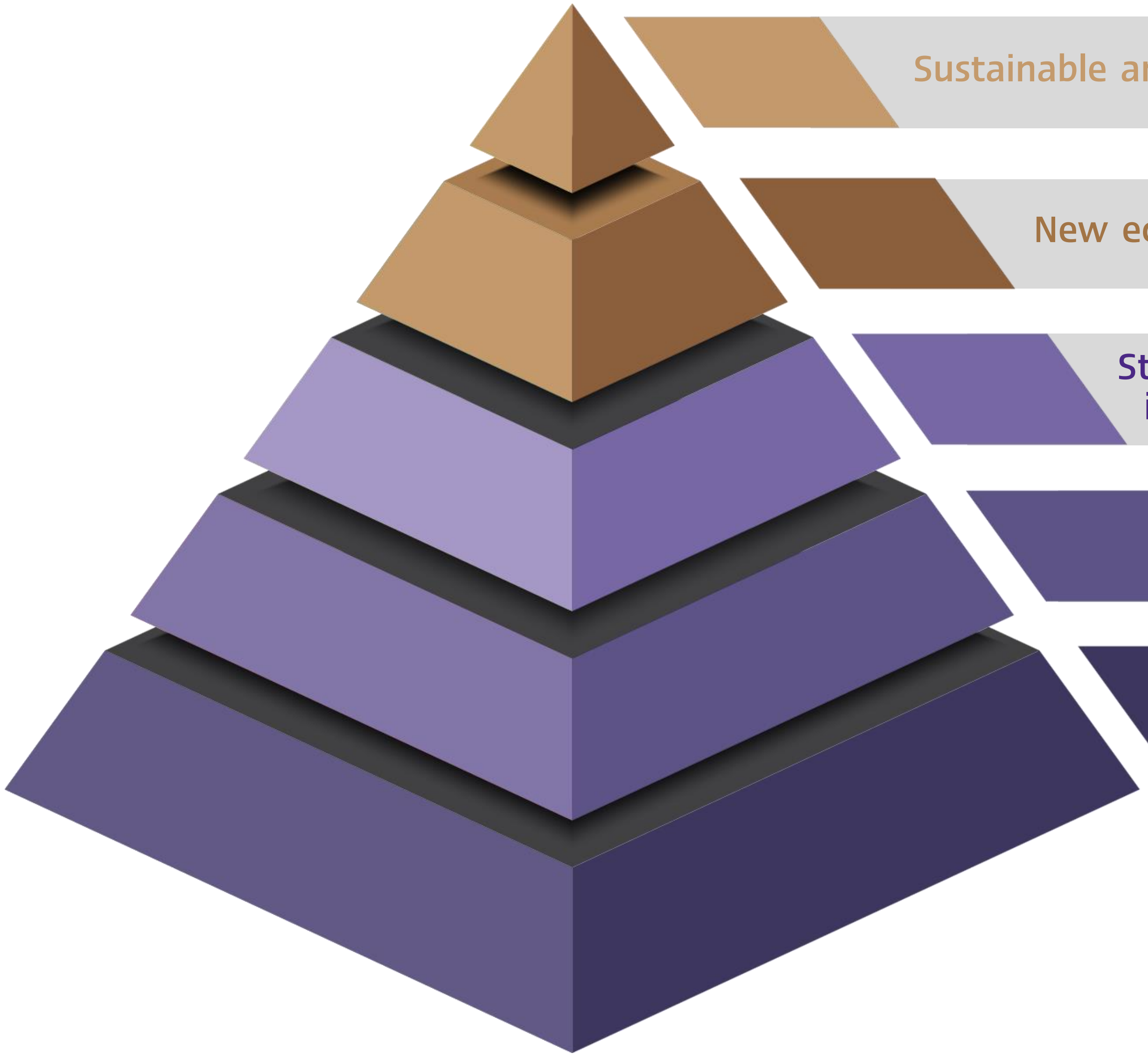
Long-term:

Empower community networks, strengthen social capital, and increase the depth and breadth of players and products in the insurance market

(2) Enhance Thai business competitiveness

Initiatives	1. Regulatory guillotine	2. Enhance trade competitiveness	3. Join OECD
Objective	Strengthen national competitiveness and broaden economic opportunities	Improve the effectiveness of the Trade Competition Act	Thai businesses will benefit from broader export markets for products and services, while strengthening their footing in the global supply chain.
Details	Eliminate/ simplify laws and regulations that are (1) Redundant (2) Lack of clear objective (3) Ineffective Target: Axing the number of inefficient laws by 25% within a year (continuous efforts from the previous government)	Reform institutional structures (legislation, organizational structure) to enable effective enforcement of the Trade Competition Act	Support Thailand in joining the OECD and other FTAs ● Promote businesses that enhance product/ service and marketing campaign qualities ● Subsidize manufacturers/ service providers that invest in value-addition ● Promote exports of high value-added products/ services
Expected outcomes	**Thailand to rank among the world's top 15** in the Ease of Doing Business Index (Business Ready: B-Ready)	At least 1 case of the Trade Competitive Act Enforcement within 3 years	Enhance GVC participation in the GVC network with higher strategic significance

(3) Foster new **strategic investment**



Sustainable and inclusive economic growth

New economic engines

Strategic investment — Green transition-aligned investment, investment in target sectors corresponding to changes in the global supply chain and geopolitics

Good capital management — Attract private investment with appealing incentives, promote project-based funding, review public investment budget allocation

Accommodating investment climate — Enhance infrastructure, improve financial system, reform institutional regulations to be more conducive for business operation

(4) Strengthen the sustainability of Thailand's manufacturing sector through robust support from the government, which will play a crucial role in enabling Thai businesses to adapt effectively and sustainably to emerging global trends.

Business restructuring and government supports

Risks to business structure

Economic factors and international policies

- Global economy remains highly uncertain
- China's economic slowdown
- Thailand's economy still exhibits some vulnerabilities
- Geopolitical risks
- Rising trade barriers and protectionism

Cost and competitiveness

- Volatile energy and raw material prices
- Wages on an uptrend
- Labor shortage
- More intense competition

Risks from megatrends

- Technological disruption
- ESG issues
- Climate risks
- Changing consumer behaviors

Implemented/ upcoming policies that would benefit businesses

- **Domestic consumption bolster** such as free visas, Easy e-Receipts, digital wallet

W&R, F&B, Restaurant, Hotel

- **More infrastructure investment**

Construction, Building material, Steel, Telecom

- **Investment incentives for new target industries**

IE & Warehouse, E&E, Healthcare, F&B

- **Energy policies** such as electricity bill relief, promoting clean energy

Transport, Power (Renewable), Solar PV, Automotive (EV)

- **International trade promotion** such as FTAs, AD

Agri products, F&B

How businesses can adapt to changes

- Effective cost management
- Reduce reliance on a single market
- Seek new markets/ Business diversification
- More technology adoption
- Address ESG trends
- Never stop improving products and services to keep up with changing consumer behaviors

Policies under consideration

Other consumption boosts, such as

- Continuous campaigns to bolster tourism
- Extending property transfer fee cuts, and raising home ceiling prices

Measures to enhance competitiveness, such as

- Financial support for product development that seizes opportunities from global trends
- Tax incentives for raw material imports

Promoting technology adoption, such as

- Incentives for technology adoption
- Promote R&D
- Enhance skilled labors

ESG investment policies, such as

- Soft loans for investment in energy-efficient technology and eco-friendly products
- Subsidies for solar rooftop installation and ZEV fleets for transportation

Source: SCB EIC analysis.

Policies to revamp and strengthen Thai agricultural sector are needed.

The key to success is to systematically fix structural problems of Thai agricultural sector with technology and collaboration of all related parties in the value chain .

	1 Investments on Research and Development	2 Invest for water security	3 Promote the usage of AgriTech to increase yields and price	4 Transition to high value agriculture	5 Investments on building network of related parties
Detail	Invest in research and development to create agricultural innovations and technologies that meet the needs of the market and improve agricultural productions.	Invest to improve water management capacity, both on the supply and demand sides, by using technologies and innovations.	Encourage small farmers to use AgriTech to enhance their management efficiency from cultivation to marketing	Encourage farmers to shift to plants that yields higher return per rai with cluster development strategy	Create a large network that includes farmers, private sector, government, and civil society to drive changes in agricultural sector
Example	• Develop plat species • Find methods to adapt to climate change • Develop monitoring and warning systems for natural disasters	• Build water storage ponds • Develop water networks with underground pipelines • Install sensors to collect water data • Drip irrigation system will help improve efficiency of water usage	• Use drones for agriculture • Agriculture through digital services such as online consultations • Connect different players in the supply-chain with digital platform • Financial technology for farmers such as crop insurance and online loans	• Develop clusters focusing on vegetable, fruit and herbs such as salad leaves, durian, banana, etc. and create a system where farmers can share knowledge and information, as well as collaborate to enter high value market	• Create a collaboration network that work with farmers to change their ways of farming to ensure that their method of cultivation is appropriate for the soil, climate and plants.

Note: Further detail of recommendations is available in SCB EIC articles “Ways out for the Thai rice industry” and “ ”Getting a foothold’: using AgriTech and cluster development to overcome slow growth of farm income”
Source: SCB EIC analysis.

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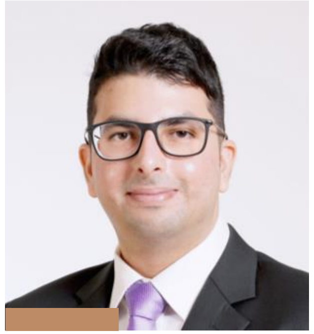

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