

# Thai Economic Outlook 2023

## Continued Recovery amid Tight Global and Domestic Financial Conditions

Economic Research Department

---

29 June 2023



A Strategic Partner of S&P Global



# Key takeaways: TRIS Rating reaffirms its previous forecast of 3.5% economic growth in 2023 with recoveries in tourism, private consumption, and total investment being the main drivers

## Key drivers



- Accelerated recovery in exports of services from increasing numbers of international tourists
- Continued recovery of private consumption especially expenditure in restaurants and hotels thanks to improving average incomes and increasing tourist receipts
- Revival in total investment
  - Private investment continues to grow at a slower pace in line with exports of goods
  - Public investment recovers on the back of higher budgets, continued disbursements in ongoing investment projects and a low base in 2022

## Key risks



- Lingering inflationary pressures, especially in advanced economies, could lead to further tightening of monetary conditions and heighten emerging market foreign exchange (FX) volatilities
- Global economic slowdown weighs on Thai exports of goods
- Escalating geopolitical risks impact global supply chains, investment environment, and tourism recoveries
- Delays in government formation might impact various growth engines, especially further delays in government consumption and approval of new public investment projects

# Thai economy expected to grow by 3.5% in 2023, in line with our previous forecast, in tandem with recoveries in tourism, private consumption, and total investment

Key Indicators	2019	2020	2021	2022	2023F (Previous*)
Real GDP (% y-o-y)	2.1	-6.1	1.5	2.6	3.5
Private Consumption	4.0	-0.8	0.6	6.3	3.7 (3.5)
Public Consumption	1.6	1.4	3.7	0.0	-2.2 (-0.5)
Private Investment	2.6	-8.1	3.0	5.1	2.5 (3.2)
Public Investment	0.1	5.1	3.4	-4.9	2.8
Export volume (Goods and Services)	-3.0	-19.7	11.1	6.8	6.3 (6.4)
Import volume (Goods and Services)	-5.2	-13.9	17.8	4.1	2.5 (3.3)
No. Tourists (mil. people)	39.9	6.7	0.4	11.2	28.5 (27)

## Assumptions

### Dubai oil price

Average 2022: USD96.2/Barrel  
Average 2023: USD80-USD90/Barrel

### Headline inflation

Average 2022: 6.1%  
Average 2023: 2.0%-2.5%

### Exchange rate

Average 2022: 35.1 Baht/USD  
Average 2023: 33.5 Baht/USD

### Policy interest rate

Year-end 2022: 1.25%  
Year-end 2023: 2.50%

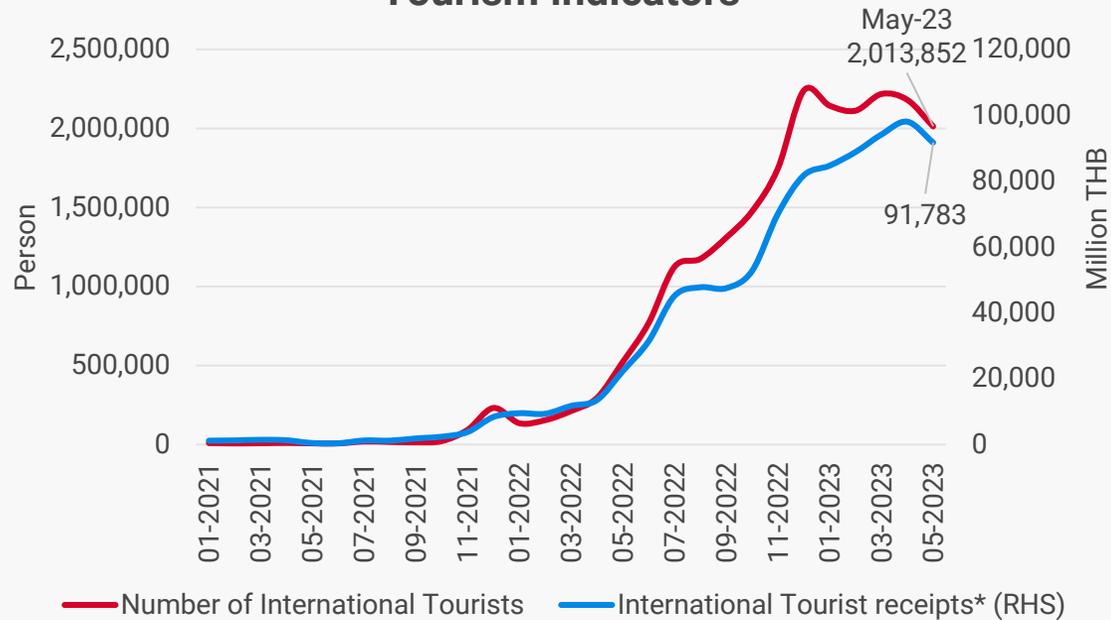
\* Previous forecast as of 23 February 2023

Sources: Office of National Economic and Social Development Council (NESDC), Ministry of Tourism Sports (MOTS), and TRIS Rating

29-Jun-23

# Exports of services continue to be the main driver of growth in 2023

### Tourism indicators



\* Preliminary data

Source: Ministry of Tourism and Sports (MOTS)



### Hotel Occupancy Rate

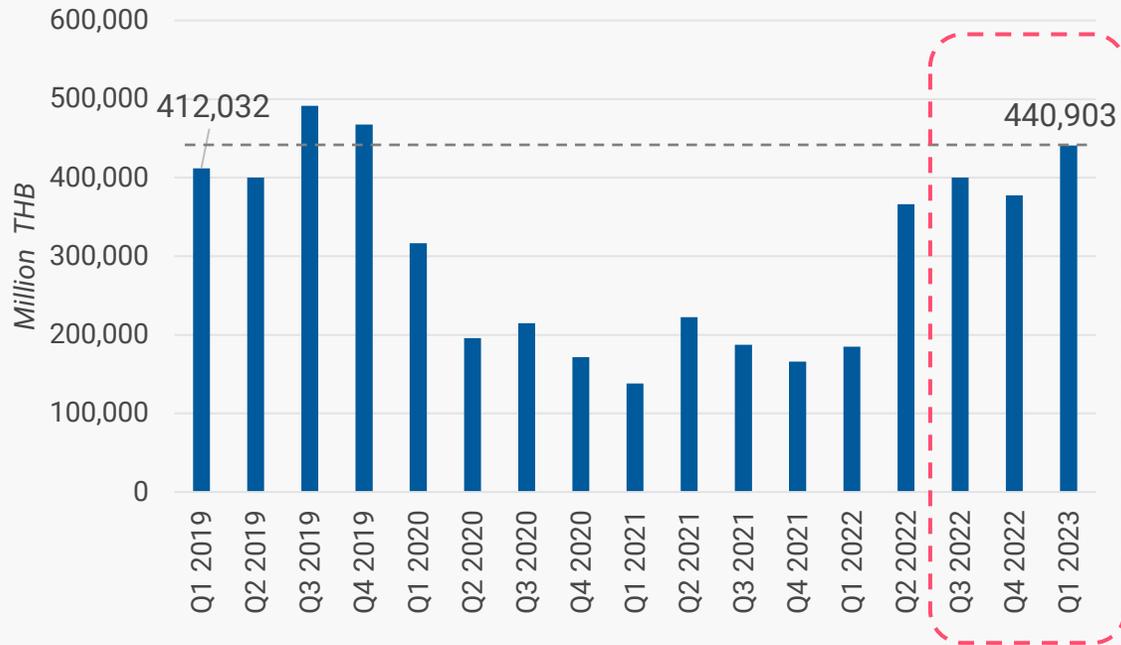


Source: Bank of Thailand (BOT)

- In 5M2023, number of international tourists reached 10.7 million, already close to 2022 total of 11.2 million, with the largest contribution from Malaysia, followed by China, Russia, South Korea, and India. The occupancy rate for April 2023 was 70.1% which almost reached 2019 Average of 71.2%.
- We revised upward our forecast for number of international tourists in 2023 from 27 million to 28.5 million assuming continuous recovery of non-Chinese tourist numbers and a significant increase in Chinese tourists in the second half of the year, especially in Q4, amid improving flight capacity.

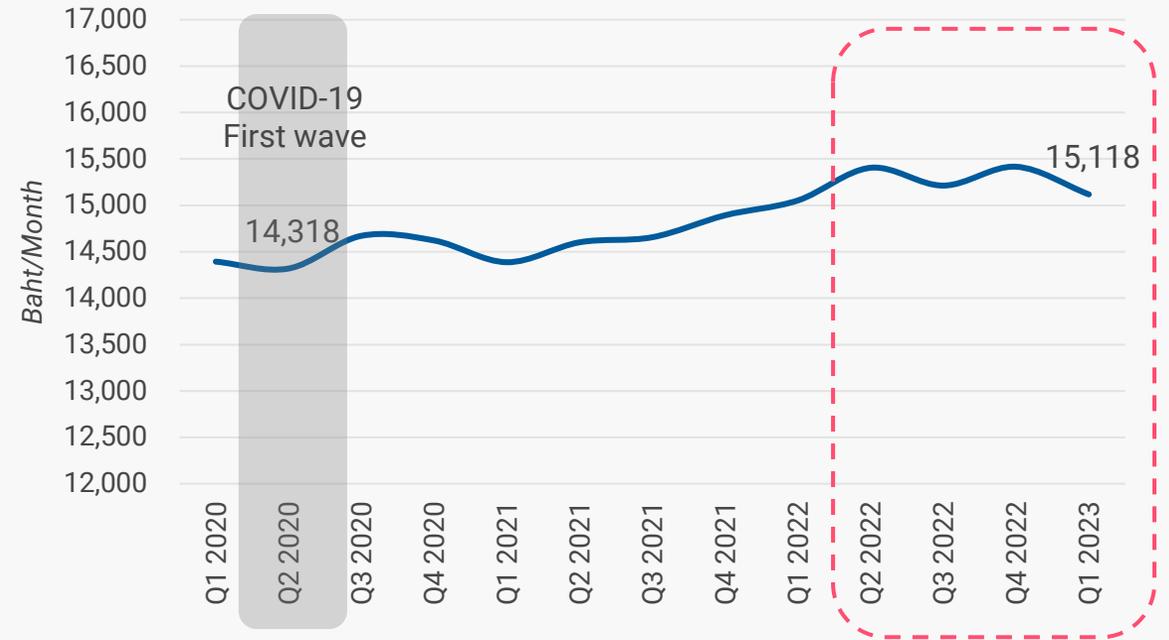
# Private consumption recovery supported mainly by expenditure in restaurants and hotels along with improving incomes

Consumption expenditure: Restaurant and hotel



Source: NESDC

Average total income

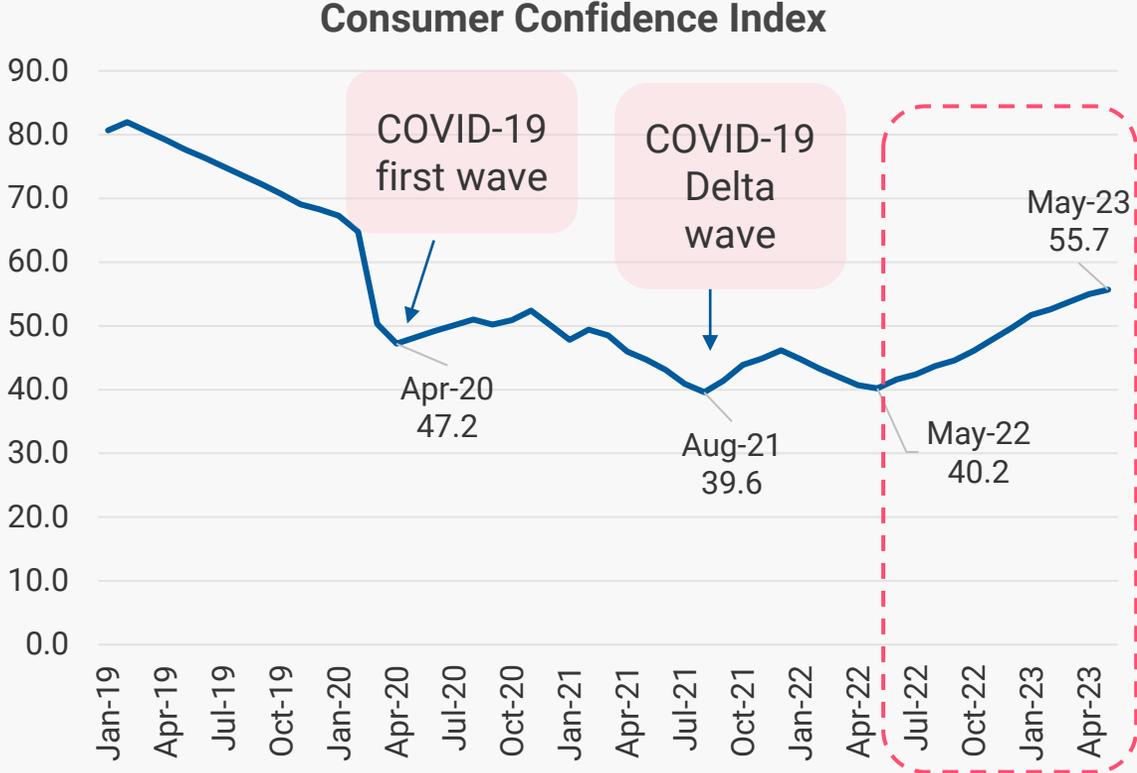


\*Total income = farm income + non-farm income

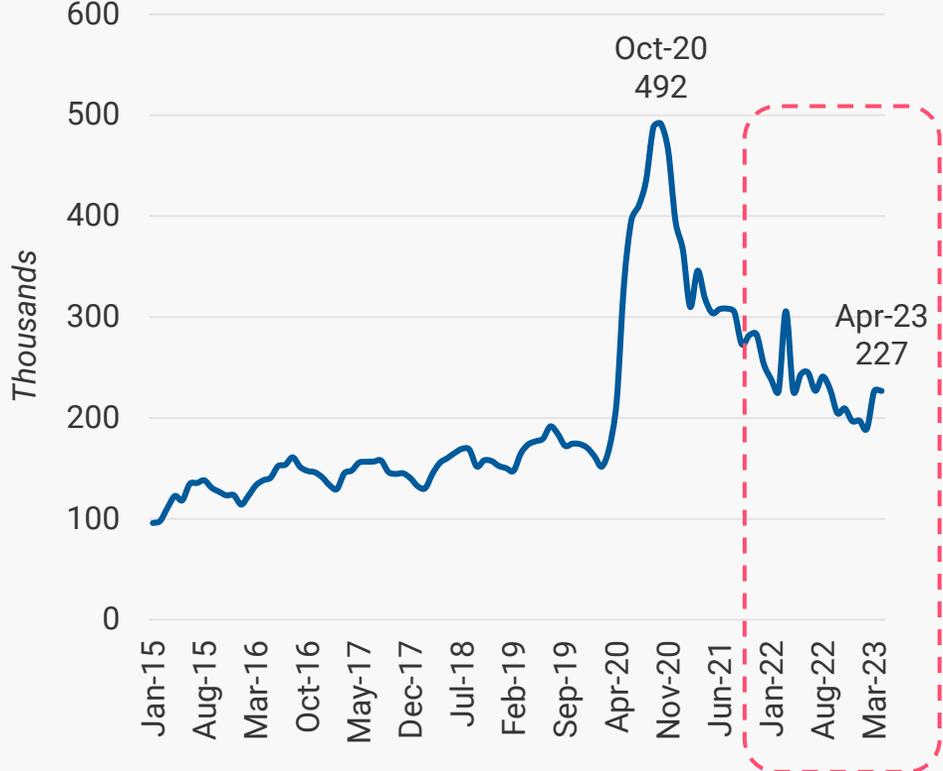
Sources: BOT and National Statistical Office (NSO)

- In Q1/2023, consumption expenditure in restaurants and hotels surpassed the pre-COVID-19 level of Q1/2019.
- Improving average total incomes and international tourist receipts will support consumption going forward.

# Buoyant consumer confidence amid lower unemployment benefit applications



Section 33 Applications for Unemployment Benefit (persons)

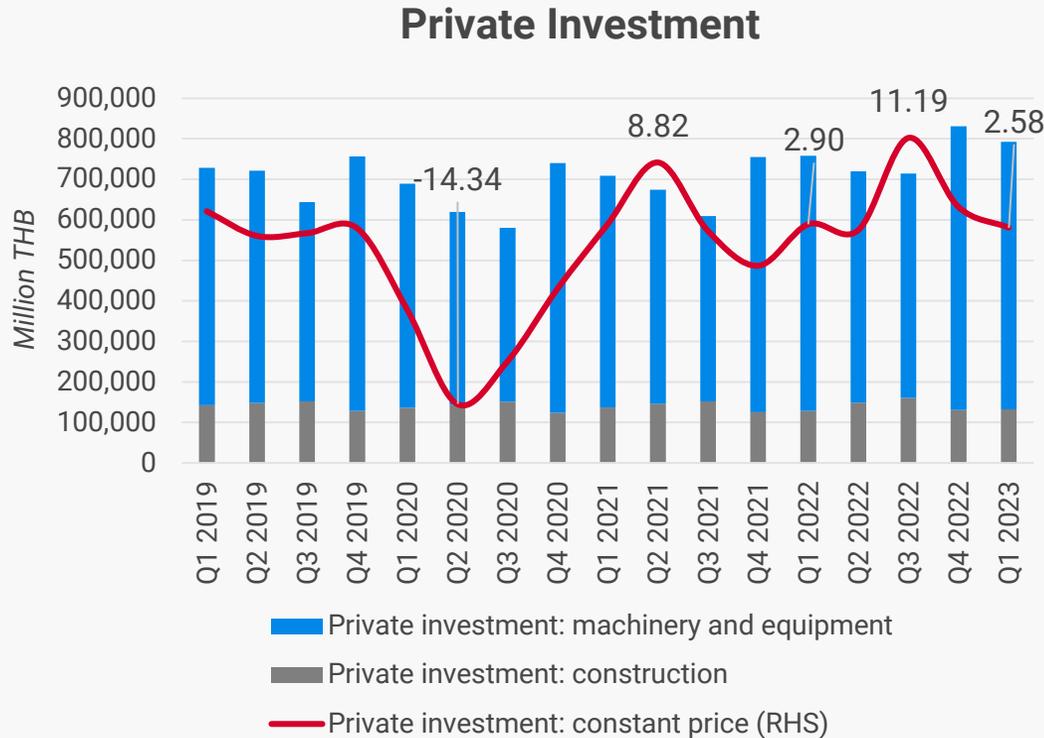


Source: University of the Thai Chamber of Commerce (UTCC)

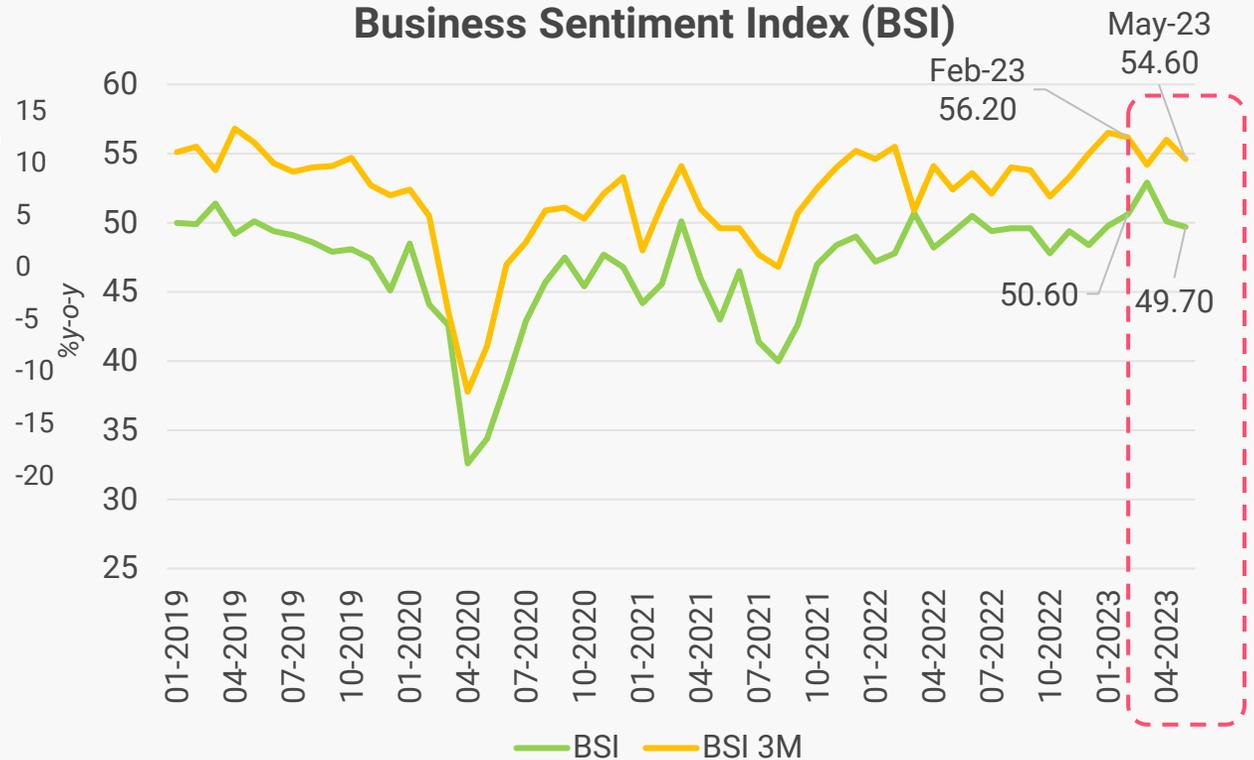
Source: Social Security Office (SSO)

- Consumer Confidence Index improved to 55.7 in May 2023 compared to the low of 39.6 during the COVID-19 Delta wave in August 2021.
- Section 33 applications for unemployment benefit significantly declined to 226,742 in April 2023 from the peak of 491,662 in October 2020.
- Both recovery paths will support consumption growth momentum going forward.

# In 2023, private investment should improve more gradually in line with exports of goods



Source: NESDC

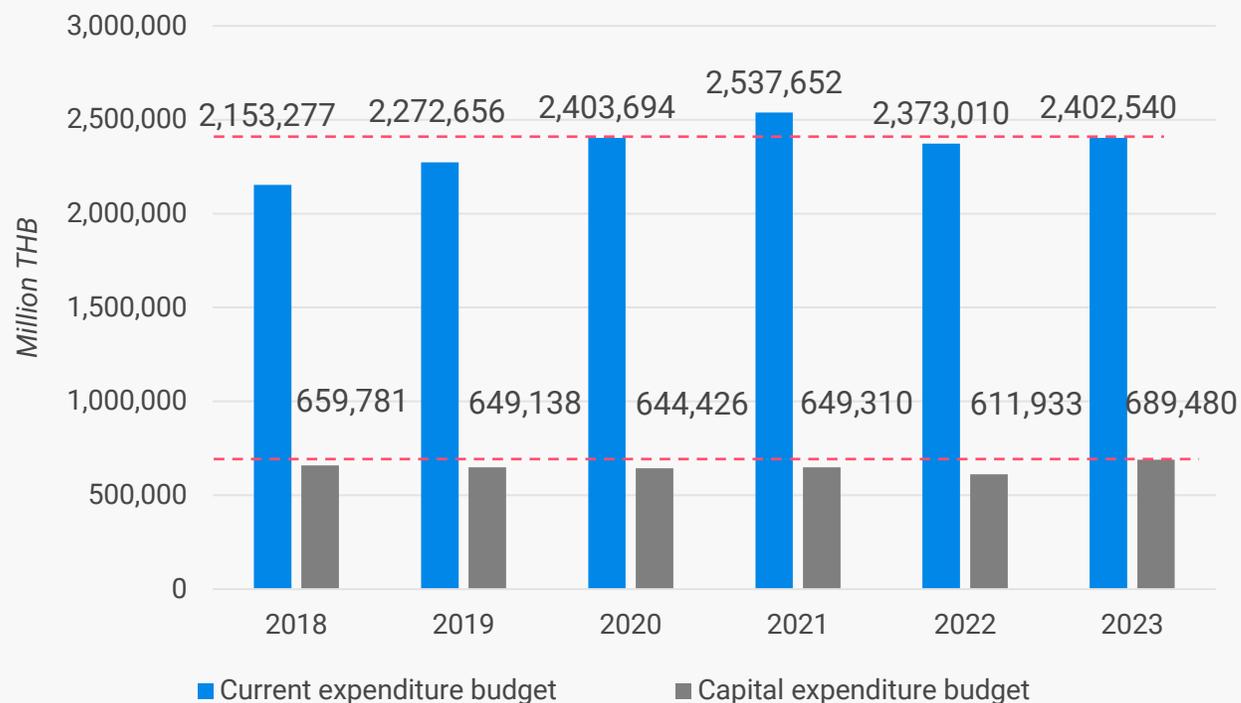


Source: BOT

- In Q1/2023, private investment grew 2.58% y-o-y, a slower pace compared to the 2022 growth of 5.1%. In this period, automotive and auto parts experienced the highest y-o-y growth in terms of investment promotion approval value from the Board of Investment.
- Going forward, the projected Business Sentiment Index of 54.6 for the next 3 months suggests a slower recovery of private investment compared to our latest projection in February 2023, in line with the slowdown in exports of goods.

# Public investment to rebound due to higher capital expenditure budgets while government consumption is expected to continue subsiding in 2023

**Government Budget**



## Public investment

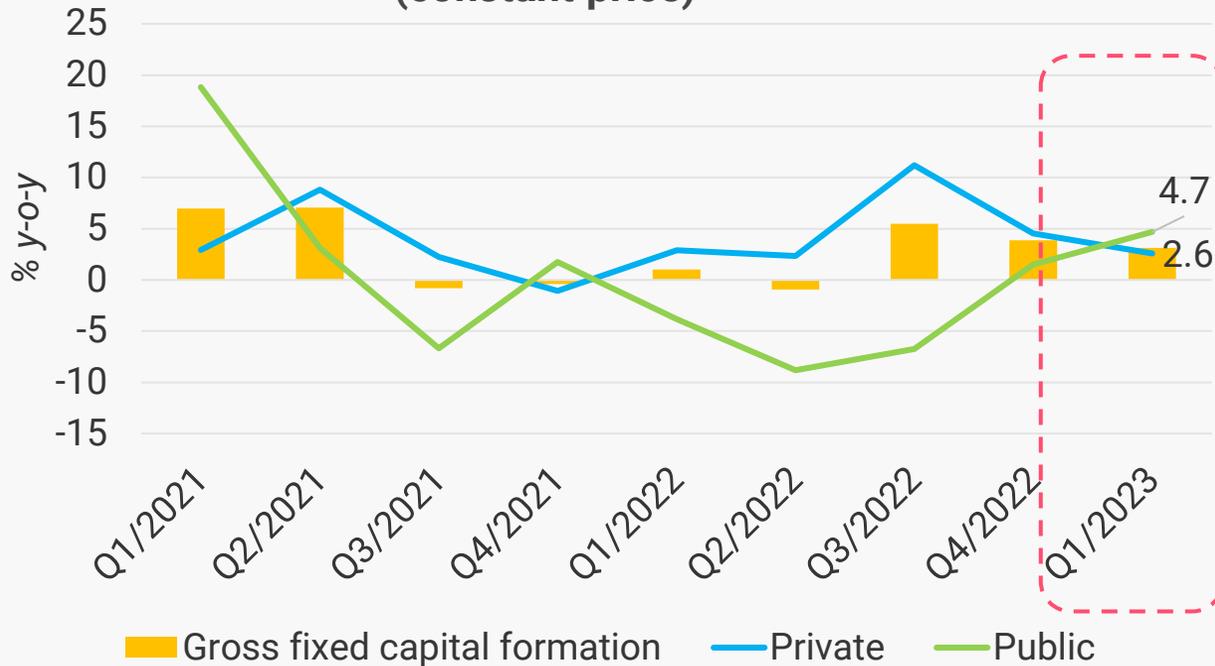
- Higher fiscal year (FY) 2023 budget compared to the previous year and a low base of disbursement in 2022.
- Continued disbursement in ongoing investment projects by state-owned enterprises such as Bangkok-Nong Khai High-speed Railway Phase I, Tao Poon-Rat Burana MRT Purple Line Railway, and the Provincial Electricity Authority's Transmission Line Development Phase II.
- Several infrastructure projects were approved before the dissolution of parliament.

## Government consumption

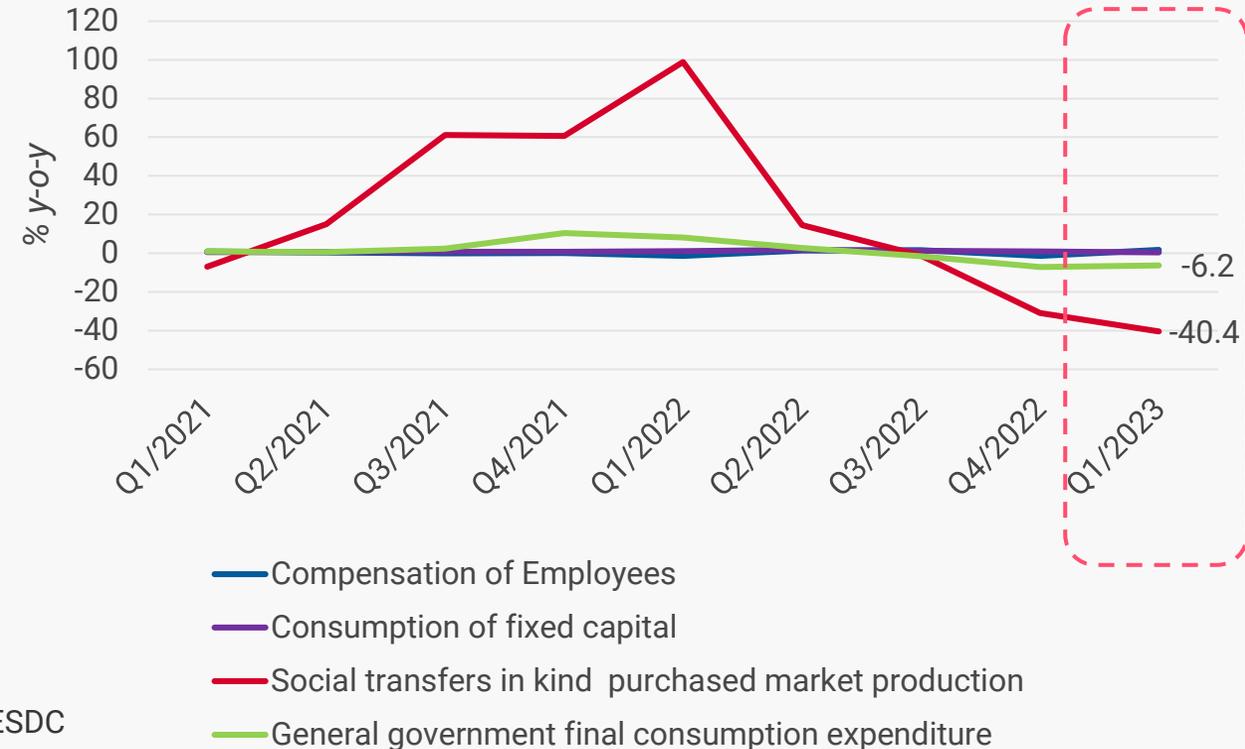
- Slightly higher FY2023 budget compared to the previous year.
- In our baseline scenario, we forecast a delay in the 2024 government budget by one quarter due to the general election which would weigh on current expenditure.
- Lower government spending from a significant contraction in healthcare expenses related to COVID-19.

# In Q1/2023, public investment growth exceeded that of private. Lower government consumption expenditure is expected from a contraction in healthcare expenses related to COVID-19.

Gross fixed capital formation by sector (constant price)



General government final consumption expenditure (constant price)

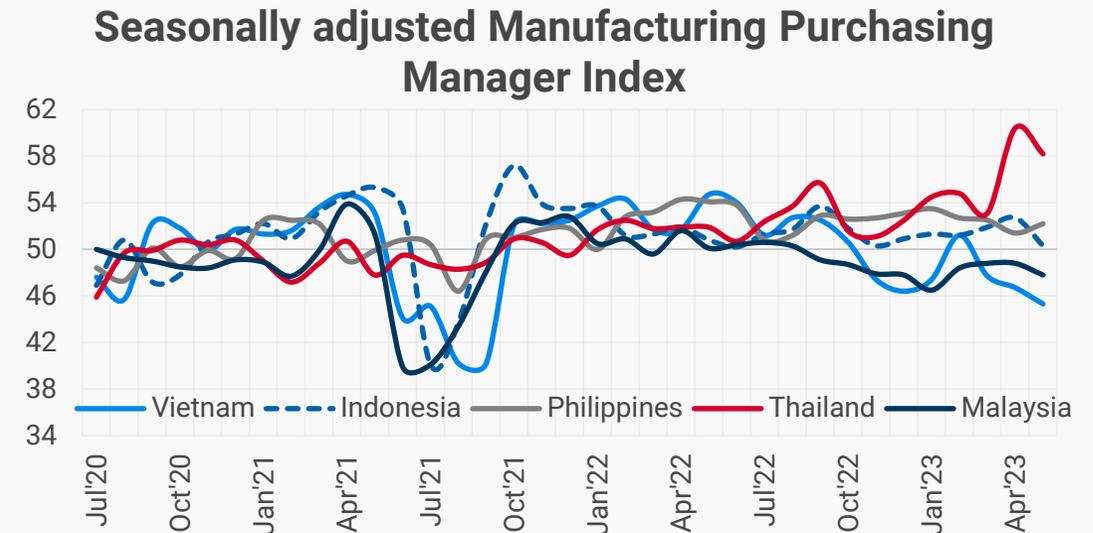
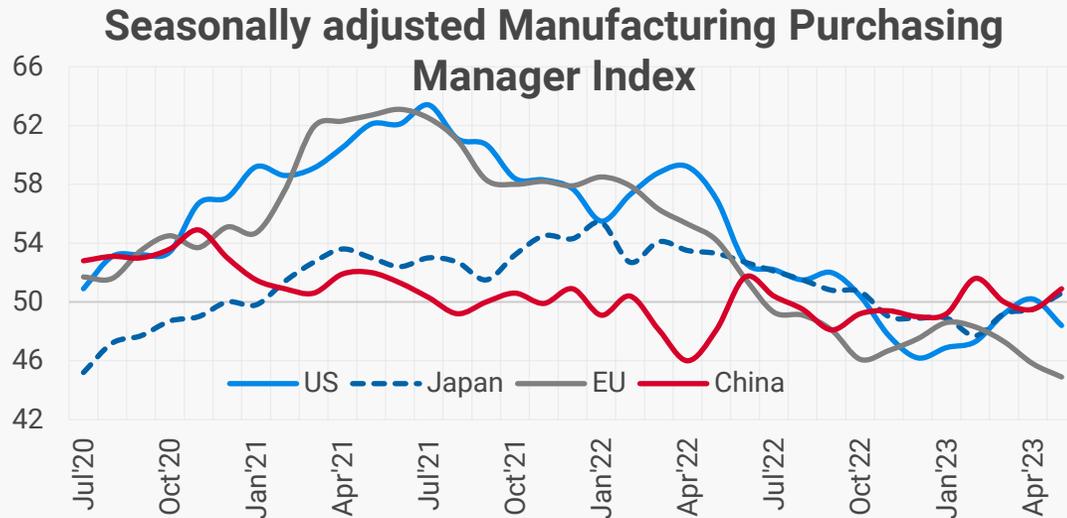


Source: NESDC

- In Q1/2023, public investment grew by 4.7% y-o-y, higher than the 2.6% growth of private investment. Such momentum is in line with our full-year forecast.
- Social transfers in kind purchased market production declined by 40.4% y-o-y in Q1/2023 largely due to a contraction in healthcare expenses related to COVID-19 as the COVID-19 situation in Thailand eased. In total, general government final consumption expenditure declined by 6.2%.

# Exports of goods likely to experience a slower pace of recovery in 2023 due to a global economic slowdown

[> 50] = prod. expand, [< 50] = prod. contract, and [=50] prod. unchanged



Source: Bloomberg

Country	Share of Thai exports as of 2022
---------	----------------------------------

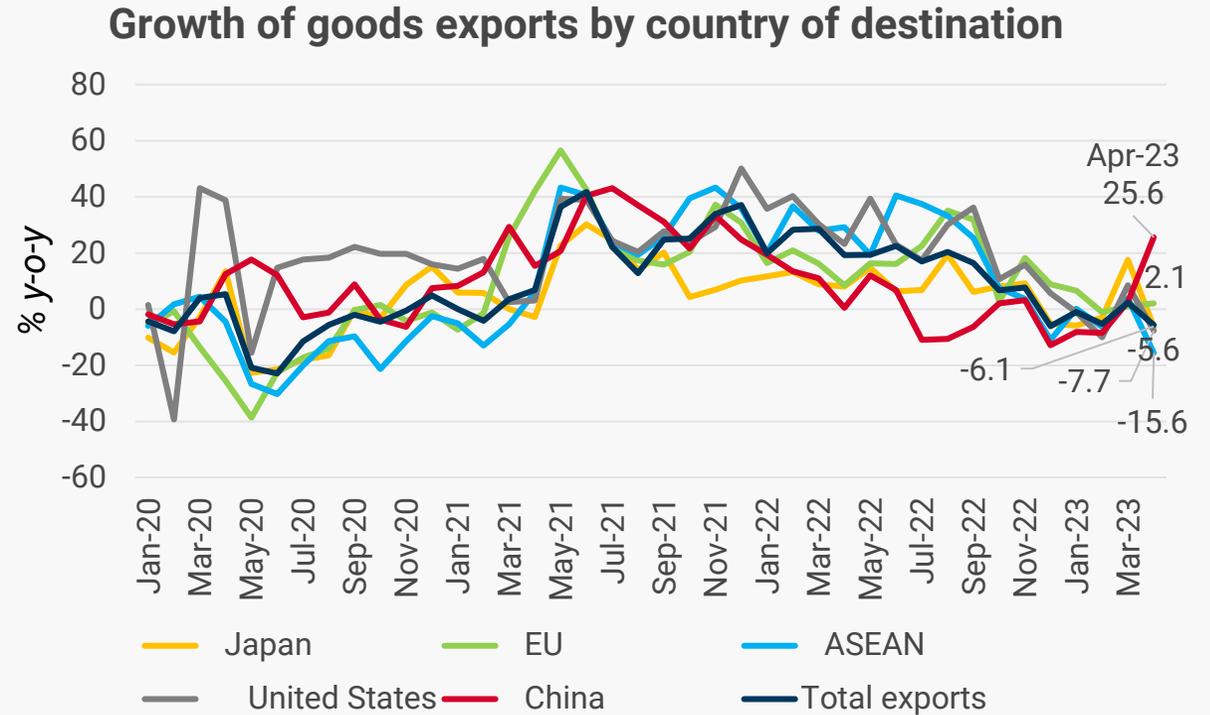
US	17%
ASEAN-4*	15%
China	12%
Japan	9%
EU	7%

Source: Bank of Thailand (BOT)

\*ASEAN-4 includes Indonesia Philippines, Malaysia and Vietnam

- Despite improving Japanese data, recent seasonally adjusted Manufacturing Purchasing Manager Index (PMI) data for the US and EU is below 50 suggesting contracting production.
- China purchasing managers' index (PMI) recovered to 50.9 in May 2023 suggesting slightly improving production after the full easing of COVID-19 restrictions in January 2023.
- PMI for Thailand, Philippines and Indonesia are still above 50 while those for Vietnam and Malaysia still reflect contracting production.

# Slowdown in exports of goods to most of the major destination countries



Source: BOT

Data above are recorded on a customs basis

• Despite the strong pick-up in exports of goods to China, exports to ASEAN, the US and Japan declined by 15.6%, 7.7% and 6.1% y-o-y, respectively, causing total exports to contract by 5.6% y-o-y in April 2023.

# Exports of agriculture, electrical appliances, and automotive expanded in 4M2023 while other sectors experienced contractions

Export Growth in USD terms (% y-o-y)

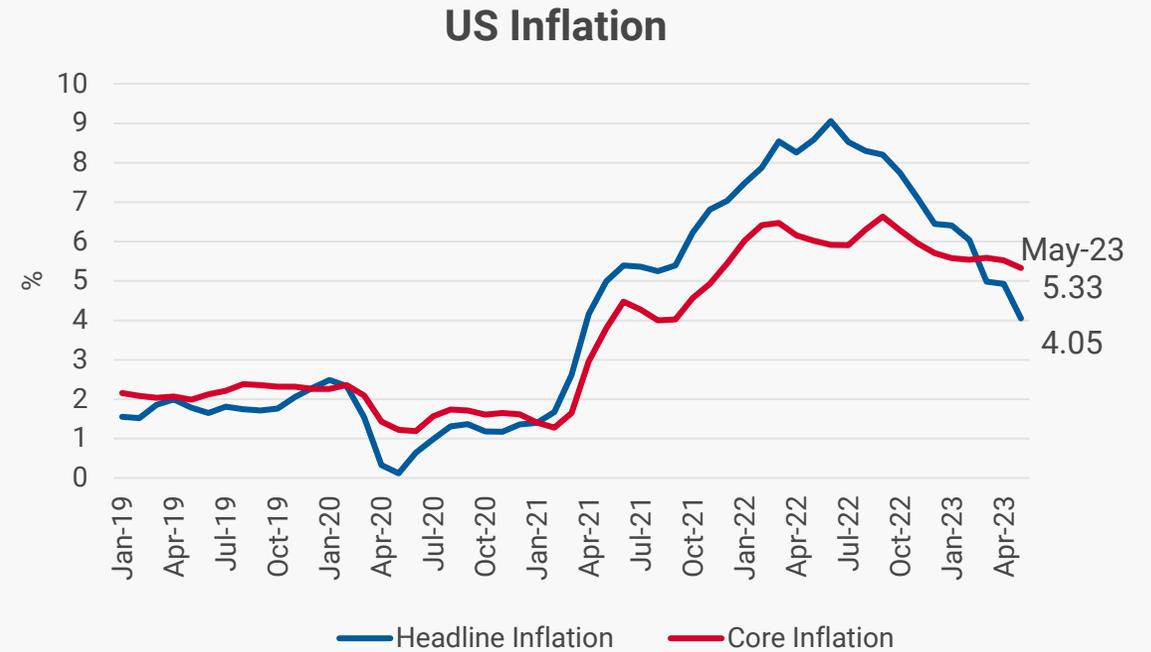
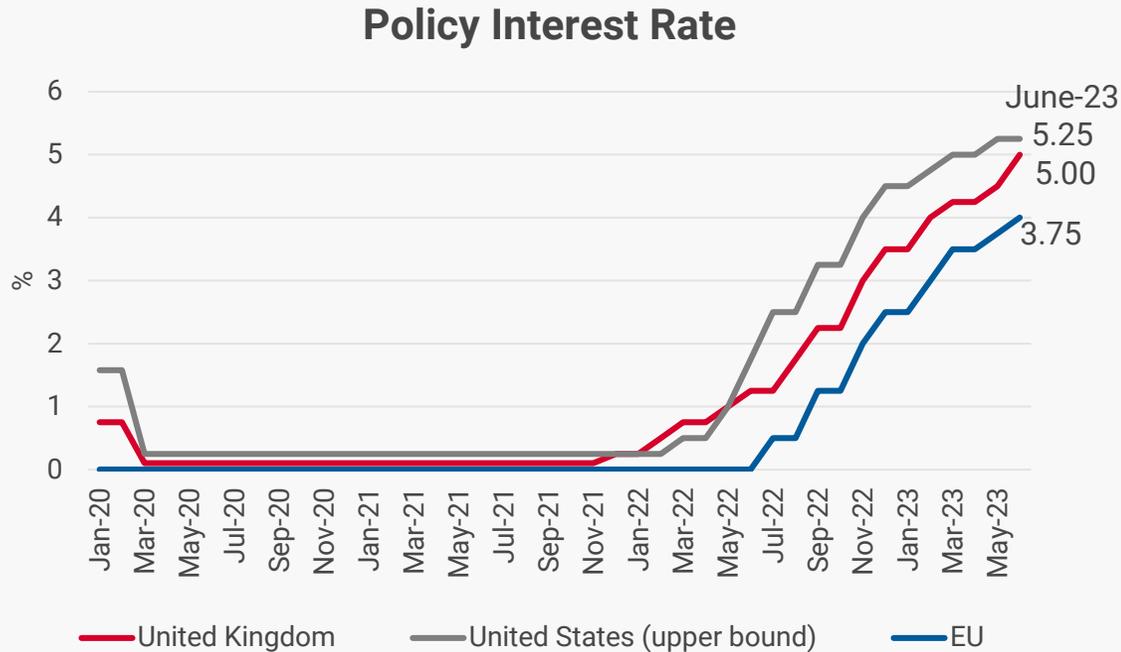
%YOY	2019		2020		2021		2022		2023				
	Share (%)	2019	Share (%)	2020	Share (%)	2021	Share (%)	2022	JAN	FEB	MAR	APR	4M23
Agriculture	6.2	-8.4	6.6	-0.8	7.2	28.1	6.7	-1.7	3.5	8.2	8.8	36.4	16.5
Fishery	0.8	-6.5	0.7	-15.2	0.6	8.8	0.6	-2.1	-28.1	-3.8	-8.6	-5.0	-11.1
Manufacturing	87.5	-4.7	85.2	-8.4	89.6	23.5	89.0	4.8	-4.6	-2.9	-2.5	-13.4	-5.7
Agro-manufacturing Products	13.3	-0.2	14.1	-0.3	13.6	13.2	13.9	8.6	-3.4	1.0	1.4	-12.5	-3.2
Electronics	11.2	-8.5	12.0	1.0	12.1	18.9	11.9	3.8	-13.6	-11.3	-1.6	-4.6	-7.3
Electrical Appliances	8.6	1.5	9.2	0.9	9.4	19.9	9.2	2.8	5.0	0.4	8.0	6.0	4.9
Automotive	15.1	-3.1	13.2	-17.6	15.3	35.7	14.3	-1.6	4.4	2.7	-0.2	-2.9	1.0
Machinery & Equipment	8.3	-6.8	8.0	-8.4	8.2	20.1	8.2	5.2	2.0	-0.5	-1.4	-6.7	-1.6
Chemicals & Petroleum Related	11.4	-15.1	10.3	-14.9	12.7	43.8	12.2	1.4	-13.5	-18.3	-14.7	-23.8	-17.7
Total (BOP basis)	100.0	-3.3	100.0	-6.5	100.0	19.2	100.0	5.5	-3.4	-4.1	-5.8	-4.9	-4.6

Source: BOT

Data above are recorded on a customs basis, except total export value which is recorded on a balance of payment (BOP) basis

- Exports of agriculture, electrical appliances and automotive expanded by 16.5%, 4.9% and 1.0%, respectively, in 4M2023 while other sectors such as chemicals and petroleum related and fishery experienced contractions of 17.7% and 11.1%, respectively.
- Overall, total export value in USD terms on a BOP basis contracted by 4.6% in 4M2023.

# Inflation is declining following aggressive monetary policy normalization by advanced economies

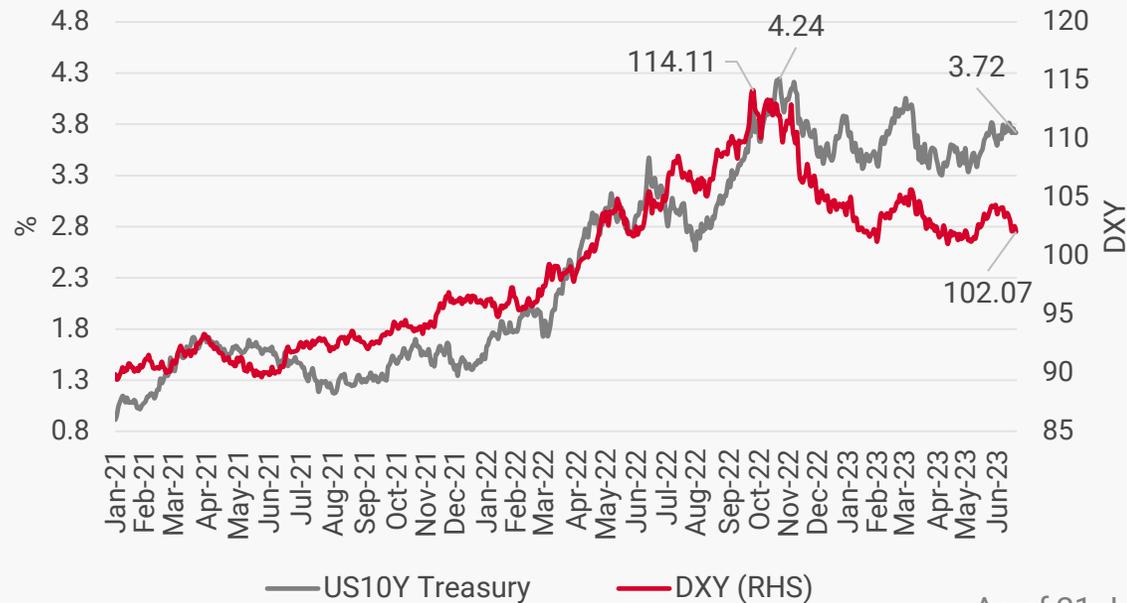


Source: CEIC

- In June 2023, the policy interest rates for the US, UK, and EU reached 5.00%-5.25%, 5.0%, and 3.75%, respectively, while the latest figures for US inflation in May 2023 revealed a decline in headline and core inflation to 4.05% and 5.33%, respectively.
- The Fed paused the rate hike and kept the policy rate at 5.00%-5.25% in the June meeting. However, the Federal Open Market Committee (FOMC) dots plot as of June 2023 suggested that the Fed fund rate will remain high at around 5.63% throughout 2023 before declining in 2024 and 2025 (previous dot plot was 5.13% for 2023).

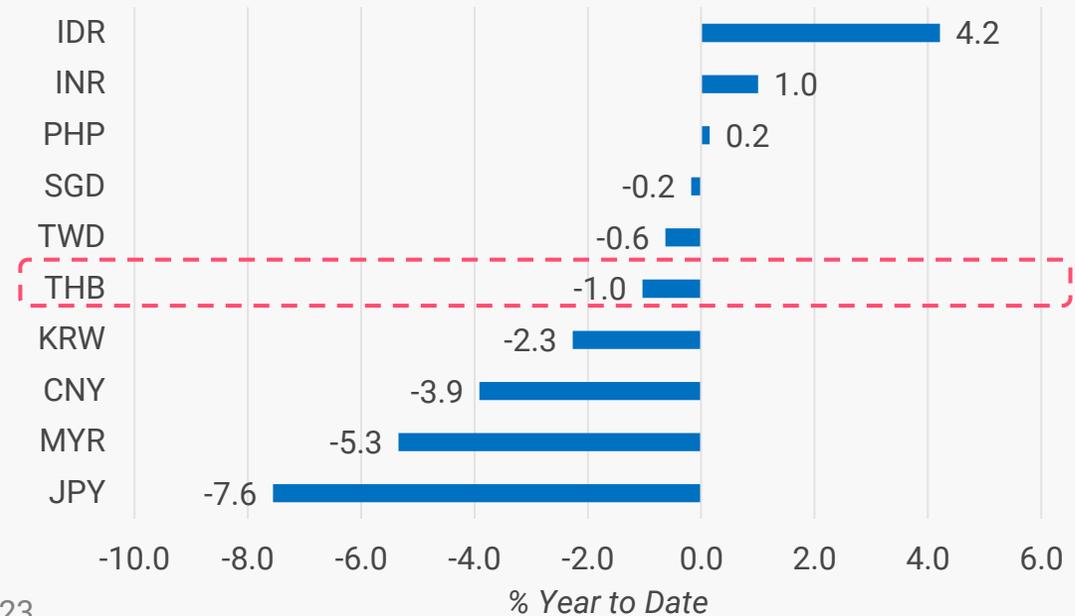
# Weakening US treasury yield alongside USD after the Fed slowed down policy rate hikes. Thai Baht depreciated slightly and is in the middle range compared to peers.

### 10-year US treasury yield and DXY



As of 21 Jun 2023  
Source: Bloomberg

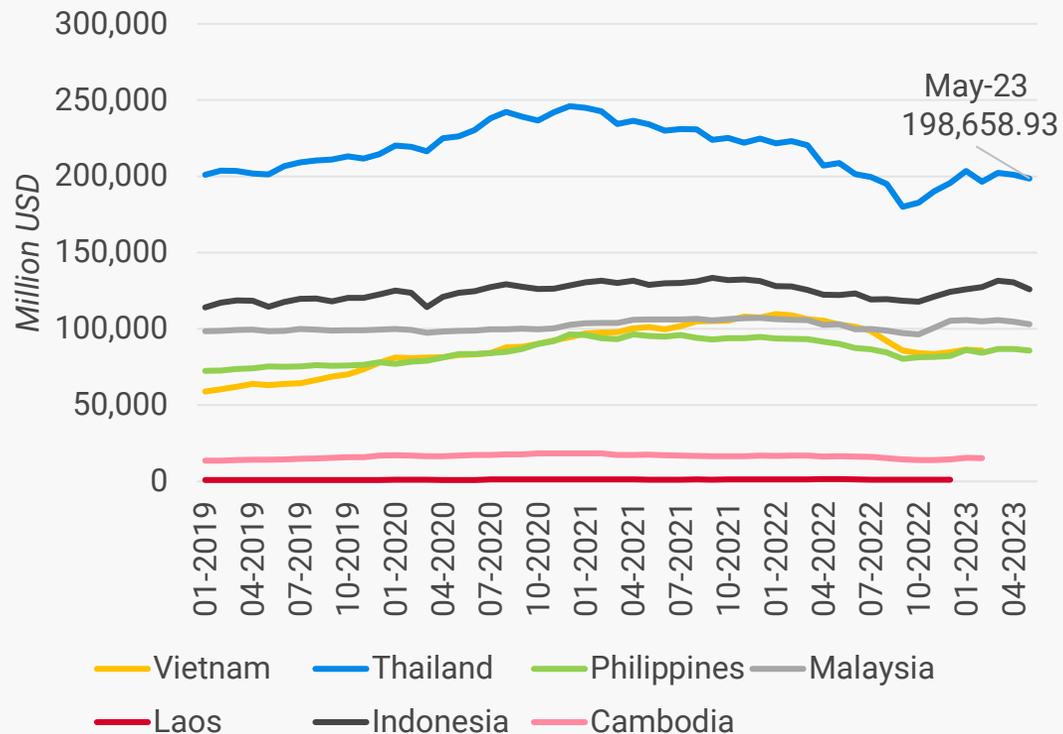
### Exchange rate against USD



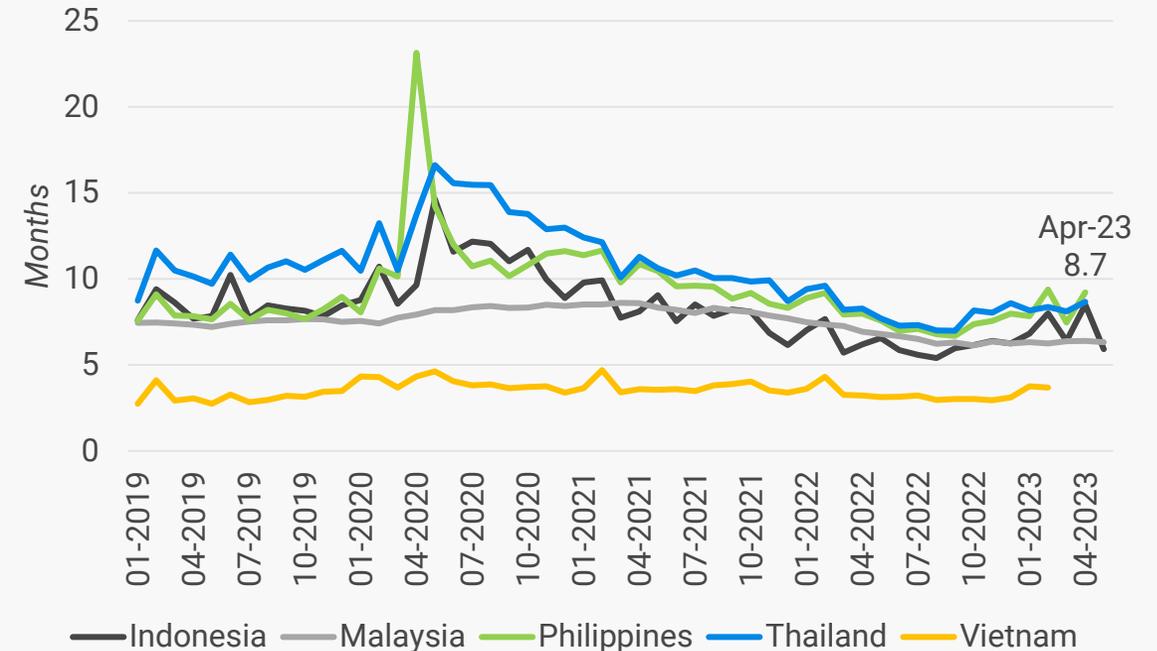
- US 10-year government bond yield and US dollar index (DXY) declined to 3.72% and 102.1, respectively, on 21 June 2023 after the Fed paused its policy rate hikes.
- Compared to other regional currencies, THB has depreciated slightly against USD year-to-date and is in the middle range compared to peers due to a strong external sector reflected by a high level of international reserves in tandem with improving exports of services thanks to a sharp recovery in the number of international tourists.

# Thailand has a relatively stronger external sector compared to peers

## International Reserves



## Reserves: Months of Imports

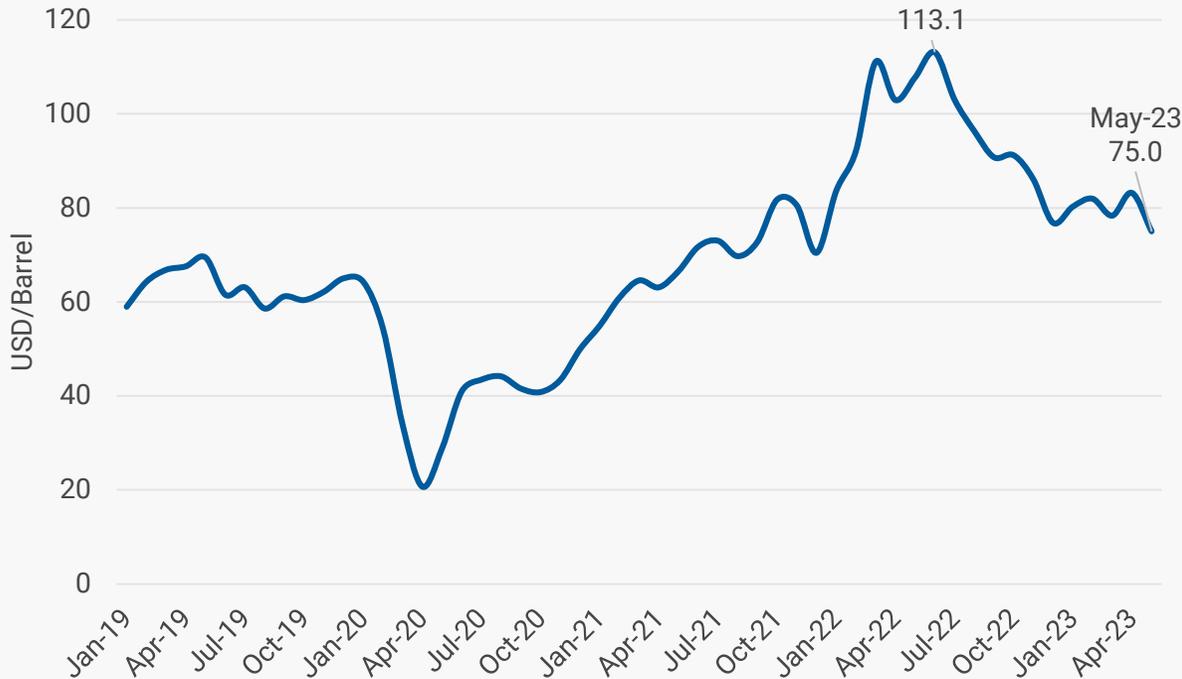


Source: CEIC

- Thailand has a relatively stronger external sector reflected by higher international reserves compared to most peers both in absolute terms (USD199 billion as of May 2023) and months of imports metrics (8.7 months as of April 2023).

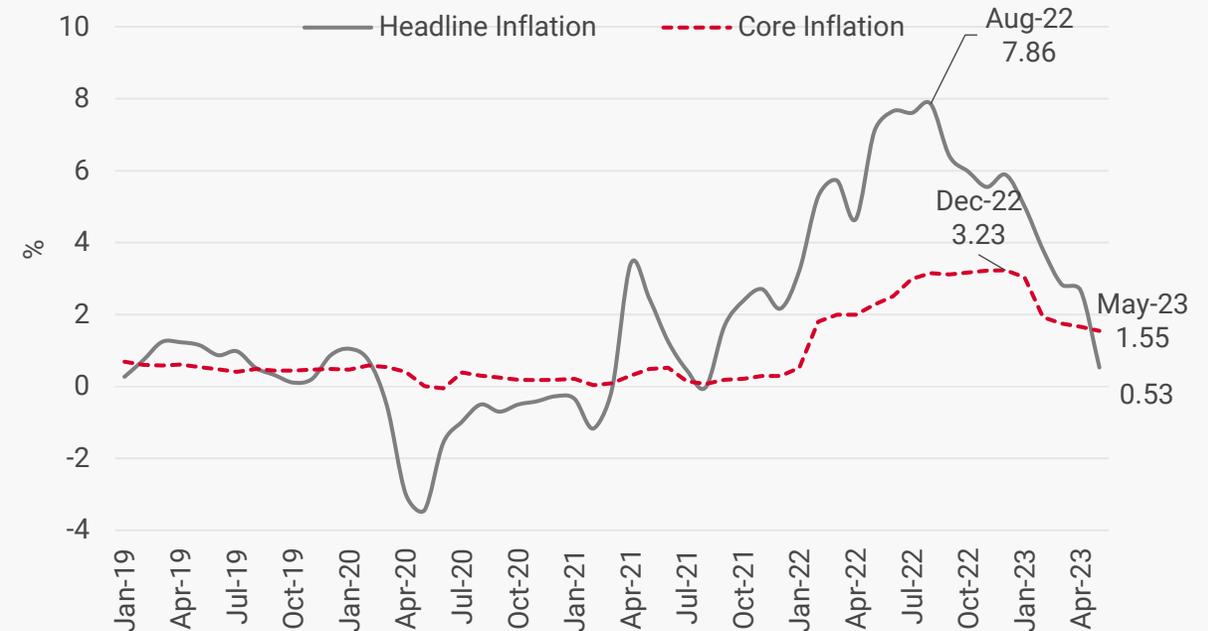
# Less pressure on cost-push inflation going forward as crude oil price decreases from lower demand

Dubai oil price



Sources: Bangkok Biz News and Thai Oil PLC

Thai inflation



Source: Ministry of Commerce (MOC)

- In 2023, oil prices have decreased as a result of weaker demand due to a global economic slowdown after monetary policy normalization. TRIS Rating forecasts the average Dubai oil price in 2023 at USD80-USD90/ Barrel.
- Thailand's headline and core inflation rates declined to 0.53% and 1.55%, respectively, in May 2023. We expect headline inflation to average 2.0%-2.5% in 2023.

# Oil price scenarios: Downside risk still outweighs upside risk

## Downside risk

- Global economic slowdown amid tight global monetary conditions in advanced economies
- China's economic recovery could be slower than expected
  - Youth unemployment rate new high of 20%
  - LPR cut from 3.65% to 3.55%
  - Inflation rate declined to 0.2% in May 2023
  - Possible stimulus package in July 2023 to meet GDP target of 5%
- Russia hasn't been cutting oil production as agreed

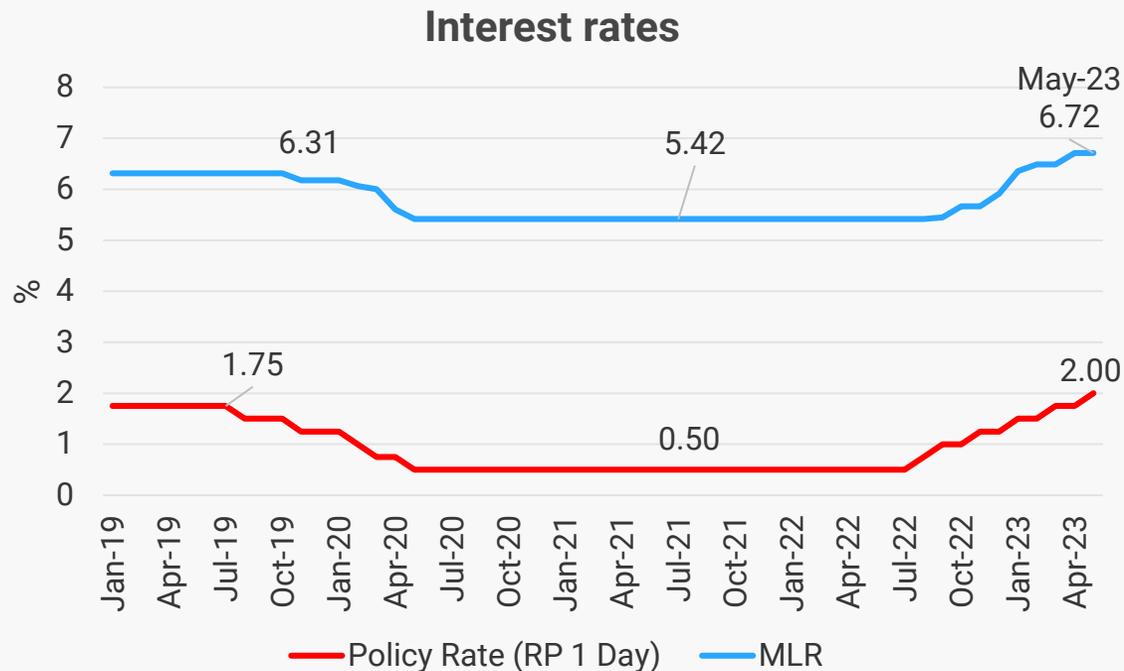


## Upside risk

- OPEC plus would additionally reduce production by 1 million barrels per day from July 2023 bringing the total cut to 4.16 million barrels per day compared to the level of August 2022

Source: TRIS Rating

# We expect year-end policy interest rate of 2.5% which means an additional policy rate hikes of 50 bps in 2023 following BOT's hawkish comments in June 2023



## BOT's communication

- More outlook-dependent than data-dependent
- Expected sticky core inflation and potential demand-pull inflation amid a strong economic outlook
- Signaling positive real interest rate

Source: BOT

# Downside Risks and Potential Impacts

Downside Risks	Potential Impacts
Lingering inflationary pressure, especially in advanced economies	<p>Pressuring central banks to increase interest rates at the expense of economic recovery.</p> <p>Upward pressure on bond yields, tightened liquidity, and heightened FX volatility, especially in emerging economies.</p>
Global economic slowdown	<p>Lower global demand from tightening monetary conditions globally weigh on Thai exports of goods.</p> <p>Partially offset by China's reopening.</p>
Escalating geopolitical risks	<p>Impact on global supply chains, investment environment, and tourism recoveries. Oil prices that remain high will continue to drive inflationary pressure.</p>
Delays in government formation	<p>Further delays in government budget causing lower government consumption, delays in approval of new public investment projects, wait-and-see private investment and a slowdown in private consumption.</p>



## Contacts

Boondhiva Cheewatragoongit, Ph.D.	boondhiva@trisrating.com
Pichayapa Tattiwong	pichayapa@trisrating.com
Parat Mahuttano	parat@trisrating.com
Wajee Pitakpaibulkij	wajee@trisrating.com
Ruangwud Jarurungsipong	ruangwud@trisrating.com
Raithiwa Naruemol	raithiwa@trisrating.com