



Bank of Thailand

Thailand's Economic Conditions in 2023



Global and Thailand's Economic Conditions in 2023 and outlooks in 2024

Summary of the Global Economies in 2023 and outlook

The global economy in 2023 expanded at a slower pace from the previous year with private consumption being the main growth driver for several countries, especially consumption of services thanks to the uplift of international travel restrictions and China's reopening early in the year. **However, the subdued global trade suppressed manufacturing production and exports of goods in several economies, especially Asian countries.** This was attributable to several factors.

First, the tightening of monetary policies across the globe in response to inflation, which has been more persistent than expected, had led to a liquidity crisis experienced by a few U.S. and European financial institutions in the first quarter. Nevertheless, effects of the crisis on the global financial market and the global economy were limited as authorities acted promptly to contain any contagion impact with several measures, including deposit guarantee schemes and the Bank Term Funding Program (BTFP). Second, China's economic recovery was suppressed by a downturn in real estate sector. Third, the level of global inventory remained high as a result of stocks buildup during the COVID-19 pandemic, whereby businesses experienced material shortages and bottleneck in logistics with longer shipping time. Lastly, geopolitical conflicts were intensified and prolonged with trade barriers and technology war between the U.S. and China, together with the prolonged conflict between Russia and Ukraine. Global trade, however, picked up in the last quarter of 2023, following a moderate recovery of electronic export from Asian economies such as South Korea, and Taiwan, despite a growing uncertainty from the war between Israel and Hamas towards the end of the year.

Looking forward to 2024, the global economic expansion would continue, and growth engine is likely be more balanced with a continued expansion in service sectors and a rebound in trade and manufacturing sectors. Moreover, the disinflation trend in many countries, which was in line with lower energy and commodity prices, would increase the possibility for a more accommodative stance of monetary policy. The global trade volume would rebound partly due to recovery of the electronic cycle and reaccumulating of stocks after a notable depletion. The global economy in 2024, however, is subjected to a wide range of uncertainties and challenges as well as volatile financial market due to (1) geopolitical tensions, which disseminated in various areas, (2) the upcoming elections in many

countries, which have implications to their economies, policies, as well as global geopolitics, and (3) major central banks' adjustment to the monetary policy.

Summary of the Thai Economies in 2023 and outlook

The Thai economy in 2023 expanded by 1.9 percent, slowing down from 2.5 percent in the previous year and was mainly driven by private consumption and activities in the service sectors, especially the tourist-related sector. Nonetheless, the recovery remained slow and uneven as manufacturing production and export of goods contracted by 3.2 and 1.7 percent, respectively. Apart from a slowdown in global trade, the contraction was also due to an erosion of Thailand's competitiveness in some segments, including (1) petro-chemical and chemical products, which saw a large decline in export to China as China became more self-reliant with its dual circulation strategy, (2) electronics, especially hard disk drives (HDD), which were being replaced by new technology products, while benefits of an upward electronic cycle were limited to high-tech products, which Thailand did not produce, hence, Thailand's production and export of electronics recovered at a slower pace compared to other countries, and (3) textiles and apparels, which experienced import competition from China and Vietnam. In addition, production of some industries was affected by industry-specific factors. For instance, production of pet foods contracted due to high inventories, while production of commercial cars also contracted, following a sluggish domestic demand due to a more vigilant lending by financial institutions. Nevertheless, exports of certain categories performed well. These included (1) automotives and parts, thanks to a good export to Australia, (2) electrical appliances, especially solar cell, which saw a good export to the U.S., following a production relocation from China, and (3) agricultural products such as rice and fruits, thanks to higher trading partners' demand, export restriction of Indian rice, as well as higher food imports of some countries due to food security concern.

Activities in the service sectors, especially tourist-related sector, continued to recover in tandem with higher foreign tourist arrivals, which increased from 11.1 million persons in the previous year to 28.2 million persons in 2023. A large part of the increase was attributable to short-haul tourists from China, Malaysia, and India thanks to an uplift of international travel restrictions, particularly China's re-opening and the allowance of group tour from China together with Thailand's visa free measure for tourists from China, India, Taiwan, and Kazakhstan. However, tourist receipts recovered at a slower pace relative to the number of tourist arrivals since short-haul tourists, such as Malaysian tourists, spent less. Additionally, tourists' behavior also changed after the COVID-19 with a shorter length of stay, which resulted in a lower spending per trip.

As for domestic demands, private consumption continued to display a notable growth of 7.1% and was in line with the recovery of tourism sector. Various supporting factors, which included robust employment especially in the service sectors, improvement in household income, higher consumers' confidence, and government's subsidies aimed at reducing costs of living such as subsidies on prices of benzene, electric train fare, and electricity bills, helped bolster household consumption. Spending on durable goods, however, slowed down from the previous year, especially on pick-up trucks due to a high base effect last year in which sales volume accelerated after problems of shortages in electronic materials were gradually resolved. In addition, financial institutions became more vigilant in auto loans as asset quality worsened. **Private investment grew at 3.2 percent, softened from the previous year, especially in equipment and machinery category.** The slowdown was partly due to businesses' waiting for clarity regarding government policy and direction after the general election, as well as due to low utilization of production capacity, following the slowdown in export of goods. Nevertheless, investment in construction rebounded from the previous year, especially construction in the industrial-estate areas during the second half of the year, which was in line with higher value of permitted investment from the BOI as well as improvement in businesses' investment sentiment. **Government expenditure contracted from both current and capital expenditures** due mainly to the delay in enactment of the Budget Act, B.E. 2567.

Economic and Financial Stability

The annual average headline inflation registered at 1.23% in 2023, declining back to the target range from 6.08% in the previous year. Disinflation was attributed to (1) lower energy prices thanks to falling global crude oil prices as well as the government measures aimed at lowering cost of living, (2) lower raw food prices due to higher supply of pork meat together with a high base effect last year, and (3) lower core inflation, which diminished from 2.51% in the previous year to 1.27%, following lower food prices, especially prepared food, thanks to lower costs of production compared to the previous year. **Labor market conditions continued to improve, especially in the service sector, with the overall level of employment came back to the pre-covid level.** These improvements were reflected by an increase in insured persons under section 33 of the Social Security Act, as well as lower jobless claim ratio and unemployment rate. Nevertheless, manufacturing employment showed signs of weakness in late 2023, mirroring sluggish manufacturing activities in the second half of the year.

The overall stability in the household and corporate sectors showed some improvement as reflected by a gradual decline, despite remaining elevated, in the ratios of both the corporate debt and household debt to GDP, together with the quality of credit, which did not deteriorate overall. However, debt serviceability in some segments warranted a close monitoring, especially in auto loans, which saw a worsening in credit quality. In addition, debt serviceability of low-income household and SMEs was affected by higher costs of living as well as higher production cost. **Regarding the stability of financial institutions**, commercial banks' capital, liquidity, and provisions remained ample and resilient to economic uncertainties, despite slight deterioration on the balance sheets of certain non-banks, which were affected by rising loan loss provision due to lower credit quality of some vulnerable households. **External stability remained resilient** as external debt to GDP ratio was low and gross reserves to short-term external debt ratio remained relatively high compared to the international benchmark. In addition, current account turned into a surplus after being deficit since the pandemic of COVID-19.

On the exchange rate, Thai baht in 2023, on average, appreciated from the previous year due mainly to depreciation of the U.S. dollar. At the beginning of the year, the Thai baht depreciated and became most depreciated during the third quarter due to strengthening of the U.S. dollar. This development was driven by markets' expectation of a longer monetary policy tightening by the U.S. Federal Reserve (FED) in response to a better-than-expected economic outturn of the U.S. economy. Meanwhile, Thailand's and China's economic performance were below expectation in which the former was affected by the delay in forming the government after election. However, towards the end of the year, the Thai baht appreciated while the U.S. dollar depreciated, which was in line with the markets' expectation regarding the end of the FED's hiking cycle. Nevertheless, overall Thailand's Nominal Effective Exchange Rate (NEER) remained at a similar level relative to trading partners and competitors.

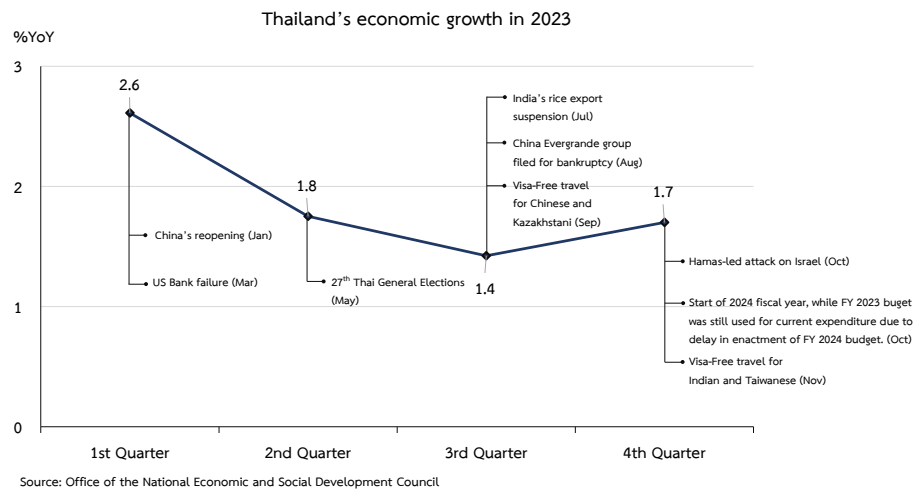
Financial conditions

In 2023, the Monetary Policy Committee gradually raised the policy rate from 1.25% to 2.50% by the end of the year. This was in line with economic recovery and would facilitate and secure long-term economic and financial stability. As a result, commercial banks' new loan rates (NLR) and bond yields increased. While short-term yields of government bonds increased in line with Thailand's policy rate, movement of the medium to long-term yields were corresponded to the U.S. treasury yields, which in turn, were affected by policy stances of the FED. The private credit expanded overall, especially from bond issuance and corporate loans in

transportation and construction sectors. This was in spite of credit contraction in the manufacturing sector, which was affected by sluggish exports as well as debt repayment by large corporates. Credit to households increased mainly from other personal loans, whereas auto loans slightly contracted due to vigilant lending by financial institutions as credit quality of vulnerable households deteriorated.

Going forward, Thailand economic growth in 2024 is projected to outpace the previous year with a more balanced engine of growth. The main driver would continue to be the tourism sector with a continued improvement in tourist arrivals. Private consumption is likely to slow down after a good expansion last year. Government spending would accelerate from the second quarter onwards after the Budget Act, B.E. 2567 is enacted. Export of goods and manufacturing production are likely to see a more apparent improvement in the second half of the year in line with the ongoing recovery of the global trade. While gains from the upward electronic cycle would likely to materialize, benefits to Thailand would be relatively limited due to structural factors such as export composition. Headline inflation is likely to be lower than 2023 due to stable global oil prices. Nevertheless, the Thai economy is subjected to high uncertainties and several risks warranted a close monitoring. These include (1) impacts of recovery in world trade on Thailand's exports along with the influx of goods in the global and domestic markets, (2) the government's ability to expedite its disbursement after the Budget Act, B.E. 2567 is enacted, (3) geopolitical tensions, and (4) volatilities and uncertainties of the global financial market and the global economy.

Summary of key events that impacted the global and Thai economies



Important events occurred in 2023, which affected the global and Thai economies included:

1. On January 8, 2023, China officially reopened its borders, allowing Chinese citizens to travel abroad without COVID-19 testing or quarantine requirements. By March 15, 2023, China permitted international tourists to visit China.
2. On March 12, 2023, U.S. regulators closed Signature Bank, followed by the filing of Silicon Valley Bank (SVB) for bankruptcy on March 17, 2023. Additionally, on March 19, 2023, Union Bank of Switzerland (UBS) acquired Credit Suisse for over 3 billion Swiss francs with supports from the central bank and the government of Switzerland.
3. The 27th Thai general elections were held on May 14, 2023, with a subsequent press conference held on August 21, 2023, and established a successful government coalition of Pheu Thai and other 11 parties led by the 30th Prime Minister of Thailand, Srettha Thavisin.
4. On July 20, 2023, India suspended non-basmati rice from exports on top of the previous suspension of broken rice from exports last year.
5. On August 18, 2023, China Evergrande Group, a major Chinese property developer, filed for bankruptcy protection due to its inability to repay \$300 billion in debt.
6. On September 13, 2023, the Thai government approved visa-free travel for Chinese and Kazakhstani passport holders, allowing stays of up to 30 days during September 24, 2023, to February 29, 2024. Additionally, visa-free travel was extended to Indian and Taiwanese passport holders from November 10, 2023, to May 10, 2024.
7. Hamas attacked Israel on October 7, 2023.

Thailand's Economic Conditions

	2021	2022		2023			
	Year	H1	H2	Year	H1	H2	Year
<i>(Annual percentage change, unless specified otherwise)</i>							
Gross Domestic Product ^{1/}	1.6	2.2	2.8	2.5	2.2	1.6	1.9
Demand (expenditure)							
Private consumption expenditure	0.6	4.6	7.7	6.2	6.6	7.6	7.1
General government consumption expenditure	3.7	5.2	-4.2	0.1	-5.1	-4.0	-4.6
Gross fixed capital formation	3.1	-0.1	4.7	2.3	1.8	0.6	1.2
- Private	2.9	2.1	7.3	4.7	2.1	4.3	3.2
- Public	3.5	-5.5	-2.1	-3.9	1.2	-10.7	-4.6
Exports of goods and services	11.1	9.9	2.5	6.1	1.4	3.0	2.1
Imports of goods and services	17.8	5.6	1.7	3.6	-1.4	-3.1	-2.3
Supply (production)							
Agriculture	2.2	3.5	1.5	2.5	3.9	0.1	2.0
Manufacturing	4.7	0.8	0.5	0.7	-3.1	-3.4	-3.2
Construction	0.3	3.3	4.3	3.8	4.6	3.9	4.3
Services and others	-0.9	-5.1	-1.1	-3.2	-0.3	3.5	1.5
Domestic stability							
Headline Consumer Price Index	1.23	5.61	6.54	6.08	2.49	-0.01	1.23
Core Consumer Price Index (excluding raw food and energy)	0.23	1.85	3.14	2.51	1.87	0.68	1.27
Unemployment (percent of total labor force)	2.0	1.5	1.2	1.3	1.1	0.9	1.0
Public debt (end of period, billion baht) ^{2/}	9,644	10,204	10,587	10,587	10,928	11,085	11,085
Share of GDP (end of period, percent) ^{2/}	59.6	61.0	60.9	60.9	61.7	61.9	61.9
External Stability (billion U.S. dollars)							
Trade balance	32.4	10.3	3.3	13.5	8.1	8.8	17.0
Current account balance	-10.6	-9.2	-5.5	-14.7	2.4	4.9	7.4
Capital account balance ^{2/}	0.0	0.0	0.0	0.0	0.8	1.2	2.0
Financial account balance ^{2/}	-6.0	3.6	-0.4	3.2	-5.2	-8.8	-13.9
Balance of payments	-7.1	-7.4	-2.9	-10.2	-0.6	3.2	2.6
Gross international reserves (end of period)	246.0	222.3	216.6	216.6	218.2	224.5	224.5
External debt (end of period) ^{2/}	196.3	194.1	199.8	199.8	192.8	194.3	194.3
International reserves to short-term debt (ratio)	2.7	2.4	2.3	2.3	2.4	2.5	2.5
External debt to GDP (percent)	38.0	37.8	39.9	39.9	38.1	38.4	38.4
External debt to export value (percent)	67.1	65.9	68.2	68.2	63.1	60.9	60.9
Short-term debt to external debt (percent)	38.1	39.5	40.1	40.1	40.2	40.8	40.8
Monetary statistics (end of period) (billion baht)							
Financial institutions' deposits including bills of exchange ^{3/}	23,499.9	24,055.4	24,565.0	24,565.0	24,553.4	24,904.6	24,904.6
Annual percentage change	4.5	6.0	4.5	4.5	2.1	1.4	1.4
Financial institutions' private credits ^{4/}	28,879.7	29,486.8	30,002.5	30,002.5	30,382.3	30,746.4	30,746.4
Annual percentage change	5.0	4.9	3.9	3.9	3.0	2.5	2.5
Bank Liquidity Indicator (end of period) (percent)							
Loan / Deposit and B/E ratio (Excluding Interbank)	94.2	93.8	92.0	92.0	92.0	91.0	91.0
Liquidity Coverage Ratio: LCR	189.2	185.5	196.6	196.6	188.0	204.4	204.4
Interest rates (end of period) (percent per annum)							
- Repurchase rate, one-day	0.50	0.50	1.25	1.25	2.00	2.50	2.50
- Overnight interbank rates (mode)	0.50	0.50	1.25	1.25	1.90	2.48	2.48
- Time deposit rate, one year ^{5/}	0.45	0.45	0.98	0.98	1.40	1.65	1.65
- Prime rate (MLR) ^{5/}	5.49	5.49	6.00	6.00	7.00	7.25	7.25
Exchange rate (average) (baht per U.S. dollar)	32.00	33.71	36.37	35.06	34.20	35.41	34.81
Nominal Effective Exchange Rate ^{6/} (average) (2012=100)	117.81	116.37	114.71	115.53	120.09	119.53	119.81

หมายเหตุ: 1/ Chained volume measure

2/ Preliminary data as of 30 June, 2024

3/ Financial institution consist of all deposit-taking institutions except the Bank of Thailand

4/ Including (1) loans extended to household, NPISH, and other non-depository financial institutions;

(2) loans extended to non-financial corporates (excluding state enterprises) issued by other depository financial institutions, other non-depository financial institutions, and external sources; and (3) bonds issued by non-financial corporates (excluding state enterprises)

5/ Average rate of six largest commercial banks (TMBthanachart was included since July, 5 2021)

6/ Higher NEER means that the baht appreciated compared to trading partners' and competitors' currencies

Sources: Office of the National Economic and Social Development Council, Ministry of Commerce, National Statistical Office, Public Debt Management Office and Bank of Thailand