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Global Economics & Market Strategy

Meetings with Thailand Policy Makers & Corporates: Key Findings

- **We recently held discussions with policymakers and several medium-to-large firms in Thailand.**
- **The key takeaways from these meetings include: (1) policymakers expect Thailand's GDP to remain robust in 2Q24, albeit citing some caution in 2H24, (2) inflation may see gradual uptick in the year ahead and (3) limited policy impetus to cut interest rate in 2024.**
- **The main implications in terms of our forecasts are: (1) Thailand's GDP growth remains resilient but risks remain, (2) CPI to remain elevated in 2H24 and (3) the Bank of Thailand will likely to keep its benchmark rate unchanged for the year ahead.**

Acting Group Chief Economist & Head, Market Research

Barnabas Gan
+65 6320 0804
barnabas.gan@rhbgroup.com

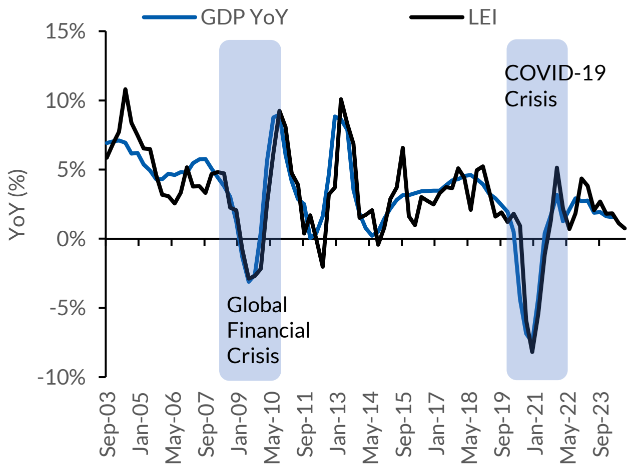
Associate Economist

Wong Xian Yong
+603 9280 2179
wong.xian.yong@rhbgroup.com

Associate Research Analyst

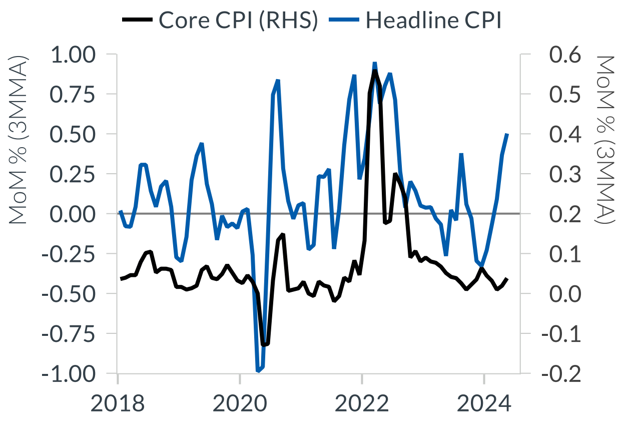
Laalitha Raveenthar
+603 9280 2165
laalitha.raveenthar@rhbgroup.com

Figure 1: RHB-LEI (TH) suggesting a slight GDP deceleration in 3Q24



Source: Macrobond, RHB Economics & Market Strategy

Figure 2: Inflationary pressures might continue to elevate in the upcoming months



Source: Macrobond, RHB Economics & Market Strategy

Three takeaways – Growth, Inflation and Policy

We recently held discussions with policymakers and several medium-to-large firms in Thailand as part of our economic forecasting process in Asia ex-Japan. Specifically, we engaged with the Bank of Thailand (BOT), the Ministry of Finance (MoF), the Eastern Economic Corridor Office (EEC) and several firms located in the EEC region[1]. Throughout the meetings, we have delved into various topics pertaining to Thailand's economic growth prognosis, inflation dynamics, interest and foreign exchange rates, trade outlook, and fiscal and monetary policies. Additionally, we examined potential upside and downside risks that could deviate from official estimates. In the following section, we share our findings, impressions, implications and key observations from these insightful discussions.

The economic outlook from policymakers can be summarised as follows: The Bank of Thailand forecasted Thailand's GDP growth at 2.5%. In comparison, the Ministry of Finance projected an annual GDP growth rate of 2.4% in 2024. For inflation, the BoT anticipates its headline and core inflation at 0.6% and 0.5%, while MoF's forecasts for headline is at 0.6% and slightly higher for core CPI at 0.8%. **The key takeaways from these meetings include: (1) policymakers expect Thailand's GDP to remain robust in 2Q24, albeit citing some caution in 2H24, (2) inflation may see a gradual uptick in the year ahead and (3) limited policy impetus to cut interest rate in 2024.**

First, policymakers cited Thailand's GDP is robust in 2Q24. We inferred from our discussions with policymakers that the economy will continue to be robust in 1H24, supported by further acceleration in tourism and services activities and continued recovery in domestic demand from increased consumer spending. Thailand's economy grew better than expected in the first quarter, fuelled by tourism and private consumption. Policymakers commented that the supply-side indicators have shown signs of improvements in the tourism and industrial sectors, while agriculture has slowed down in 1Q24. Additionally, government spending has also supported the growth year-to-date. Continuous expansion in private investments is expected to support the economic growth 1H24.

<u>Through our discussions, the policymakers inferred several key drivers supporting Thailand's economic growth for the year ahead:</u>

1. **The tourism sector will see a continuous recovery**. Policymakers are optimistic about the inbound tourism demand in Thailand. Thailand's economy grew better than expected in 1Q24, fuelled by an expansion in service sectors on the back of a recovering tourism backdrop. Thailand is expected to receive 35.0 and 39.5 million tourists in 2024 and 2025, respectively, thus boosting the services sector. The visa-free agreements with Chinese, Kazakh, Taiwanese and Indian tourists are expected to bolster tourism activities in Thailand further. Our forecast is for Thailand to see a relatively higher tourism arrival of 38.0 million persons in 2024[2].

2. **The government's fiscal policy measures will support private consumption.** On the fiscal policy front, the government is expected to implement a THB10,000 digital wallet programme in 4Q24 to spur private consumption. The Thai economy is expected to grow by 3.3%, assuming most people spend their money by the end of 2024 if the programme becomes available in the final quarter.

3. **Continual expansion in Foreign Direct Investments (FDI).** Our discussions with the Board of Investment Office (BOI) and several firms showed optimism about Thailand's foreign direct inflows. In 2023, 1,350 FDI projects have been approved, amounting to THB559.0 billion. China was Thailand's most prominent investor through BOI, with 347 projects worth THB124.78 billion. The rising Chinese investment is driven by the new-energy vehicle (NEV) and electronics industries, with incentives from the Thai government. They cited that additional investment support from BOI for targeted sectors such as electronics and electrical appliances, semiconductors and automotive is already in the approval pipeline, which will further spur economic growth.

However, the policymakers stay cautious in 2H24. From the discussion, we recognise three key downside risks that might drag Thailand's economic growth in the second half of the year. <u>First</u>, the policymakers highlighted that lacklustre government spending might challenge economic growth, which we think may be exacerbated by the ongoing political noise in Thailand. <u>Second</u>, the slowdown in exports, particularly in the automotive sector, is due to increased competition with other international exporters, mainly Chinese competitors. Official export growth forecasts are 1.8% YoY in 2024 and 2.6%

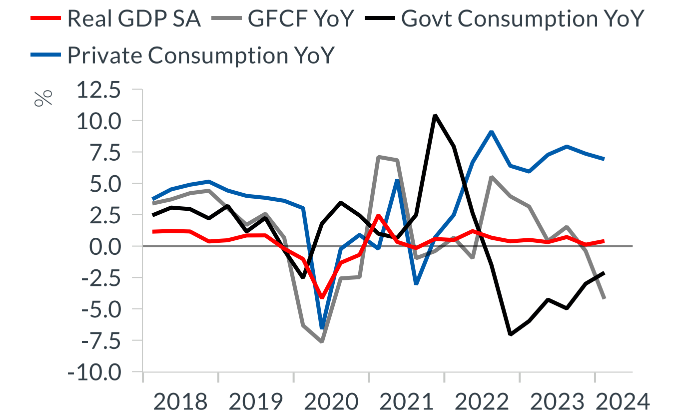
[1] PTT's EV Ecosystem: NV Gotion, WHA Corporation (WHA) and Energy Absolute (EA)
[2] RHB Economics & Market Strategy, Thailand: Tourism Will Return to Pre-pandemic Levels in 2024, 28 June 2023

in 2025, respectively. Third, they have also cited that US-China trade tensions might impede economic growth in the second half of the year. Still, the participants do not regard the brewing tensions as a significant downside risk to Thailand's growth.

Second, our discussions have highlighted that inflation may see a gradual uptick in the year ahead. Officials cited Thailand's CPI is expected to grow at 0.6% in 2024 and 1.3% in 2025, respectively. The policymakers mentioned that the statistical impact of higher diesel prices is not likely to harm domestic consumption significantly. In March, the diesel prices rose from THB30THB to THB33 per litre. The 0.6% inflation forecast for 2024 is cited to be conservative, as raw food prices are still anticipated to increase. Policymakers cited that rice price seems slightly lower than expected due to the El Nino climate in Thailand. It is being said that the growth rate of rice production is still lower, likely due to the drought season. However, they commented that the increase in diesel prices might have a limited impact on overall prices due to price sensitivity, and producers might absorb the prices.

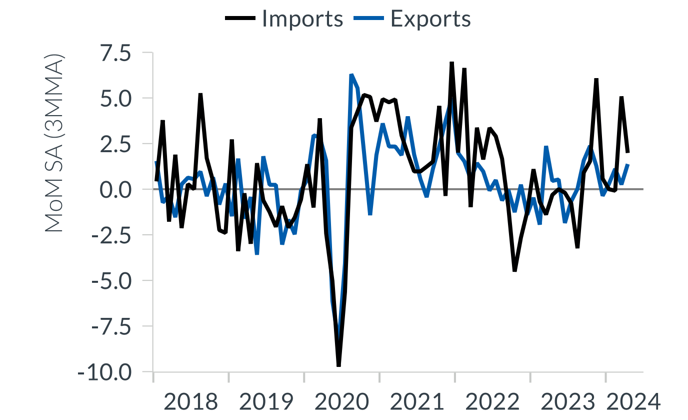
Third, there is limited policy impetus to cut interest rates in 2024. From our discussions, we inferred that the 2.0% - 2.5% policy rate is considered neutral, which is conducive to ensuring price stability and supporting long-term sustainable growth. The BoT views a rate cut as unnecessary at this juncture, given the resilience in economic growth in Q1 2024 and the subdued inflation driven by supply factors. Additionally, policymakers mentioned that the weakness in the THB in 2Q24 can be partly attributed to seasonal factors, as the repatriation of corporate earnings typically occurs during this period. They expect the situation to normalise as export conditions recover and the tourism sector grows. The BoT mentioned that it will not actively intervene in the foreign exchange market and will only do so in cases of market disorder.

Figure 3: Continued rebound in private consumption expected to support the GDP growth



Source: Macrobond, RHB Economics & Market Strategy

Figure 4: Trade momentum is declining, with imports surpassing exports....



Source: Macrobond, RHB Economics & Market Strategy

Implications Toward Our Forecast

The main implications in terms of our forecasts are: (1) Thailand's GDP growth remains resilient, but risks remain, (2) CPI remains elevated in 2H24, and (3) the Bank of Thailand will likely keep its benchmark rate unchanged for the year ahead.

First, Thailand's GDP growth remains resilient but risks remain. We keep Thailand's GDP forecast at 2.4% for the year ahead. We still keep our optimistic view on private consumption to continue to recover in the upcoming quarters ahead, thus making it a dominant contributor to overall growth. We anticipate full-year tourism arrivals to range between 38 and 40 million, likely bolstering Thailand's hospitality-related industries. With the acceleration in inbound tourism growth, Thailand's tourism outlook appears promising. Better-than-expected tourism arrivals so far provide optimism that the services sector will outperform in 2024. Additionally, there are potential upside risks to our full-year growth forecast of 2.4% if the government's 500 billion THB household stimulus plan is implemented in the final quarter as planned. This stimulus plan is expected to boost consumption spending, thereby enhancing GDP growth.

Second, inflationary pressures are expected to remain elevated in 2H24. We maintain our forecast for headline and core CPI at 1.0% and 0.7%, respectively, for 2024. We expect the diesel price increase will likely exacerbate Thailand's inflation climate throughout the year, as diesel will be a critical input for the transportation, agriculture, and manufacturing sectors. Policy manoeuvres are likely to continue driving inflation in 2024-2025 through the demand transmission mechanism. Moreover, we expect tourism arrivals to return to pre-COVID level in 2024, further contributing to demand-pull inflation.

Third, our discussion with the policymakers has cemented our view for the Bank of Thailand to keep the benchmark rate unchanged at 2.5% for the rest of the year. We view the current benchmark rate as neutral and appropriate in ensuring price stability and supporting long-term sustainable growth. Our view is supported by three key factors: (1) inflation pressures are likely to rise as the year progresses, (2) the positive outlook on Thailand's economic growth on the back of a continued recovery in private consumption, and (3) rate cuts will not be a macro prudent move given elevated global inflation. Furthermore, lower interest rates will reduce the return on investments in Thailand, making it less attractive to investors and dampening capital formation. We perceive the current rate in neutral gear and is appropriate given upside inflation risks on the back of high commodity prices and global demand-pull price pressures.

<u>We discuss several critical observations based on our talks with both policymakers and corporates:</u>

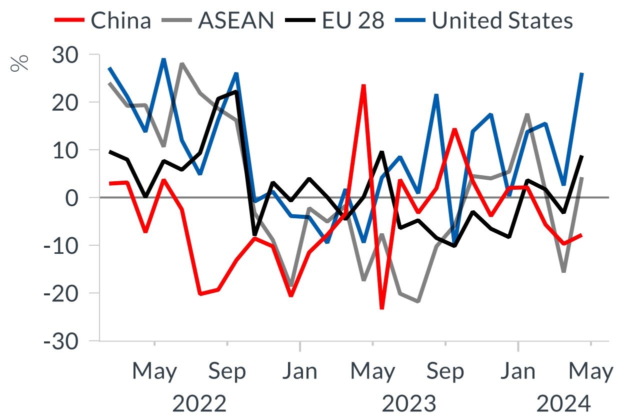
1. **We were briefed about the dynamics of household debt in Thailand.** Policymakers have raised concerns over the high household debt, which eventually impacts interest rate decisions. Household debt is most affected by net borrowing. BOT expects household debt to decline gradually over the year. Household debt consists primarily of real estate purchases (33.9%), personal consumption (27.5%) and business loans (17.8%). As of the fourth quarter of 2023, Thailand's household debt had an outstanding balance of THB 16.4 trillion, equivalent to 91.3% of GDP. The government has declared a "Debt Relief Programme" to solve the informal debt problem. There will be integration of many sectors, from administration to the Ministry of Finance, to prevent people from falling back into the informal debt cycle again.

2. **Our visit to PTT's EV ecosystem and EV battery production plants in the Eastern Economic Corridor (EEC) was an eye-opener in understanding EV developments in Thailand.** Policymakers and businesses are observing a gradual increase in electric vehicle (EV) ownership in Thailand, with EVs now comprising about 10% of the total vehicle fleet. This shift reflects growing consumer interest in sustainable transportation options and the government's efforts to promote electric mobility through incentives and infrastructure development.

3. **We infer that policymakers and corporates are concerned on the ongoing heightened political noise, and its potential negative impact on Thailand's private consumption, tourism, and investment prospects.** As of the time of writing, we see developments of political noises in Thailand. We recognise the heightened political noise premium as a significant issue undermining investors' confidence and Thailand's overall economic growth should it exacerbate further.

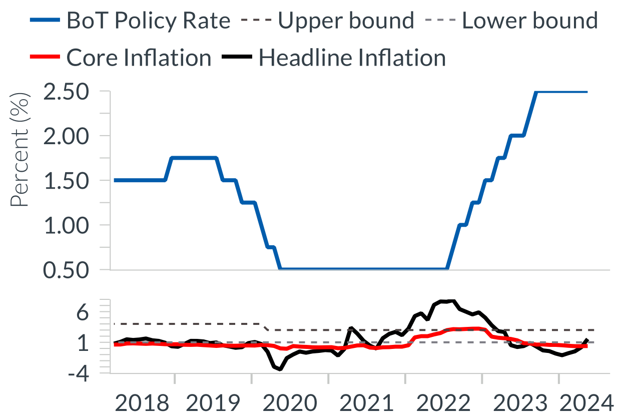
4. **Overall, based on our discussions with policymakers, we maintain our optimistic view on Thailand's economic growth, but the risks remain**. We keep Thailand's full-year GDP growth at 2.4% for the year ahead. Thailand's economy might stay underpinned by softer private consumption and investment recovery later in 2H24. At the same time, political uncertainties may inject downside risks to private consumption, investment and tourism demand.

Figure 5: ...while exports to key markets are on increasing momentum



Source: Macrobond, RHB Economics & Market Strategy

Figure 6: Thailand's headline inflation is still soft and remains within the official guidance

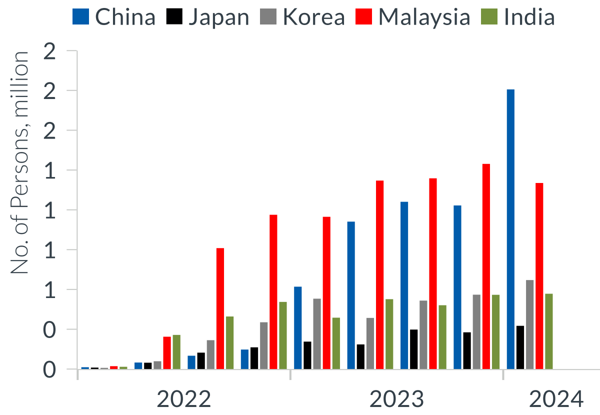


Source: Macrobond, RHB Economics & Market Strategy

Figure 7: Tourism income per foreign visitor is anticipated to pick up slowly in 2024

Source: Macrobond, RHB Economics & Market Strategy

Figure 8: China is seen as a vital contributor to Thailand's tourism



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KUALA LUMPUR
RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA
PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

SINGAPORE
RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531

BANGKOK
RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799