THAILAND

A LACKLUSTRE RECOVERY

Strong household consumption and the return of tourists should help economic growth to accelerate over the next few quarters. The lack of competitiveness of the export sector and the effects of El Niño are the key risks to growth and exports. In addition, the political situation remains tense and the government coalition looks fragile. Budgetary slippage may occur and the Bank of Thailand is expected to pause its monetary easing.

A FEEBLE ACCELERATION IN GROWTH

Over the first nine months of 2023, economic growth stood at 1.9% y/y. Recent quarters have seen an uneven recovery in demand components. Household consumption remained the main growth driver, accelerating steadily to hit 8.1% y/y in Q3, buoyed by tax incentives to households and the strong labour market performance. Trends across other components were more mixed, as private investment grew at a more moderate pace (1.7% on average y/y over the first three quarters), goods exports suffered as a result of the slowdown in the global economy, and tourism revenues continued to grow, albeit at a much slower pace than anticipated.

In 2023, Thailand welcomed just over 28 million tourists, which is more than 150% up on 2022, but still 30% down on 2019. By nationality, trends have not really altered from the pre-Covid period, thanks to special measures introduced by the Thai government, such as the (temporary) visa exemption for visitors from India, Taiwan and Kazakhstan, and incentives for extended trips (by offering discounts on a number of services, such as accommodation, hospitality, healthcare and domestic flights). On the other hand, the number of tourists from China is only creeping up very slowly. Travel bans for Chinese nationals were gradually lifted during 2023, but government subsidies to promote domestic tourism likely put a dampener on the recovery in 'international' travel. The total number of Chinese tourists in 2023 was still 70% lower than in 2019.

Economic growth is expected to pick up in the quarters ahead, with real GDP anticipated to increase by 3.7% in 2024, up from 2.3% in 2023, still being driven by household consumption, which has been buoyed by an expansionary fiscal policy and the gradual return of tourists (according to the Bank of Thailand's estimates, the 2019 level should only be hit by the end of 2025).

However, the effects of *El Niño* are difficult to measure and Thailand may not be able to take full advantage of the upturn in global growth and the increased demand for electronic components, due to the country's structural difficulties (the political climate, weak investment and a lack of infrastructure are inhibiting the competitiveness of the export sector). In particular, weaker-than-anticipated Chinese growth is expected to hit Thai growth hard.

On the monetary side, favourable base effects and the larger-than-anticipated drop in energy and unprocessed foodstuff prices led to a rapid deceleration in inflation during the year. The year-on-year rate of inflation has even been in negative territory since October (standing at -0.8% y/y in December). Core inflation also eased during the year, but is still slightly above its pre-Covid average (standing at 0.6% y/y in December). The Bank of Thailand hiked its key rate most recently in September to 2.5% (after a cumulative increase of more than 200 basis points since August 2022) and is expected to hold it steady during the months ahead. It is anticipating slightly higher inflation in 2024, in view of the upward pressure on energy and agricultural prices. Inflation is expected to be kept within the target range (between 1% and 3%) however.

FORECASTS

	2021	2022	2023e	2024e	2025e
Real GDP growth (%)	1.5	2.5	2.3	3.7	4.5
Inflation (CPI, year average, %)	2.2	6.1	1.4	2.4	2.0
General gov. balance / GDP (%)	-7.9	-4.4	-3.0	-3.7	-3.5
General gov. debt / GDP (%)	58.4	60.6	62.3	62.5	62.1
Current account balance / GDP (%)	-2.2	-3.2	1.0	2.9	3.6
External debt / GDP (%)	39.0	40.4	38.9	36.7	35.0
Forex reserves (USD bn)	246	217	217	228	238
Forex reserves, in months of imports	11.0	9.0	9.3	9.6	10.0

TABLE 1 e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

THAILAND: GRADUAL RETURN OF INTERNATIONAL TOURISTS

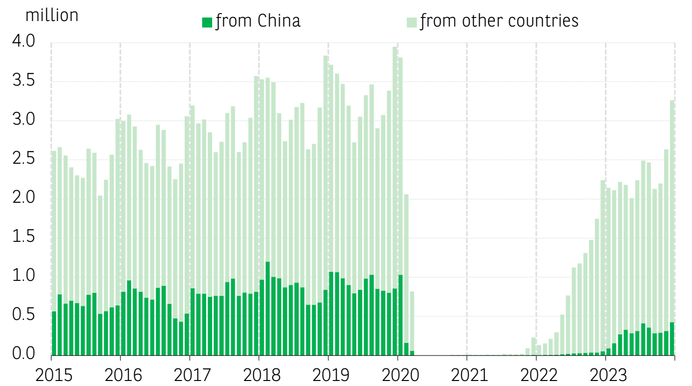

CHART 1 SOURCE: MINISTRY OF TOURISM AND SPORTS, BNP PARIBAS

A NEW POLITICAL LANDSCAPE

Political instability is still a major concern. However, the recent elections and the subsequent formation of the new government point to a changing political landscape. The decades-long hostility between (generally speaking) the royal and military elite and the rural population is slowly giving way to hostility between new parties looking to reform the country (mainly supported by younger voters) and parties who want to maintain the status quo.

The results of the general election, which was held as planned last May, are a good illustration of this. The opposition parties won a majority in the House of Representatives (with more than 300 seats out of 500) and the two main opposition parties alone won nearly all of these seats.

Move Forward, the party offering the greatest societal transformation (including an amendment to the country's lèse-majesté laws and a reform of the military) won 151 seats, while the Pheu Thai Party (PTP) won 141 seats.

Although it had formed a coalition of eight parties (representing more than 70% of the votes), Move Forward was not able to form a government. After several weeks of discussions, at the start of July, party leader Pita Limjareonrat's bid to become Prime Minister failed, as he failed to get votes from the Senate. According to the constitution in force since 2017, a Prime Ministerial candidate needs to win a majority of votes in the National Assembly, made up of the House of Representatives (500 seats) and the Senate (250 seats), whose members are all appointed by the King, in consultation with the military. Therefore, in order to get the 376 votes required to obtain a majority, alliances needed to be formed with the conservative parties and, in particular, the approval of the outgoing military government had to be won. At the end of August, Sretta Thavisin, the candidate from the PTP, was appointed Prime Minister, heading up a large coalition (made up of eleven parties, including two pro-military parties), after the National Assembly and the King gave their approval.

The political climate is expected to remain tense in the months ahead, as the Move Forward party was ultimately left out in the cold and the party has had to respond to a number of accusations that it is looking to ultimately overturn the monarchy, using its proposal to amend the country's lèse-majesté laws as an initial step on this journey. If the party were to be dissolved, large numbers of mass demonstrations would likely follow. In addition, when it comes down to it, the coalition government is made up of the PTP and ten other parties (including conservative parties), who all have greatly conflicting economic and political agendas, meaning that delivering policy embraced by all of these parties could be tricky. On the other hand, on a positive note, the need for consensus in order to implement reforms should prevent fiscal slippages.

However, in the medium term, the PTP and all of the coalition parties have declared that they intend to honour the previous government's commitments, in particular by introducing measures aimed at making the country more competitive. The «Thailand 4.0» industrial strategy and investment incentives (both domestic and foreign, thanks to the Investment Promotion Strategy, which is planned to run from 2023 to 2027) are therefore expected to continue. All of the parties also supported measures to accelerate the energy transition.

THAILAND: THE CENTRAL BANK PAUSES MONETARY TIGHTENING

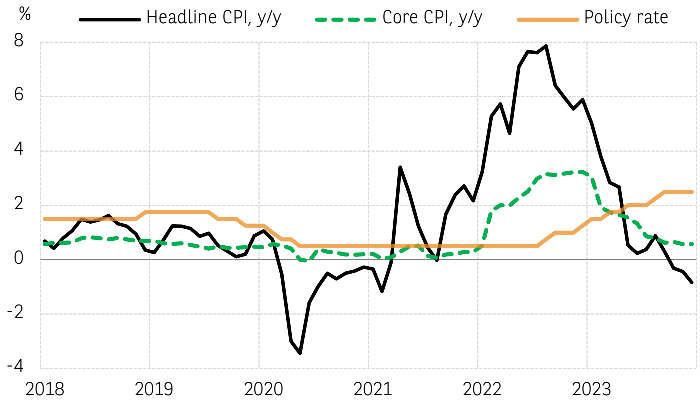

CHART 2

SOURCE: CENTRAL BANK, BNP PARIBAS

EXTRA-BUDGETARY SPENDING IN 2024

As part of this process, Thailand's lawmakers started to scrutinise the proposed budget for the 2024 fiscal year (which started in October 2023) during the first few days of January. As was the case in the previous election in 2019, the process of scrutinising the budget was delayed as a result of the protracted negotiations prior to a government being formed. The government proposes to increase spending by nearly 10% compared to the 2023 budget, with a number of measures aimed at boosting household consumption and investment, getting the country in a position to tackle population ageing, and fighting corruption put forward. Revenues are only expected to increase by 4.5% (the government assumes that GDP will grow between 2.7% and 3.7% in 2024). According to estimates, the deficit should stand at 3.7% of GDP in 2024 (up from 3% in 2023) and debt should remain stable at around 62% of GDP. The debates were fierce, as, on the one hand, opposition parties (primarily Move Forward) heavily criticised the proposed budget (a lack of clear objectives, and reforms modelled on reforms introduced by the previous government) and, on the other hand, because the proposed budget does not include the flagship economic measure, the «digital wallet», announced last November. This measure will set out to distribute 10,000 baht (around 280 euros) to over 56 million people, based on a number of criteria (such as age and income). This measure would cost the equivalent of at least 2.7% of GDP. The government recently secured the Privy Council of Thailand's approval to finance the project through a special loan, meaning that the deficit (and debt) related to implementing this project will fall outside the budget.

Hélène Drouot
helene.drouot@bnpparibas.com