

"The Thai Economy: Resilient Today, Transformed Tomorrow"

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Mr Sato, Mr. Okubo, Distinguished guests,

Thank you to the Japanese Chamber of Commerce for hosting this wonderful dinner, and for over 70 years of partnership that has been integral to Thailand's development into a successful export-driven economy. In this period of large and disruptive changes, we value your partnership more than ever.

I want to talk tonight about **one question** above all others: **not whether Thailand will grow, but whether Thailand will transform.** Those are not the same thing. And the difference between them is what will determine whether we thrive or stagnate over the next twenty years.

But let me start with where we are – including the fact that, as of this week, the world looks rather different than it did a month ago.

The Starting Point: Solid, But Not Sufficient

The word that best described both Thailand and the global economy at the start of this year was **resilient**. After "liberation day" last year, the consensus expected a significant drag from the US tariff shock. **What actually happened was a surprise.** The global economy expanded by 3.3% – well above the 2.8% estimated by the IMF right after the tariff announcements. Effective tariff rates were lower than the headlines suggested, pass-through was muted, and activity was sustained by strong AI-related investment, fiscal support, and accommodative financial conditions.

Thailand shared in that resilience. Full-year growth came in at 2.4% – higher than we expected, and our forecast was already the highest in the market. The fourth quarter came in particularly strong at 2.5% year-on-year, driven by robust exports and a pick-up in domestic demand. Growth for 2024 was also revised upwards to 2.9%. In fact, over the last eight quarters, GDP has expanded at roughly 0.8% per quarter, which annualises to just over 3% — **the top end of our estimated potential growth rate.**

And yet people do not feel good about the economy. Neither do we.

I want to dwell on that for a moment, because it matters. Part of the explanation is that other countries in Asia are growing faster. But there is a deeper issue **The gap between what the data says and what people experience is not a communications issue. It is a signal.** It tells us that growth has not been evenly shared. For many households and small firms, growth has not translated into tangible improvements in living standards. Nor has it built genuine confidence. **Our challenge is not to defend the numbers. Our challenge is to change the nature of the economy that produces them.** We can do better – not just in lifting headline growth rate, but in the quality and nature of that growth.

The Near-Term Picture: Going In Well-Positioned

Before I get to the structural question – which is the heart of what I want to say tonight – let me address the **near-term risks** directly, because I know they are on everyone's mind.

The first is that some of the factors underpinning global resilience are also sources of fragility. Global growth is reliant on a rather narrow base of AI-related investment, which rests on assumptions about large productivity gains that may or may not materialise. Financial markets are reflecting stretched valuations. And in many advanced economies, including the United States, fiscal trajectories are unsustainable, which limits the room to respond if things deteriorate.

The second risk — and the most immediate one — is the Iran conflict. This represents a significant global supply shock. The consequences depend on how high oil prices go and how long they stay there. The disruption extends beyond oil to petrochemicals and fertilisers that will reverberate through global supply chains. Indirect effects could also be substantial: a pullback in global tourism, delayed investment from heightened uncertainty, and a tightening of financial conditions.

Thailand's exposures are real. We are among the most energy-intensive economies in Asia. Imported oil accounts for 8% of our GDP, with more than half sourced from the Middle East. Energy makes up 13% of our CPI basket. And tourism — which contributes 12% of GDP — includes a significant share of long-haul visitors from Europe where travel is disrupted. Our internal estimates before the conflict had 2026 GDP growth at around 1.9%. If the situation persists into the second half of the year with highly elevated oil prices, **growth could be up to 0.5 percentage points lower, and inflation could rise to just under 2%.**

But here is what I want to emphasise: **we are going into this shock better-positioned** than many other economies. Inflation is low – slightly negative, in fact – which gives us room that countries with 4 or 5% inflation simply do not have. Our international reserves stand at

around 50% of GDP. Our external debt is modest, and non-resident participation in local capital markets is limited, which insulates us from sudden portfolio outflows. The recent baht depreciation has been from a position of strength. And our monetary policy stance, following our most recent rate cut to 1%, is appropriately accommodative.

Before the Iran conflict, we also had **solid basis for continued near-term momentum**. Robust export growth looks set to continue. Tourist numbers in the first two months of the year were strong. Consumer and business sentiment in February was picking up — echoed in the latest JCC survey, which showed clearly more optimistic sentiment for the first half of 2026. And I should note that Thailand and Japan held elections on the same day, with broadly similar results: both incoming governments will be more stable, providing the policy continuity that is critical for business planning.

So our starting point for absorbing this shock is a sound one. But I do not want this evening to be dominated by a crisis whose resolution is still very uncertain.

What I do want to talk about is the question that will matter long after the oil price has settled – because sooner or later the world will get through this crisis.

The Real Question: Can Thailand Transform?

Two weeks ago, we co-hosted a conference with the IMF and the Korean Government titled "**Asia 2050**". Over two days, two themes kept returning. **The first:** Asia's continued rise as an economic powerhouse is close to inevitable. **The second:** for most of Asia – which consists largely of small nation states – the benefits of that rise are not inevitable at all. They depend entirely on what each country does. **We will be what we will our economies to be.** And it all comes down to one thing: the ability to drive and sustain structural transformation.

Rich economies are not simply blown-up versions of developing ones. They are structurally different. The traditional pattern of development was to move from low-productivity agriculture, to more productive manufacturing, and then to even higher productivity services. In the process, overall efficiency rises and growth improves. Thailand has followed this path – but only partway. The share of workers in agriculture fell from over 50% in the early 1990s to 30% today, and the share in services has risen to just over 50%. But the 30% of the labour force in agriculture generates less than 10% of GDP. While most of the workers in services are in traditional low-productivity jobs. We have significant gains available simply from a more efficient allocation of resources across sectors – and more still from upgrading productivity within them.

But sectoral change is not the only dimension of transformation. Resources must be reallocated not just across sectors, but across geographies, across firms, within firms, and across households. Taking this broader view, the picture becomes even more striking – and the potential gains even larger.

Let me give you one striking example that captures this untapped potential.

Young firms in Thailand – those less than five years old – are significantly more productive than older ones. Their return on assets can be up to twice as high. They grow faster. Between 2018 and 2023, nearly half of total business revenue growth came from firms that were five years old or younger.

Yet their share of the business population has fallen from around 50% to just under 40% over the last fifteen years.

Think about what that means. The most productive, fastest-growing part of the Thai economy is shrinking as a share of the whole. We have a system that is, in effect, **protecting incumbency at the expense of dynamism.** We have long focused our support on firm size — directing resources toward SMEs, which employ 80% of workers but generate only 35% of GDP, far below the 55% typical in advanced economies. **But perhaps size is not the right lens. Age may be better.** We do not need more small firms. We need to support young, productive firms to survive and scale – and we need to stop letting the structural environment work against them.

The same logic applies at a **geographic level.** Almost 70% of all GDP comes from Bangkok and the Eastern Seaboard. This leaves much of the country under-developed and under-served. The **informal sector** is too large, accounting for as much as 40% of economic activity. Over 78% of firms operate informally – outside the tax base, the credit system, and the regulatory framework that would allow them to grow. These are not just distributional problems. **They are efficiency problems.** An economy where so much activity sits outside the formal sector, and where opportunity is so geographically concentrated, is an economy leaving enormous potential on the table.

What This Means for Investment — And for Japan

Structural transformation of the kind I am describing does not happen through policy alone. It requires the **right kind of private investment** – investment that does not just add production capacity but transfers technology and capability, builds supply chains, and embeds itself in the local economy in ways that generate lasting spillovers.

Japan, having long been one of our largest sources of FDI, is the model for this.

In auto-parts and electronics, for example, Japanese manufacturers in Thailand use local content at rates of 68% and 47% respectively. Those numbers are substantially higher than investors from other countries. That is the kind of FDI that truly transforms an economy, bringing Thai firms and workers up to international standards. Japan did not just invest in Thailand. **Japan helped build the industrial foundations of our country.**

We are now seeing a compositional shift in FDI – toward data centres, electronics, EVs and technology-intensive sectors. This is the right direction. But it brings a new challenge: some of this investment uses limited domestic content. **It can add GDP without adding capability.** We are thinking carefully about how to structure incentives so that the next wave of FDI generates the kind of spillovers that Japanese investment has historically provided – and we welcome your engagement in that conversation.

What Policy Can Do

Let me close with a few words on what we are doing, and what we are trying to make possible.

The basic prerequisite for successful economic transformation is macroeconomic stability. First and foremost, the Bank of Thailand's role is to provide a **macro-financial environment conducive to growth-enhancing reforms.**

This begins with low and stable inflation. As mentioned earlier, inflation is currently slightly negative, largely due to supply-side factors in energy and raw food prices. Indeed, core inflation has been holding steady at just under 1%.

Maintaining financial stability is also critical. Banks have strong buffers and non-performing assets are manageable at a steady level. With respect to household debt, we have seen continued gradual de-leveraging to around 86% of GDP – a full 10 percentage points lower than the peak in 2021. This is encouraging, but the level remains high. We have implemented a number of initiatives to support debt restructuring on favourable terms.

We are also taking steps to improve **credit allocation**, particularly to firms with productive potential but limited access to financing. In the near term, we are implementing a credit-guarantee scheme for SMEs in cooperation. For the medium term, we are building a data platform that will enable much better credit risk assessment for both firms and households, facilitating broader access and effective risk-based pricing.

We are also investing heavily in **future-ready payment infrastructure** – expanding cross-border payment linkages across Asia, upgrading our wholesale payment system to accommodate asset tokenisation, and promoting greater use of local currency invoicing. Indeed 50% of our bilateral trade with Japan is already settled in yen or baht – the highest of any partner. That is a buffer against exchange rate volatility that benefits both of us, and we want to deepen it.

Beyond our immediate remit, we are working closely with other agencies on **structural reform**. We have initiated, for example, together with key industry bodies, the "Reinvent Thailand" platform – a private sector-led effort, with government in a facilitating role, to identify the specific binding constraints on Thailand's economy, pilot solutions, and evaluate them on a rolling basis.

Closing Thoughts

Ladies and gentlemen, structural transformation is hard. It requires a clear vision, strong political will, and sustained execution over many years. The good news is that the awareness of this challenge – and the urgency to act on it – has never been greater. Everyone you speak with today recognises that Thailand faces structural problems, and there is a real sense that the time to address them is now.

Thailand is not going to transform passively. **We are going to work for it – through policy, through reform, through partnerships.** Japan has been with Thailand through every major stage of our economic development. We hope you will be with us through the next one. Thank you.