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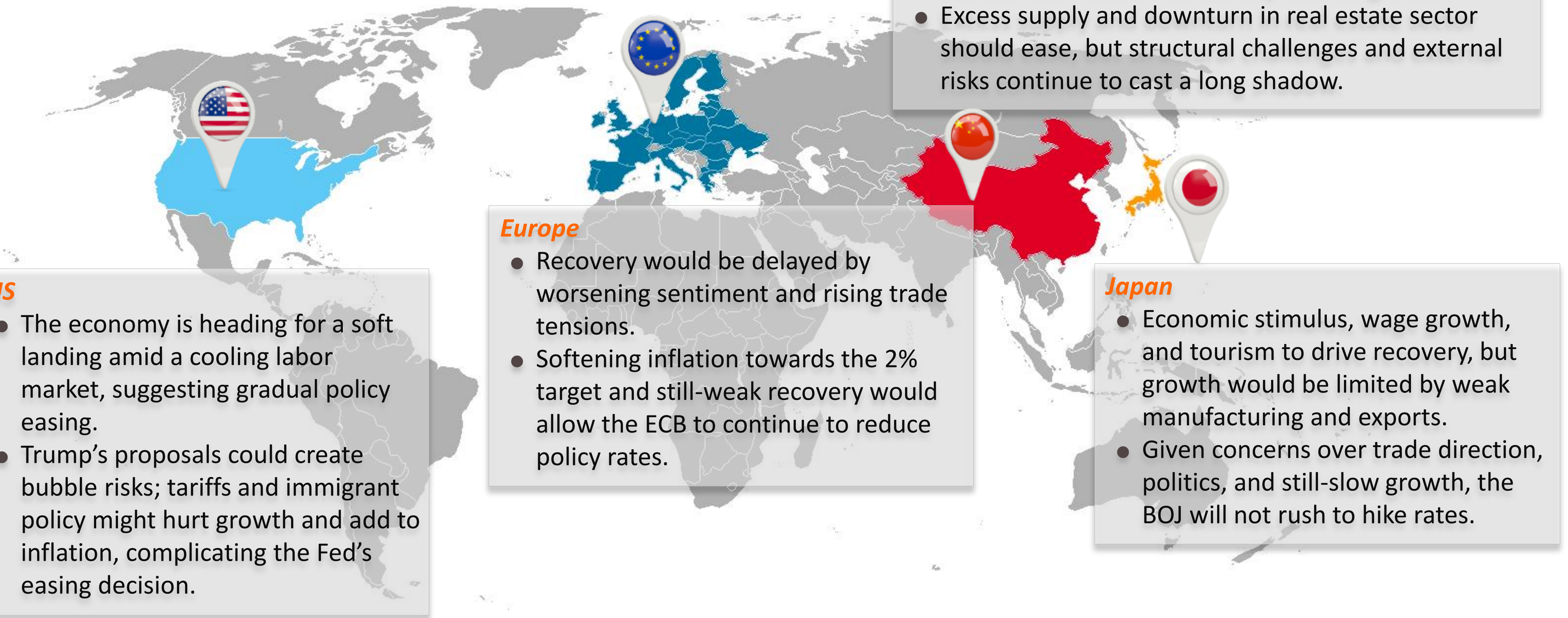
# Economic Outlook 2025

November 2024

**Krungsri Research**

# Global: Steady Growth, But Rising Uncertainty is a Major Threat



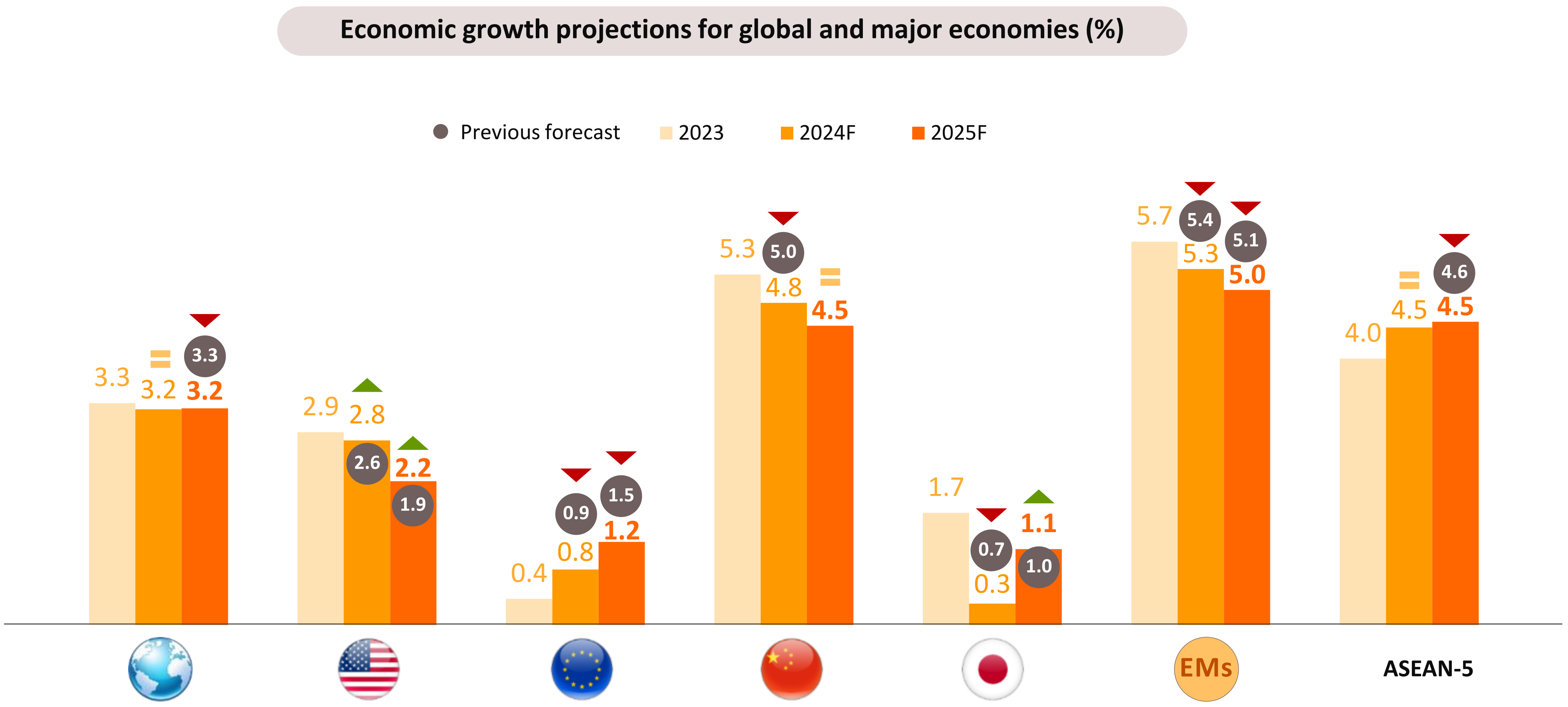
**China**
- Major economic engines continue to move forward but current headwinds will cap overall growth.
- Excess supply and downturn in real estate sector should ease, but structural challenges and external risks continue to cast a long shadow.

**Europe**
- Recovery would be delayed by worsening sentiment and rising trade tensions.
- Softening inflation towards the 2% target and still-weak recovery would allow the ECB to continue to reduce policy rates.

**US**
- The economy is heading for a soft landing amid a cooling labor market, suggesting gradual policy easing.
- Trump’s proposals could create bubble risks; tariffs and immigrant policy might hurt growth and add to inflation, complicating the Fed’s easing decision.

**Japan**
- Economic stimulus, wage growth, and tourism to drive recovery, but growth would be limited by weak manufacturing and exports.
- Given concerns over trade direction, politics, and still-slow growth, the BOJ will not rush to hike rates.

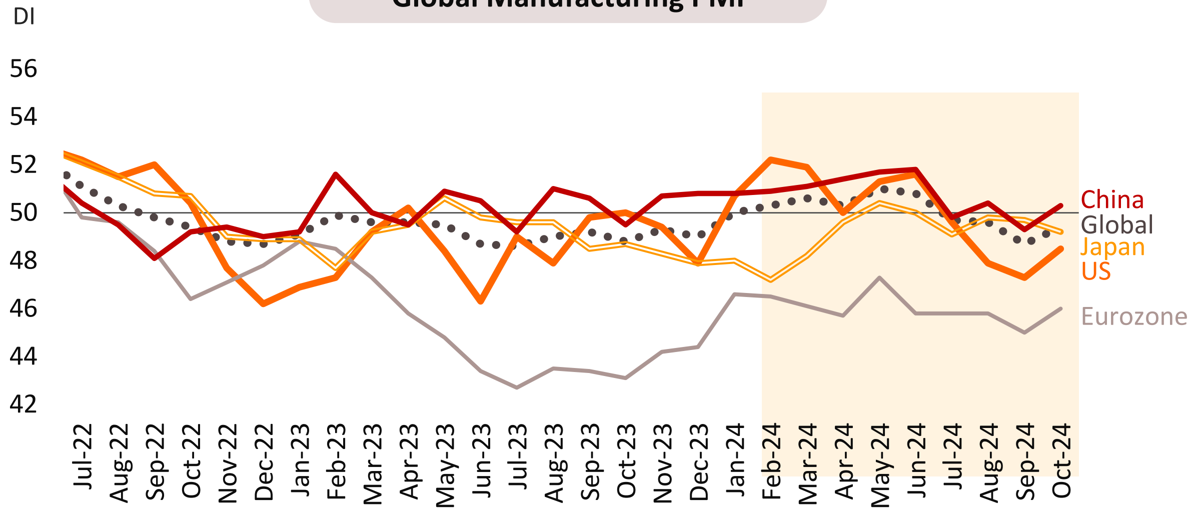
# IMF expects global growth to be stable yet underwhelming; risks are tilted toward the downside amid policy uncertainty; structural headwinds will cap growth



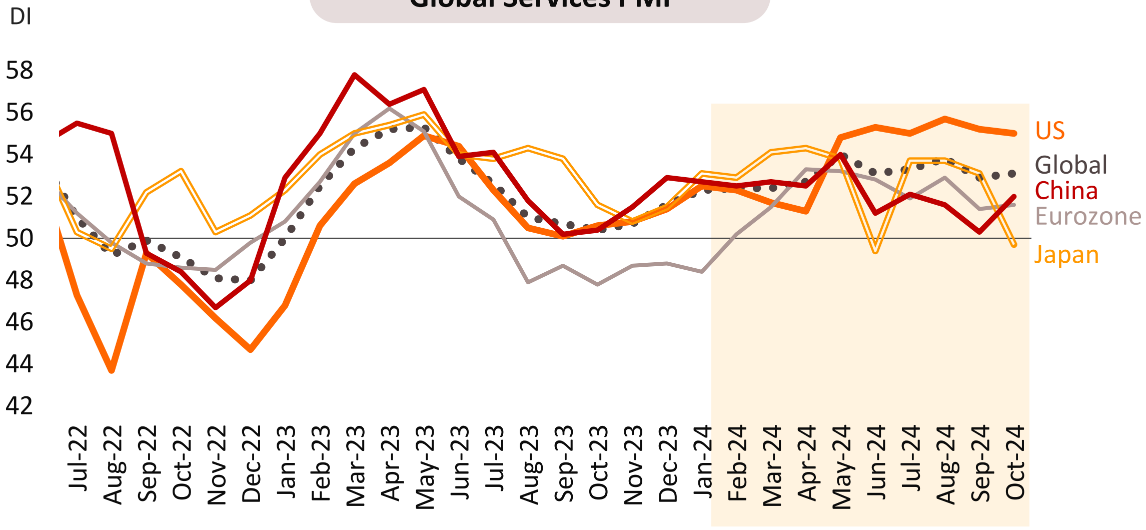

Notes: EMs: Emerging and Developing Asia
Source: IMF, World Economic Outlook (October 2024)

# Global growth to be capped by subdued demand for manufactured goods despite an expanding services sector; uncertain policy direction is a key risk for growth and inflation

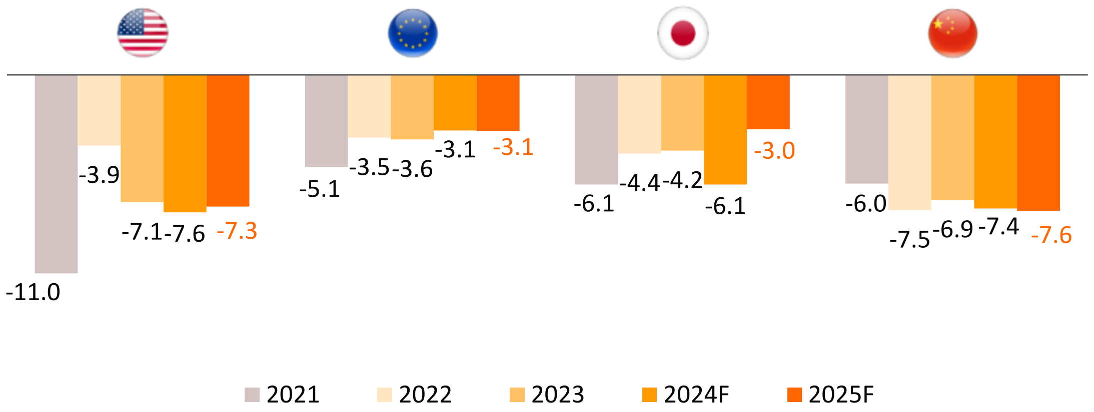
**Global Manufacturing PMI**



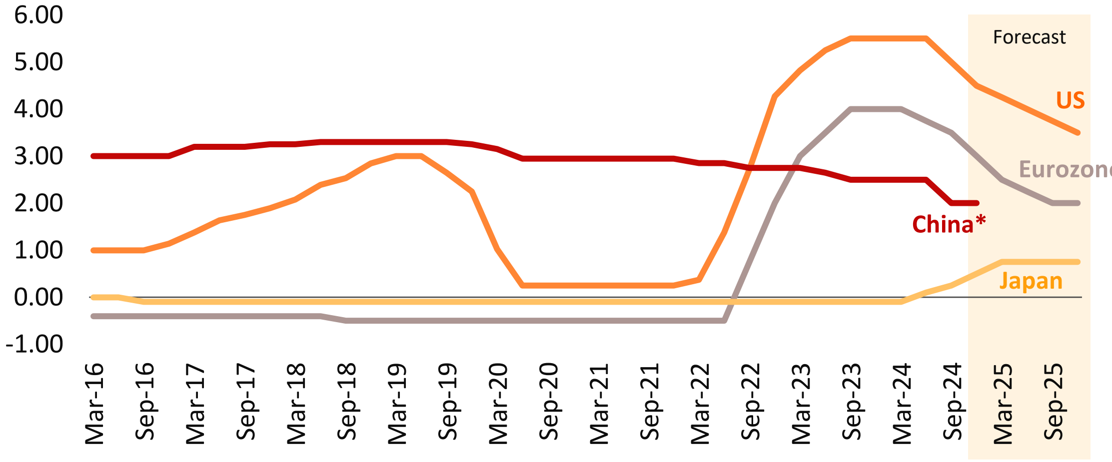

**Global Services PMI**




**Fiscal Deficit Projections 2025** (% of GDP)




**Policy Interest Rates (%)**




Source: Bloomberg, IMF, CEIC, Krungsri Research

Note: *1-year lending rate (MLF)

# *Trump's tariffs policy - Scenarios*

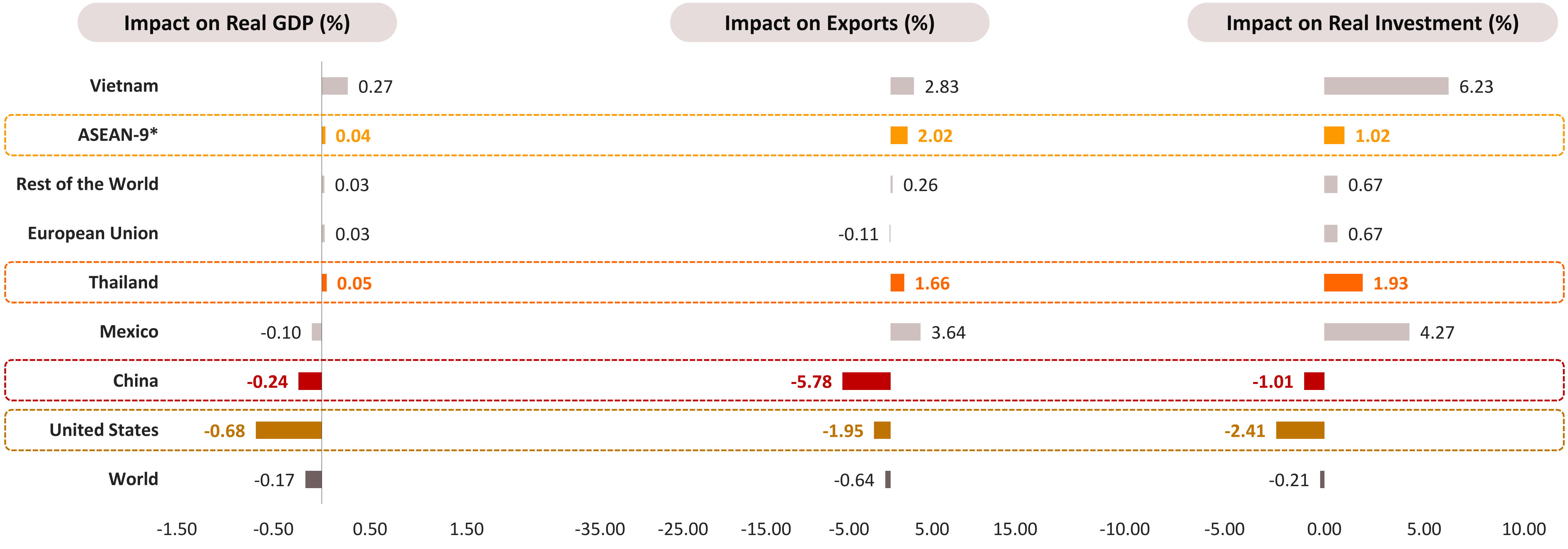
These scenarios illustrate the varying levels of economic impact based on policy enforcement and the degree of retaliation by trade partners. The possible responses from key stakeholders and foreign governments provide a framework to understand how such trade policies could influence broader economic conditions, from consumer prices to international relations.

| | Scenario | Economic impact |
|---|---|---|
| 1 | US imposes 60% tariffs on all Chinese goods | This could raise import costs specifically for goods from China, **which would make some consumer goods and raw materials more expensive.** That could reduce demand in the US and exports from China and hurt economic growth in those countries and the global economy.<br><br>ASEAN exports of some products could benefit from the substitution effect and production relocation. |
| 2 | US imposes 60% tariffs on imports from China and 20% on imports from other countries | A surge in import prices of goods from multiple regions could lead to **higher costs for consumers and businesses worldwide.** This could result in weaker exports and economic growth in major countries, especially the US and China.<br><br>ASEAN could benefit from production relocation, but weaker global demand could hurt ASEAN exports significantly. The risk of strained trade relationships with multiple nations would increase. |
| 3 | US imposes 60% tariffs on imports from China and 20% on imports from other countries;<br>China retaliates with 60% tariff on all US goods | **A severe escalation in the trade war could hurt competitiveness of US exports more than in the first or second scenario.**<br><br>China's export losses would be worse but remain less severe than the US.<br><br>ASEAN nations will perform better than in the second scenario, benefiting from continued production relocation from China. This would mitigate the negative effects of reduced demand in the US and China. |

Source: Reuters, The White House, Krungsri Research

# *Scenario 1: US imposes 60% tariff on all Chinese goods* – this would hit the US, China and global economies, while ASEAN could benefit from higher exports and investment

In this scenario, **the adverse impact on China's exports** (-5.78%) **would be worse than for US exports** (-1.95%). **But, higher costs triggered by tariff hikes have more twice the impact on US investments than China, leading to greater overall impact on US GDP** (-0.68%) vs China's GDP (-0.24%). Globally, these tariffs could reduce global exports by 0.64% and global GDP by 0.17%, mainly due to higher production costs, lower productivity, and reduced demand in major economies (e.g., the US, the EU, and China). Within ASEAN, Vietnam would be a key beneficiary, gaining from stronger exports and production relocation, though higher import costs would limit the improvement. **Meanwhile, Thailand would experience a mild positive impact, with gains in some exports such as electronics & electrical equipment (+9.2%) and textiles, leather, & footwear (+3.4%). However, broader growth remains constrained due to Thailand's participation in the Chinese supply chain and reduced demand from key partners, especially from the US and China.**

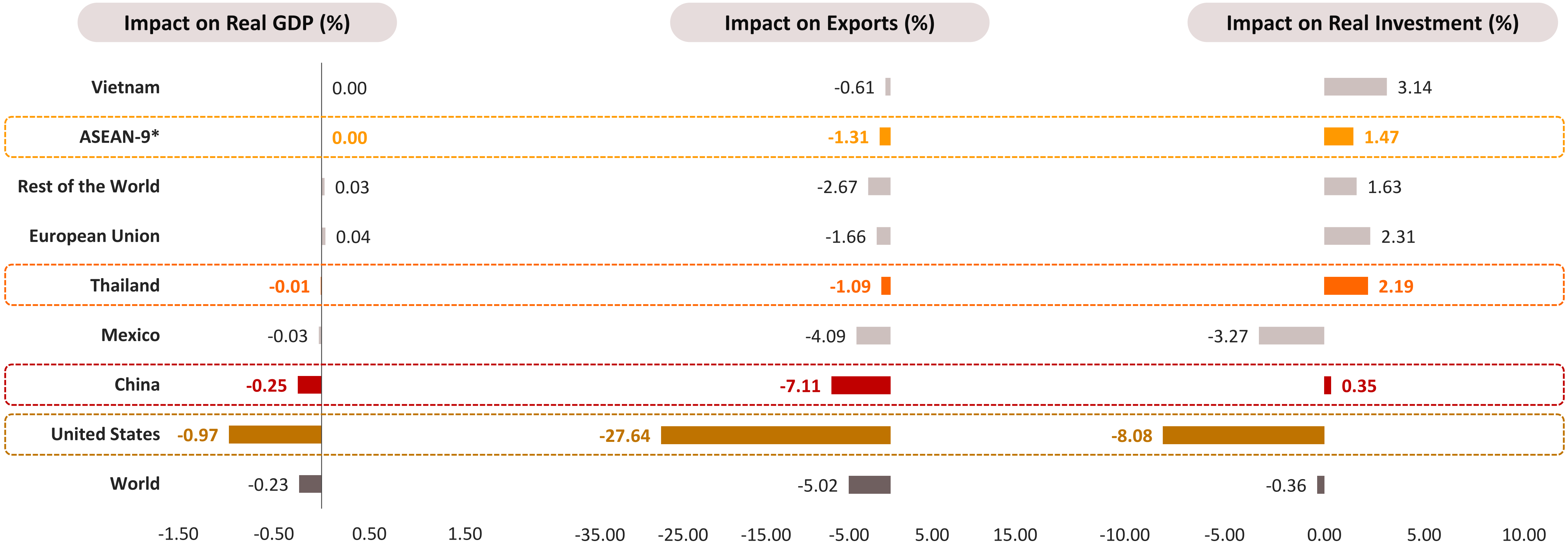



Note: ASEAN-9 refers to the ASEAN countries, excluding Myanmar.
Source: GTAP, ITC, WITS, CEPII and Krungsri Research

Unit: % deviation from baseline

# *Scenario 2: US imposes 60% tariff on all imports from China and 20% on all imports from other countries* – the impact would be worse and hit the US harder than China; smaller export gains for ASEAN despite higher investment

**The additional 20% uniform tariffs on all imports from other countries would worsen the impacts significantly.** The US would see a sharper drop in exports, investment, and GDP than the rest of the world. The effects on US exports, investment, and GDP would be 14.2, 3.4, and 1.4 times worse than under the first scenario, respectively, partly due to the surge in import costs faced by US firms, which would raise production costs, particularly in upstream markets dominated by China. The impact on Chinese exports and GDP would be similar to Scenario 1. **ASEAN countries would see weaker exports**, directly from the 20% uniform tariffs and indirectly through their links in China's supply chains. **Nevertheless, ASEAN nations, especially Vietnam and Thailand, could benefit from production relocation.** These opposing forces would result in little change to the overall ASEAN GDP growth.

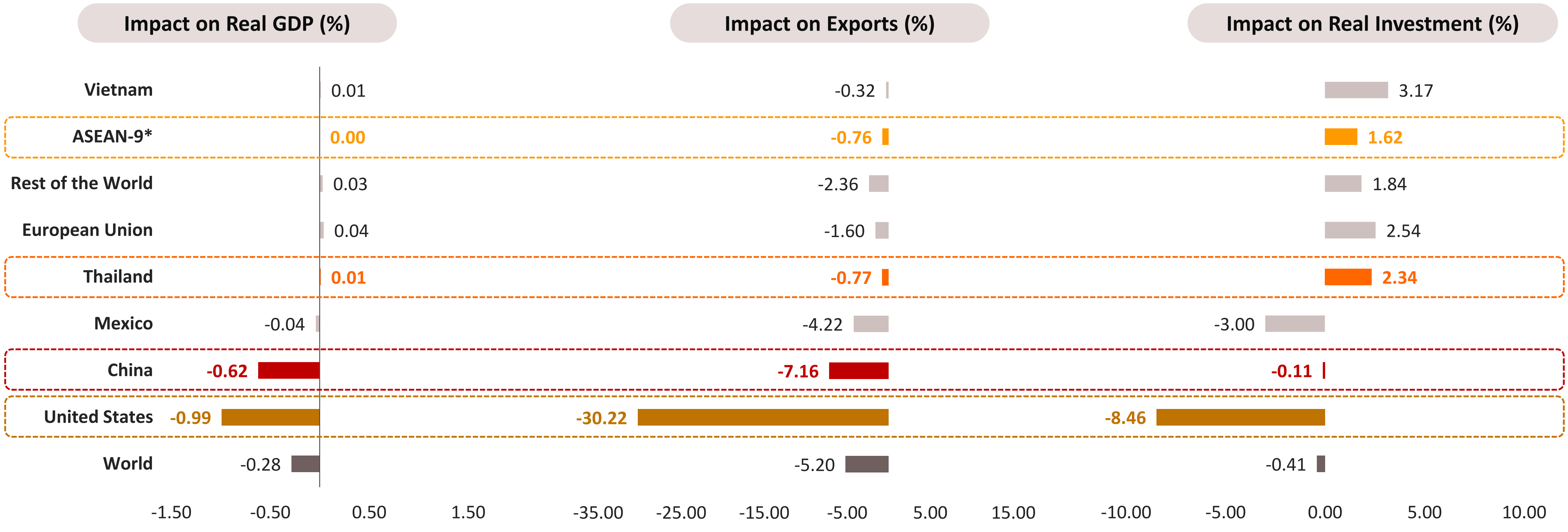



Note: ASEAN-9 refers to the ASEAN countries, excluding Myanmar.
Source: GTAP, ITC, WITS, CEPII and Krungsri Research

Unit: % deviation from baseline

# *Scenario 3: China imposes 60% retaliatory tariffs on US goods –* this would worsen the impacts on US and China; ASEAN would still see weaker exports despite gains from investment relocation

**In this worst-case scenario,** where the combination between Scenario 2 and China's retaliation by imposing 60% tariffs on all imports from the US**, the negative impacts would intensify. Especially for the US,** the drop in exports would be 1.1 and 15.5 times greater than in Scenario 1 and 2, respectively. **China's export losses would also deepen but remain less severe than for the US. There would be a larger negative impact on China's GDP** than in Scenario 1, as the tariffs would raise costs for domestic industries and limit access to key US goods, potentially disrupting its supply chains. **In contrast, the impact on US GDP would be similar to Scenario 2** as US consumers might spend more on domestic goods (+8.2%) than imported goods (-35.2%). The global impact would be minimal because the substitution effect would ease export losses for countries with lower tariffs. **ASEAN export losses would be slightly less than in Scenario 2, and the impact on GDP remains close to zero and similar to Scenario 2,** as ASEAN would continue to benefit from production relocation which would mitigate the negative effects of reduced global demand.




Note: ASEAN-9 refers to the ASEAN countries, excluding Myanmar.
Source: GTAP, ITC, WITS, CEPII and Krungsri Research

Unit: % deviation from baseline

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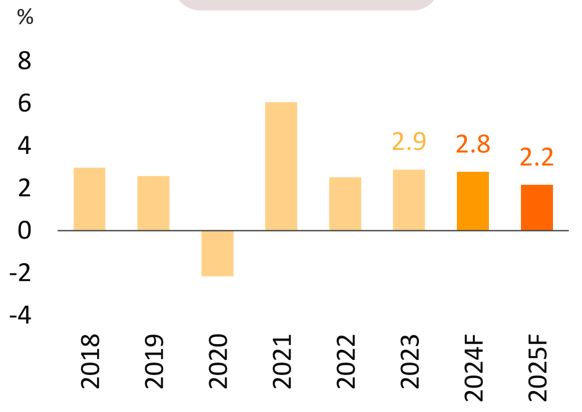
# Trump would likely adopt a strategic approach to minimize losses for the US but still benefit from tariffs

- **If Trump's administration pushes through the proposed tariff hikes, the US economy would experience larger losses than China**, especially for upstream industries that are dominated by China.
  - However, **Trump might favor a less extreme or targeted approach**. It would focus tariff hikes for strategic goods, such as electric vehicles and lithium-ion batteries.
  - **Trump could use tariff threats as leverage to negotiate preferential trade deals with other nations**, potentially adopting a more flexible or reduced tariff approach. **This would reduce the overall impact** but still enable the US to gain strategically from tariff hikes. This could mean a milder version of the worst-case scenario.
- **Less severe impact on China:** The negative impacts would be generally less severe on China than the US. However, China would face larger economic losses as the trade war escalates. If China were to impose retaliatory tariffs, it would raise costs for domestic industries and restrict access to key US goods, which could disrupt Chinese supply chains as China's manufacturing sectors remain heavily dependent on exports.
- **ASEAN could benefit from the shift in investment direction.** However, these gains may be smaller if the US imposes additional tariffs on sectors with strong links to China, including potential AD/CVD measures for solar cells.
- **Losses and gains in key export sectors: The hardest hit sectors in China and the US under the worst-case scenario would be Electronics & Electrical Equipment, Rubber & Plastics, and Textiles, Leather, & Footwear** due to their interdependency in the global supply chain. Thailand and ASEAN exports could see gains from the substitution effect in Electronics & Electrical Equipment and Textiles, Leather, & Footwear, but the gains may fade or be lost if the US imposes additional tariffs or China retaliates.

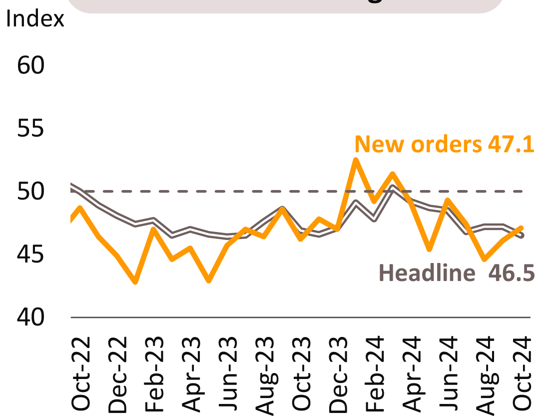
# *US:* Economy is heading for a soft-landing amid a cooling labor market, suggesting gradual policy easing ahead; uncertainty over economic policies is a key risk

**The US economy is expected to grow at a slower pace of 2.2% in 2025, compared to 2.8% in 2024.** The expanding services activity, positive wealth effect, and easing monetary policy would improve economic conditions, but **overall economic expansion could slow down amid a cooling labor market, weaker wage growth, and rising delinquency rates in consumer and credit card loans amid still-high real interest rates.** A further contraction in manufacturing activity and the slowdown in issuing building permits could also reduce positive cyclical forces. **The latest signs of decelerating growth and easing inflation suggest gradual policy easing ahead, but greater uncertainty over Trump's policies could threaten the US economy.**

**Real GDP***

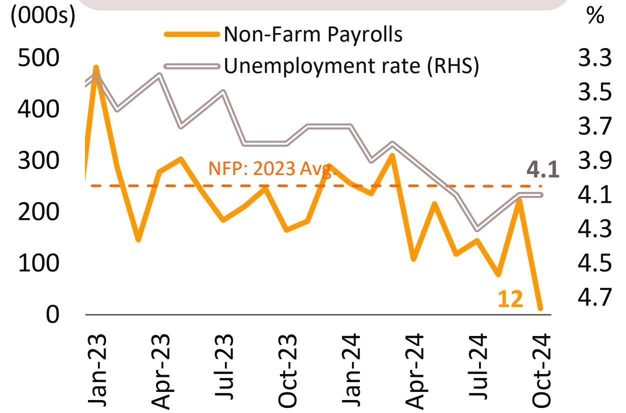



**ISM Manufacturing PMI**

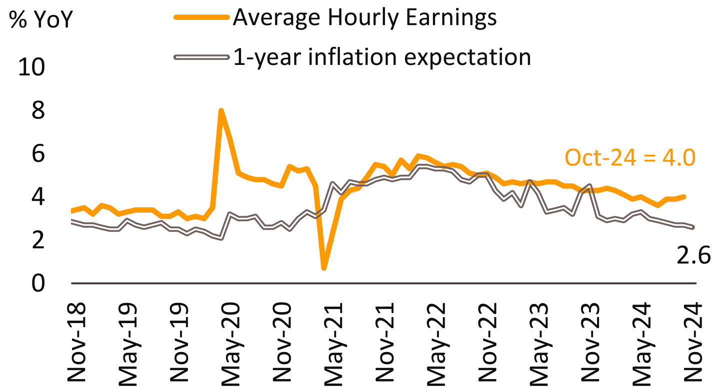



**ISM Services PMI**

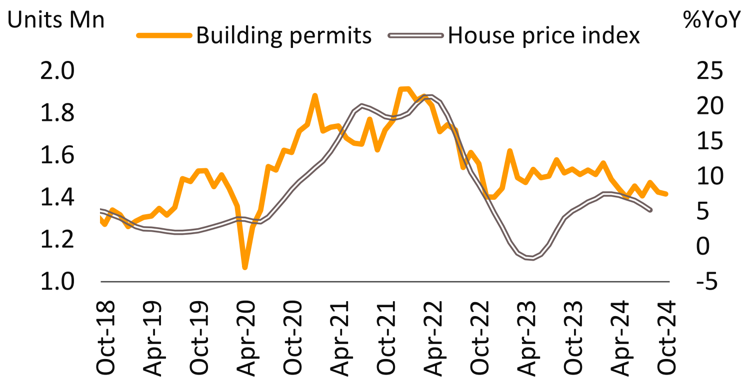

**Payrolls and Unemployment**



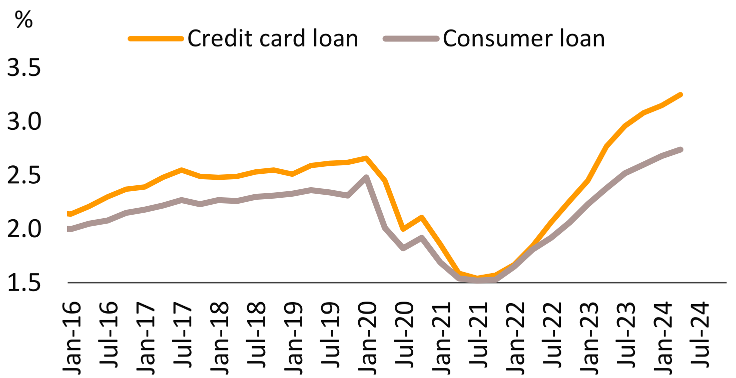

**Wage and 1-Year Inflation Expectations**




**Building Permits and Home Price Index**




**Delinquency rates in consumer and credit card loans**



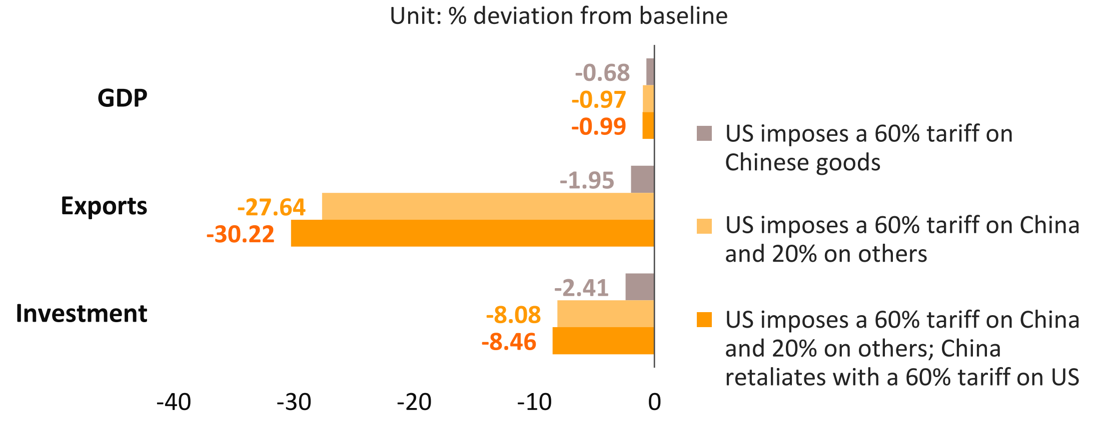

Note: 2024-25 forecast by IMF

Source: Bureau of Economic Analysis (BEA), ISM, Bureau of Labor Statistics (BLS), Federal Reserve, Bloomberg, CEIC, Krungsri Research

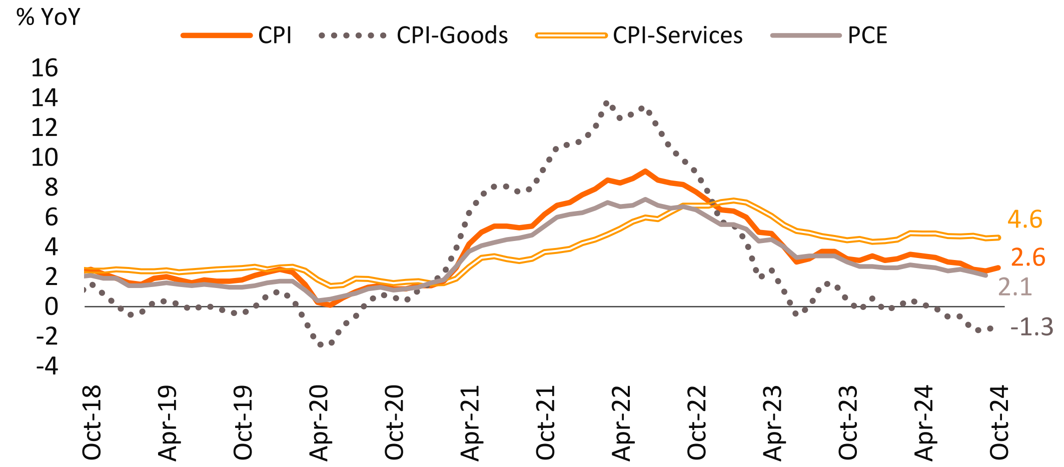
# Trump's proposal to cut taxes and deregulation policy could create bubble risks, tariffs and immigrant policy could hurt growth and raise inflation, complicating Fed's easing decision

| Trump's policies | Growth trend | Inflation trend | Risks |
|---|---|---|---|
| Reduce tax rates | Higher ↑ | Higher ↑ | Bubble/fiscal risks |
| Reduce regulations | Higher ↑ | Higher ↑ | Bubble/stability risks |
| Reduce immigrants | Lower ↓ | Higher ↑ | Labor shortage |
| Increase tariffs | Lower ↓ | Higher ↑ | Stagflation risk |
| Increase fossil fuels | Uncertain | Lower ↓ | Environmental risk |
| Increase digital assets | Higher ↑ | Higher ↑ | Bubble risk |

**Impact of Trump's Tariff Policy on US GDP, Exports, and Investment**




**CPI, CPI-goods, CPI-services, and PCE price index**




Source: BLS, GTAP, ITC, Bloomberg, Krungsri Research

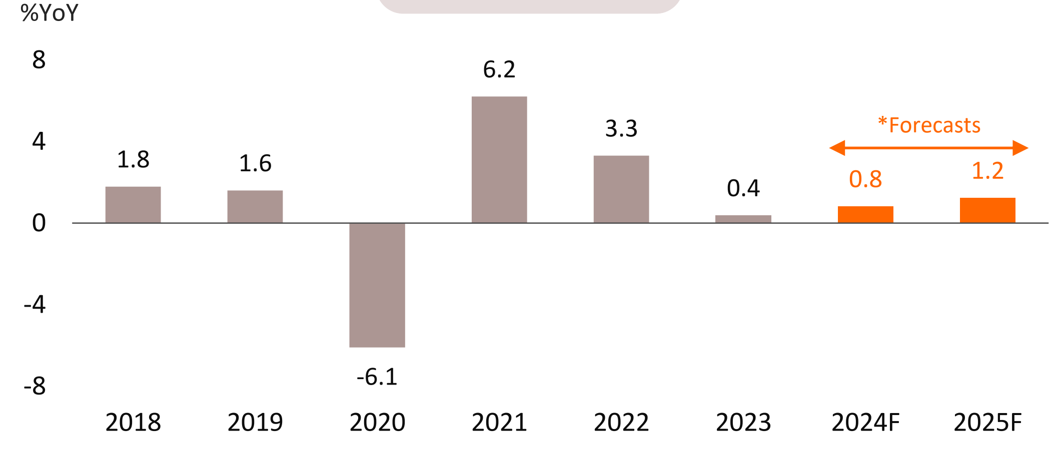
## Krungsri Research's view

- **Trump's economic policies have raised uncertainty over the US's economic growth trajectory, inflationary pressure, and interest rate outlook.**
  - **Uncertain growth prospects:** Policies relating to tax cuts, deregulation, and digital assets could boost economic growth in the near term but promises of higher tariffs and immigration policy could harm growth in the medium to long term.
  - **Impact of proposed tariffs:** We estimate that in the worst-case scenario, the tariff hikes would reduce US GDP, exports, and investment over the long term by a total of -0.99%, -30.22%, and -8.46%, respectively, (US imposes tariffs worldwide and China retaliates).
  - **Risk of rising inflation:** Most of Trump's policies could increase risks (see table) such as bubble risks in asset prices and overall economic growth, as well as risks to stability in the banking and financial markets. They could also increase inflation risks and create a bumpy path towards the 2% inflation target.
- **Amid policy uncertainty, the latest signs of decelerating economic growth and easing inflation suggest gradual policy easing ahead. We expect the FOMC to cut the Fed Funds Rate by 25bps per quarter in 2025. However, Trump's key policies (if implemented) could slow the Fed's easing decision and lead to a more cautious approach.**

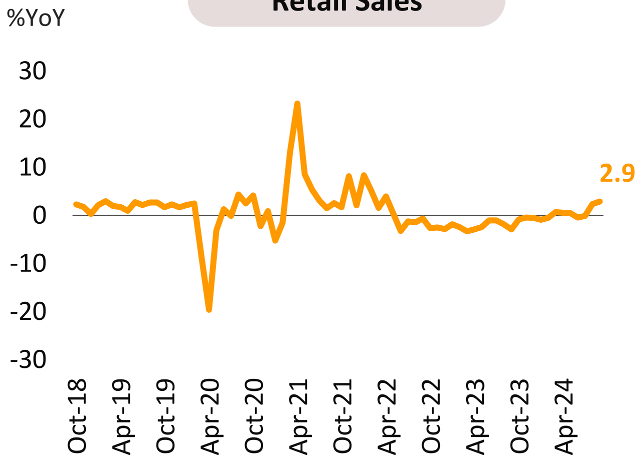
# *Eurozone:* Recovery would be delayed by worsening sentiment and rising trade tensions

**The eurozone economy is projected to experience a slow and fragile recovery, with a growth rate averaging 1.25% in 2025 vs 0.83% in 2024.** Despite easing inflationary and interest rate pressures, economic recovery remains weak amid the still-contracting manufacturing sector and sluggish credit growth. However, private consumption is expected to recover slowly given lower inflation and strong wage growth, despite still-weak economic sentiment (reflected by a 3-year high household saving rate). Additionally, rising trade tensions with China and uncertainty over global economic and trade policies following Trump's victory in the 2024 US presidential election will pose challenges to the Eurozone's recovery in 2025.

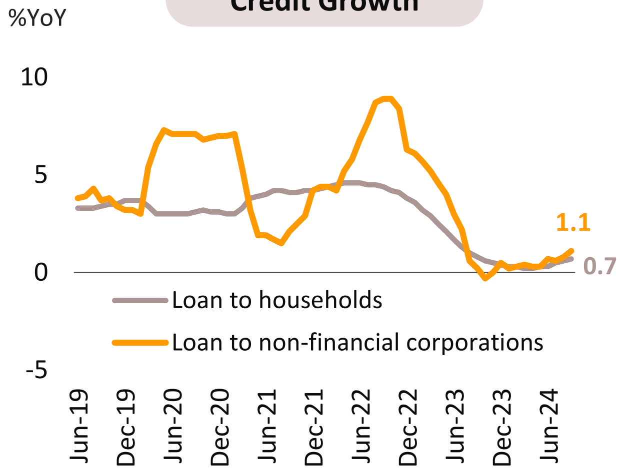
**Real GDP**



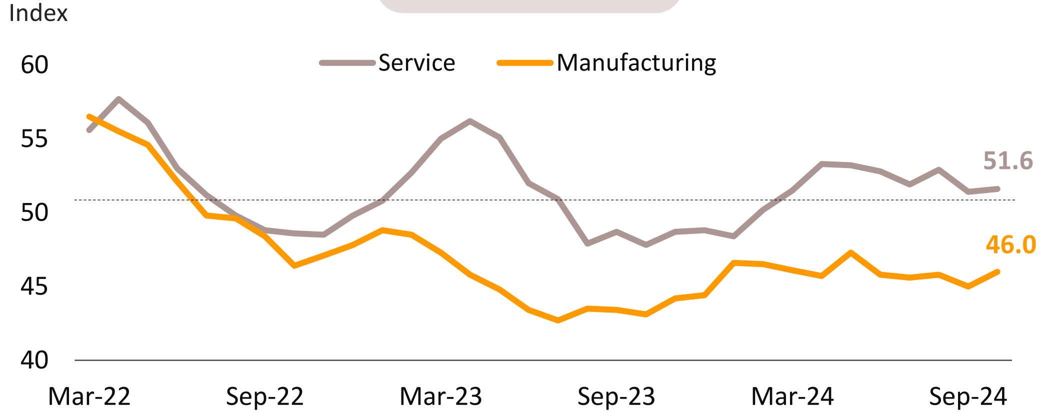

**Retail Sales**



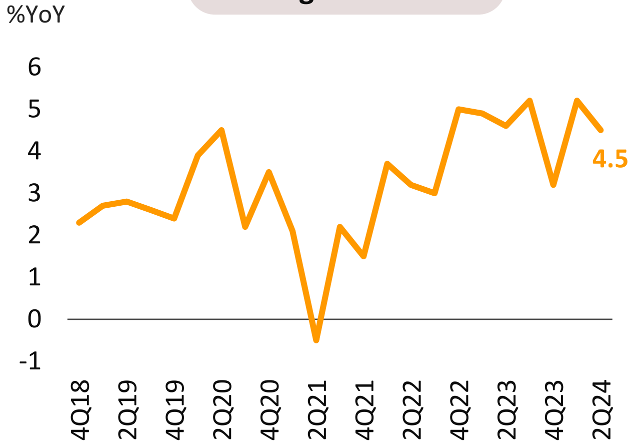

**Credit Growth**



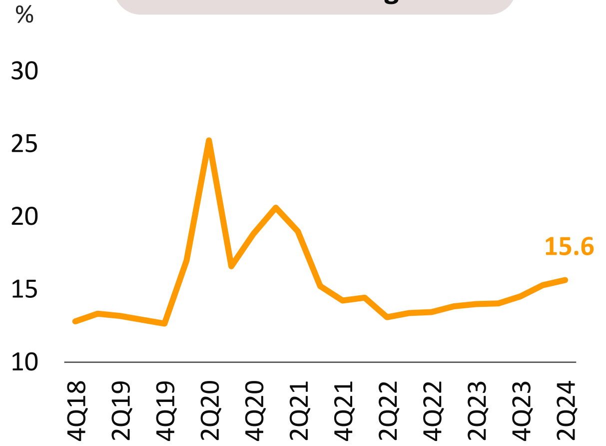

**HCOB PMI**




**Wage Growth**




**Household Saving Rate**




Note: * Forecast by IMF (Oct-24)

Source: ECB, CEIC, BLS, investing.com, Eurostat, Bloomberg, Krungsri Research

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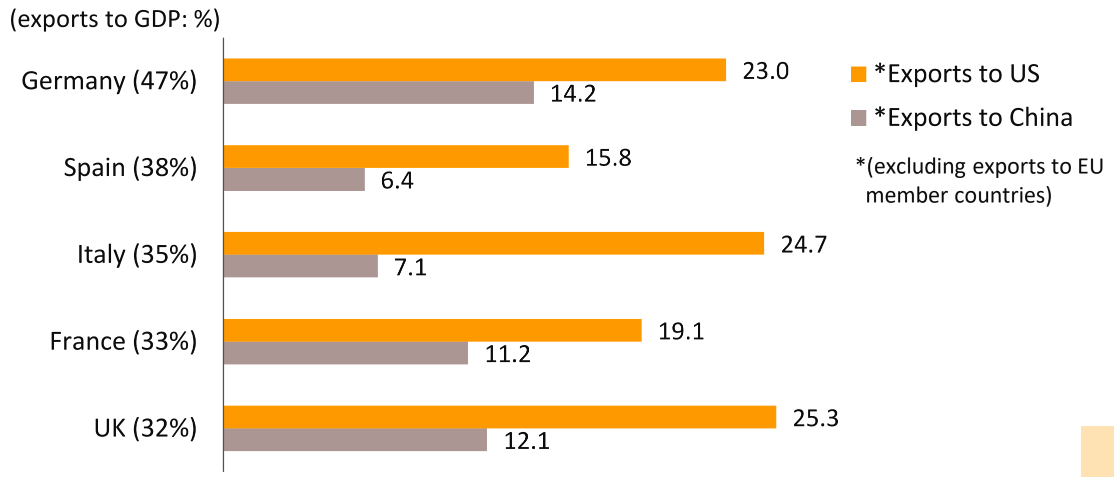
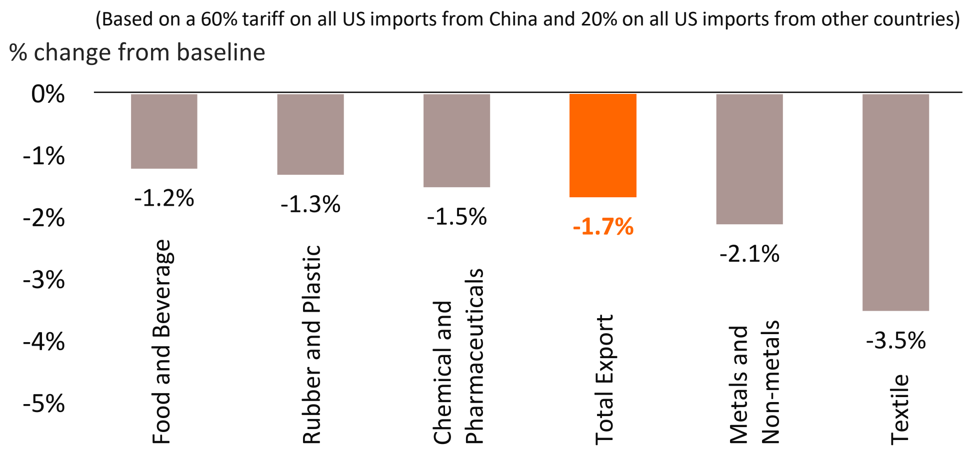
# Softening inflation towards the 2% target and still-weak recovery would allow ECB to continue to cut policy rates

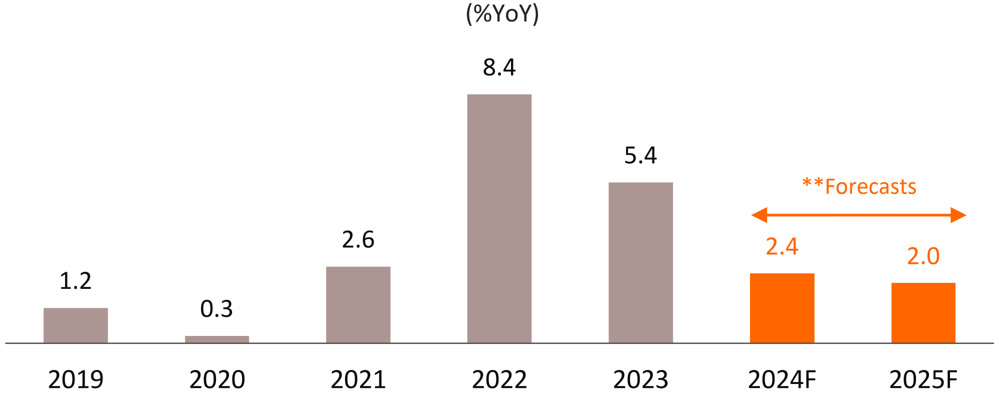
## Share of exports to the US and China




## US Tariff Hike: Impact on EU Exports




## Inflation Rate




Note: **Forecast by IMF (Oct-24)
Source: ECB, CEIC, BLS, investing.com, Eurostat, GTAP, Bloomberg, Krungsri Research

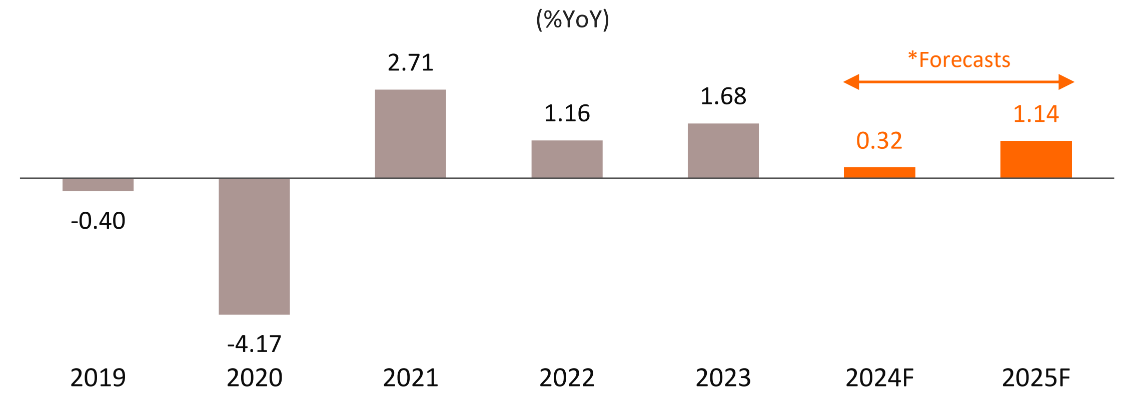
### Krungsri Research's view

- **Trump's victory could accelerate trade tensions for Europe**. If Trump imposes 60% tariffs on imports from China and 20% on all imports from other countries, it could hurt net-exporter countries. In this case, EU exports would drop by -1.7% from the baseline, with negative effects on most key industrial sectors across the region.
- **If there are no new geopolitical events, inflation will continue to drop.** Trump has proposed to reduce military aid to Ukraine and is pushing for a Ukraine-Russia ceasefire, which could ease pressure on oil prices. **However, Trump's plan to withdraw the US from NATO could disrupt Europe's security structure** and force the region to strengthen their own defense infrastructure. Europe may face greater external threats and have to increase military spending, which could affect budget allocations in other areas.
- **Due to softening energy prices and the still-weak economy, Eurozone inflation is projected to drop towards the 2% target in 2025 (from 2% currently)**. Recovery would remain weak and fragile, dragged by subdued manufacturing activities and sluggish credit growth. Combined with lower energy prices and inflation, we expect the ECB to continue to gradually reduce the policy rate to 3.00% by the end of 2024 and 2.00% by the end of 2025. They would likely continue with the quantitative tightening (QT) program as they normalize monetary policy.

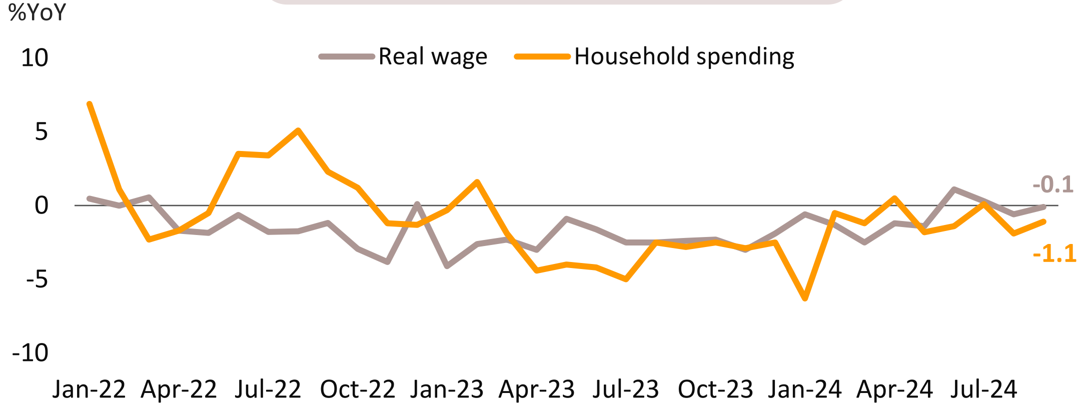
# *Japan:* Economic stimulus, wage growth, and tourism to drive recovery, but growth would be capped by weak manufacturing activities and exports

**Japan's economy is showing signs of bottoming out and will start to recover soon, driven by:** (i) gradual recovery in consumer spending supported by real wage growth and improving confidence; and (ii) the government's economic stimulus program which focuses on "pulling Japan out of deflation" by addressing living costs, achieving sustainable wage hikes, and increasing private sector investments. However, recovery will remain fragile because of subdued manufacturing activities and exports due to slowing economies at its major trade partners like US and China, intense competition in the automotive industry, and the risk of escalating trade wars.

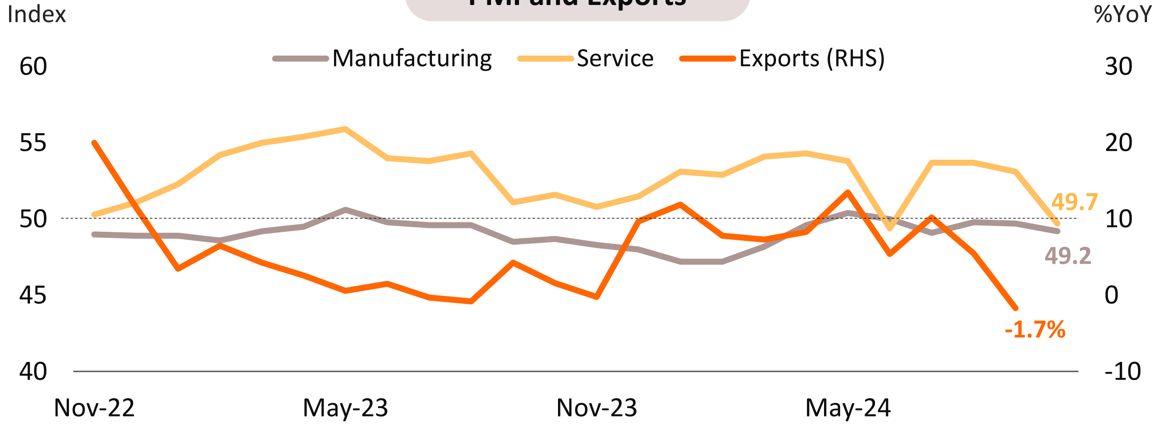
**Real GDP**



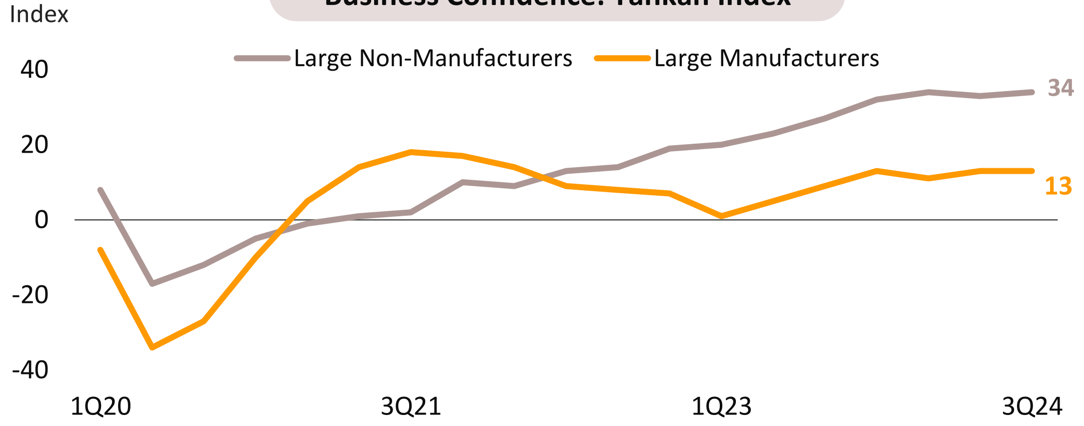

**Real Wage and Household Spending**




**PMI and Exports**




**Business Confidence: Tankan Index**




Note: * 2024 forecast by Bloomberg Consensus

Source: Japan's Cabinet Office, BOJ, CEIC, Bloomberg, Krungsri Research

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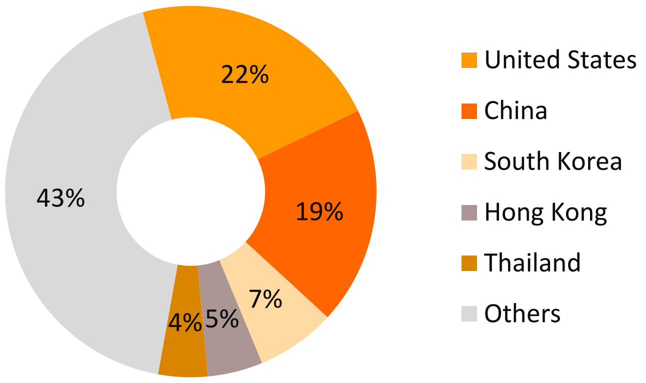
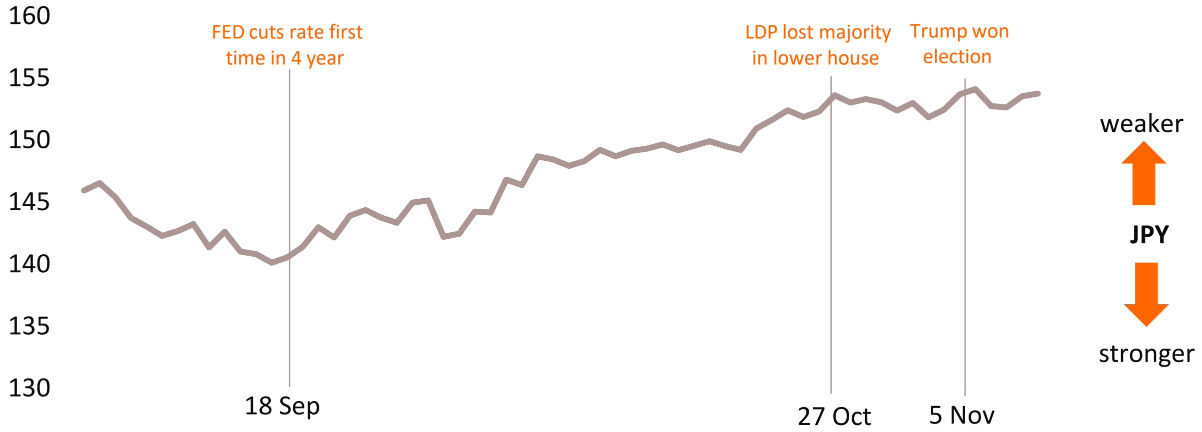
# Given the uncertainty over trade and politics and still-slow growth, the BOJ would not be in a hurry to hike rates

**Japan's Exports by Country**

Unit: % share to total Japan's exports

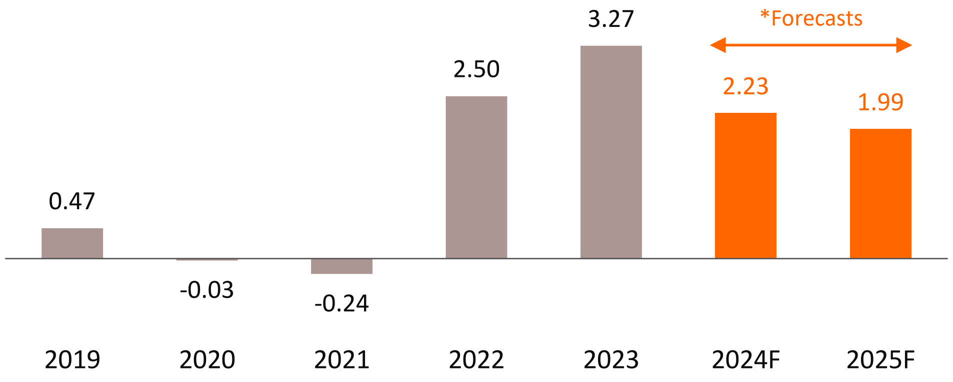



**USD/JPY**




**Inflation Rate**

(%YoY)




Source: Japan's Cabinet Office, BOJ, CEIC, Bloomberg, Krungsri Research

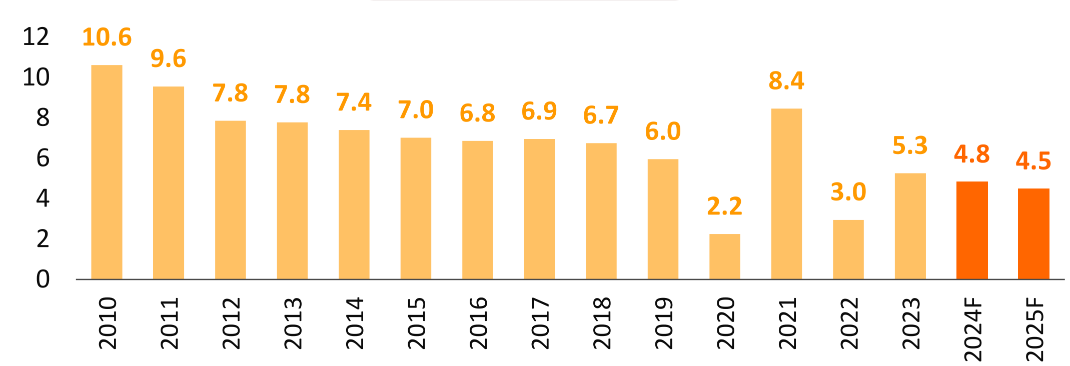
### Krungsri Research's view

- **Following Trump's victory and proposed 60% tariff on Chinese imports, Japan could face significant economic repercussions because** the economy relies heavily on exports to the US (22% of Japan's exports) and China (19% of Japan's exports). While the risk of a weaker JPY under Trump might benefit export revenues, it would also increase import costs and hurt consumption.
- After a historic loss in the snap elections, Prime Minister Shigeru Ishiba has pledged to reform the LDP and would cooperate with opposition parties to form a new government.
- **Japan's government approved JPY39trn (USD250bn) stimulus package to ease cost of living, support low-income households and encourage investment.** Key measures include JPY12.7trn allocated through energy subsidies and one-time cash payments of JPY30,000 to low-income households, with an additional JPY20,000 per child to support educational costs. The package also designates JPY19.1trn to stimulate economic growth, including a long-term JPY10trn investment plan for AI and semiconductor industries. Additionally, JPY7.2trn is set aside for public safety, addressing natural disasters and rising crime rates.
- **Despite boosts from the stimulus measures, still-weak weak economic recovery and uncertainty over future US trade policy** might prompt the Bank of Japan (BOJ) to adopt a wait-and-see stance, but it might still hike the policy rate by 50 bps by the end of 2025 to take it to 0.75% from 0.25% currently.

# *China:* Major economic engines continue to move forward with consumption boosted by stimulus measures, but existing headwinds would cap overall growth

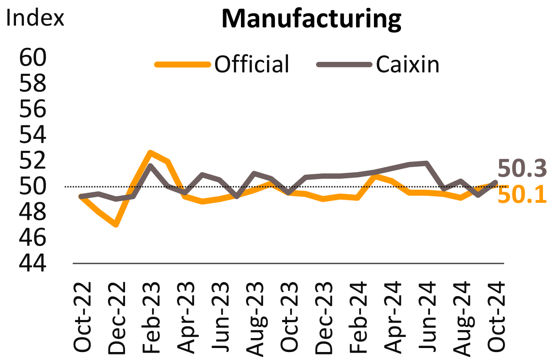
**The economy has improved recently and is expected to maintain this momentum into early 2025.** The service sector would continue to drive growth while manufacturing in several sub-sectors might remain weak due to excess supply. Consumption, though still subdued, is projected to pick up in 1H25 supported by additional subsidies. However, this positive trend might weaken if property measures fall short of expectations to deliver a sustainable improvement in wealth and sentiment. Moreover, a weak labor market could dampen the pace of consumption recovery. Investment could also improve as domestic demand recovers. Exports could see a temporary rebound as businesses try to clear inventories ahead of the anticipated tariff increases. **Despite the improvements, structural weaknesses would continue to limit economic growth, which is projected to slow from 4.8% in 2024 to 4.5% in 2025.**

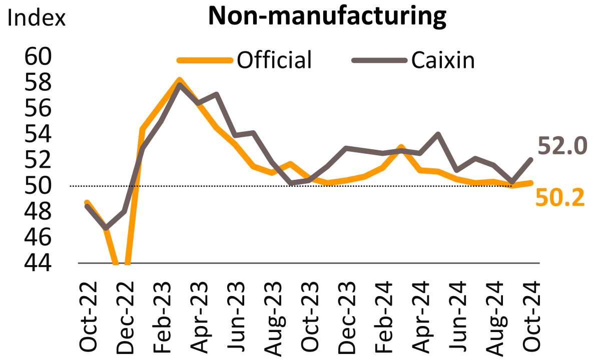
### Real GDP



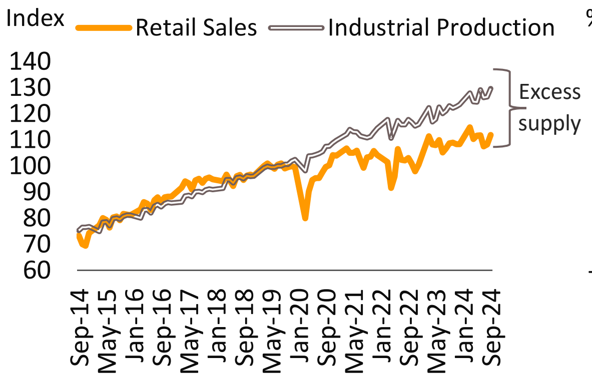

Note: * forecast by IMF

### Purchasing Managers' Index (PMI)

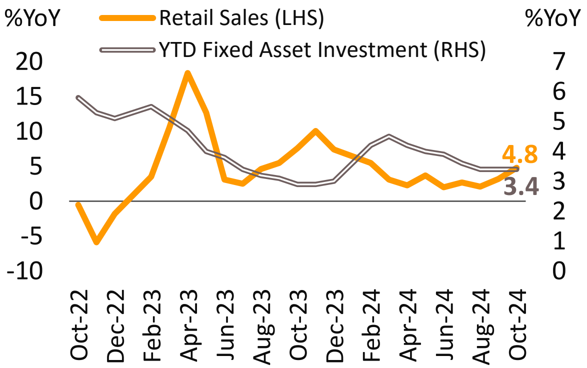


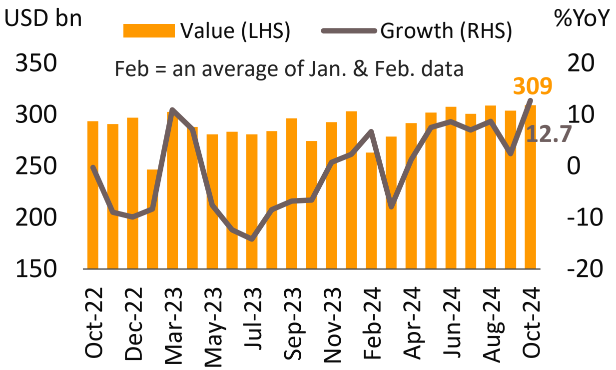

### Demand-Supply Imbalance



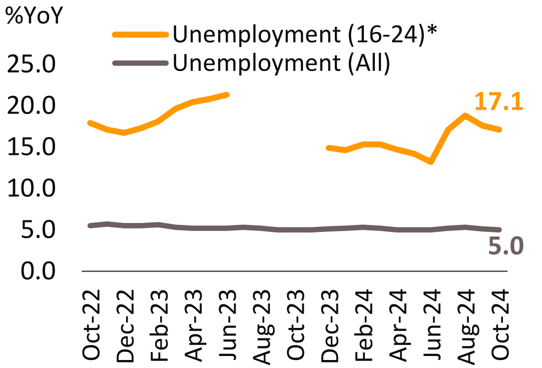

### Retail Sales and Fixed Asset Investment




### Exports




### Unemployment

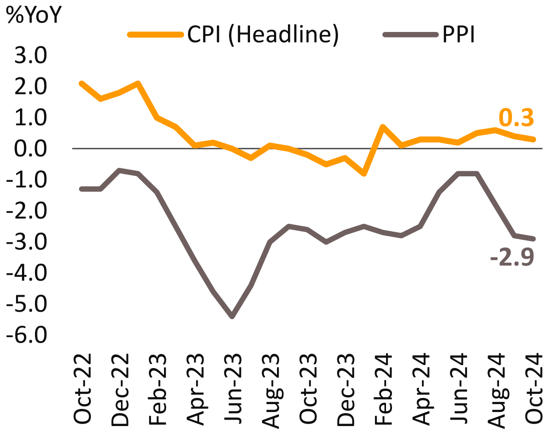



Source: NBS, CEIC, Bloomberg, and Krungsri Research

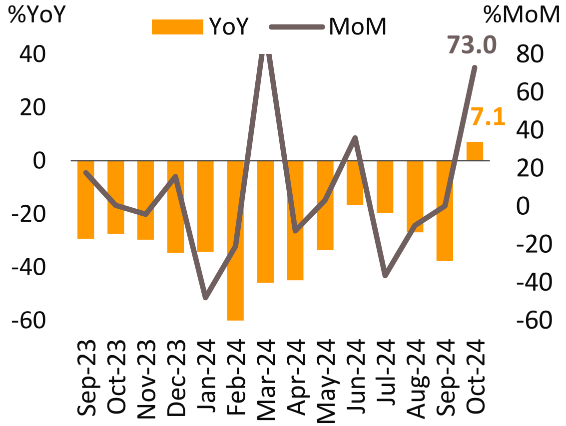
Note: * Since 2023, the definition of the unemployment rate for ages 16-24 (youth) was changed to exclude students.

# Oversupply and real estate downturn could ease with more stimulus measures, but structural challenges and external risks continue to cast a long shadow

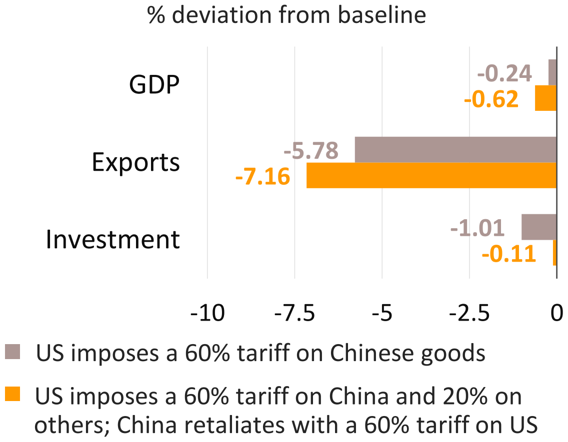
## Consumer and Producer Price Indices



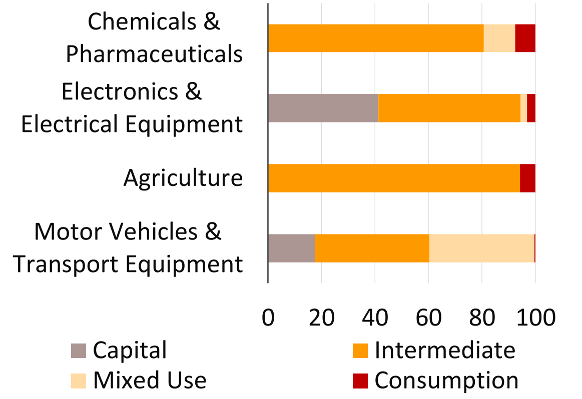

## New Home Sales by Top 100 Developers




## Impact of US Tariff Policy on China

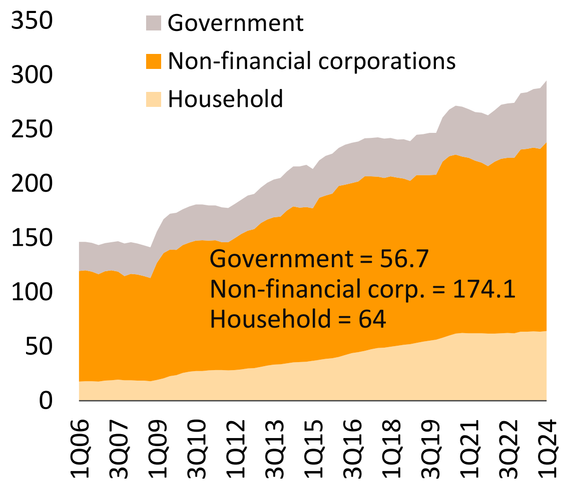



## Top Imports from US by End Use (% share)




Note: * mixed-use = final goods consumable by households, industries, or the public sector.

## Debt to GDP Ratio (%)




## Monetary Policy in October

| Measures | Previous | Latest (Oct.) |
|---|---|---|
| 7-day reserve repo | 1.7% | **1.5%** |
| 14-day reserve repo | 1.95% | **1.85%** |
| 1-year MLF | 2.3% | **2%** |
| 1-year LPR | 3.35% | **3.1%** |
| 5-year LPR | 3.85% | **3.6%** |
| RRR (Big Banks) | 10% | **9.5%** |

Source: NBS, CEIC, Bloomberg, NIFD, China Real Estate Information Corp. and Krungsri Research

### Krungsri Research's view

- **Excess supply would gradually subside due to targeted stimulus measures.** Some sectors remain fragile and the average impact on prices would be limited, resulting in continued disinflation in consumer prices and a slight uptick in producer prices.
- **The real estate sector has begun to show early signs of improvement.** With several rescue measures (e.g., reducing down payment ratios, allowing refinancing of existing mortgages, relaxing homebuyer eligibility checks, and reducing deed taxes), the positive momentum is expected to continue, and prices might gradually bottom out in 1H25.
- **Trade tensions would likely escalate.** However, China might have fewer options to retaliate, since key imports from the US are intermediate goods. Retaliatory tariffs would raise production costs and strain its already fragile manufacturing sector.
- **Despite some relief, high debt levels remain a concern.** Local governments' "hidden debt" continue to rise and could reach CNY 66 trn in 2024. The government is likely to introduce more stimuli in 2025, increasing the fiscal burden. To address this, the government announced a hidden-debt swap program worth USD 1.4 trn.
- **Fiscal stimuli and monetary easing could help reduce spillover of risks from real sectors into the financial market.** However, high debt and excess supply issues could take years to improve, depending on the pace of economic recovery.

# Thai Economic Outlook 2025

# *Thailand: 3Q24 GDP* grew by 3.0% YoY, faster than +2.2% in 2Q24; we raise 2024 growth forecast to 2.7% based on this and accelerating public spending

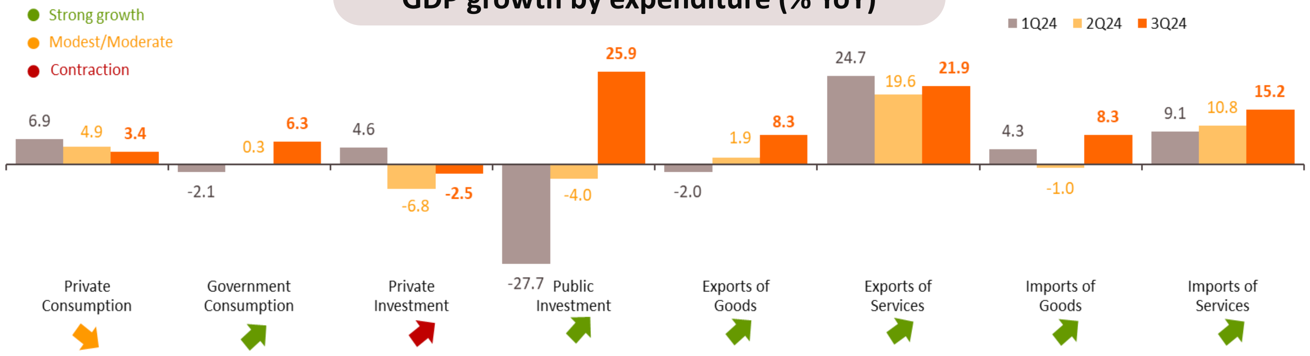
**Key growth drivers in 3Q24:**

- **Demand side: Accelerating** public consumption & public investment, exports of goods & services, **slower growth** in private consumption.
- **Supply side: Accelerating** construction, trade, transport, accommodation and finance activities; **slower growth** in manufacturing, information & communication, and real estate.

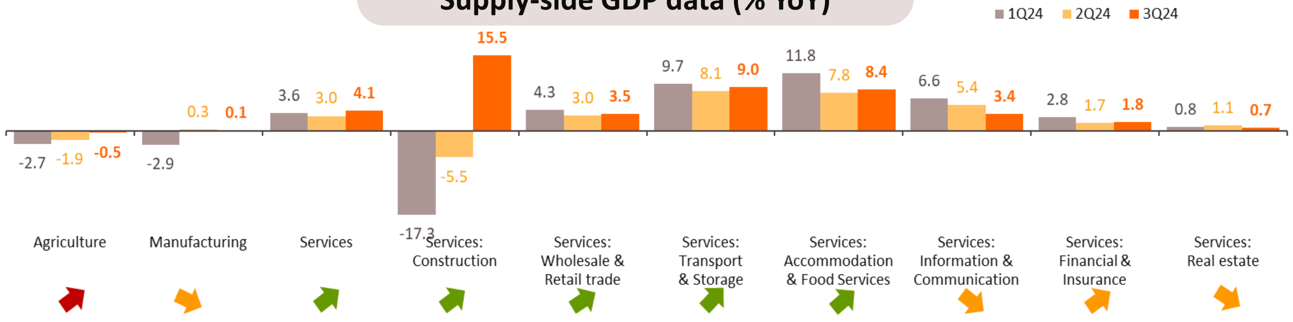
**Negative YoY growth in 3Q24:**

- **Demand side:** Shrinking private investment (-2.5%)
- **Supply side:** Shrinking agriculture activities (-0.5%)

**GDP growth by expenditure (% YoY)**

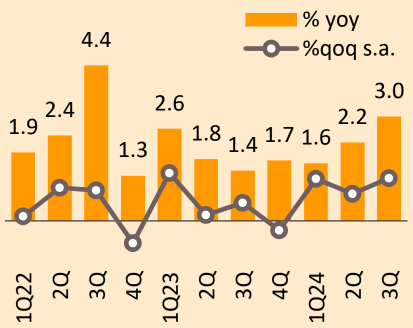



**Supply-side GDP data (% YoY)**




Source: NESDC, Krungsri Research

**Thai GDP growth (%)**




| | % YoY | | | % QoQ sa | |
|---|---|---|---|---|---|
| | 9M24 | 2Q24 | 3Q24 | 2Q24 | 3Q24 |
| **GDP** | **2.3** | **2.2** | **3.0** | **0.8** | **1.2** |
| Private consumption | 5.0 | 4.9 | 3.4 | 1.0 | 0.7 |
| Public consumption | 1.6 | 0.3 | 6.3 | 1.8 | 3.8 |
| Private investment | -1.4 | -6.8 | -2.5 | -9.9 | 8.1 |
| Public investment | -2.3 | -4.0 | 25.9 | 21.9 | 24.7 |
| Export of goods & services | 5.9 | 4.7 | 10.5 | 2.5 | 5.7 |
| Export of goods | 2.7 | 1.9 | 8.3 | 3.1 | 6.1 |
| Export of services | 22.1 | 19.6 | 21.9 | 4.1 | 3.9 |
| Import of goods & services | 5.3 | 1.3 | 9.6 | -2.4 | 3.8 |
| Import of goods | 3.8 | -1.0 | 8.3 | -2.9 | 4.4 |
| Import of services | 11.6 | 10.8 | 15.2 | 1.4 | 0.7 |

## Krungsri Research's view

- **GDP growth picked up from 2.2% in 2Q24 to a 2-year high of 3.0% YoY in 3Q24,** beating market expectations (+2.4%) and our estimate (+2.3%), driven by (i) accelerating public consumption and public investment; (ii) a rebound in goods exports; (iii) a further recovery in services exports; and (iv) expanding private consumption. However, private investment continued to shrink, albeit at a slower pace. **On the supply side**, 3Q24 GDP growth was led by an expanding services sector and accelerating construction activity. However, manufacturing remained weak and agriculture sector continued to shrink.
- **The NESDC has revised up 2024 GDP growth forecast to +2.6%** (from +2.5%) and expects 2025 growth to reach 2.3-3.3% (with the midpoint of 2.8%).
- **In our view, economic growth is expected to improve to 4% YoY in 4Q24** on the back of stronger government spending, a boost from peak tourist season, stimulus measures (e.g. 10,000-baht cash handout, measures to promote domestic tourism), as well as the low base last year. **For the whole of 2024, GDP growth has been revised up to 2.7% from 2.4% in the previous forecast.**
- **For 2025, we expect the Thai economy to expand by 2.9%,** driven by (i) higher government spending with the budget deficit reaching a record high of 4.5% of GDP, and (ii) recovering tourism activity to pre-pandemic levels. Growth momentum, however, would be weighed by domestic and external headwinds, such as high household debt and uncertainty over US trade policy.

# Krungsri Research Forecasts for 2024-2025

| Krungsri Research Forecast | | 2022 | 2023 | 9M24 | 2024F | | 2025F |
|---|---|---|---|---|---|---|---|
| | | | | | Previous | Latest | |
| GDP growth | YoY (%) | 2.5 | 1.9 | 2.3 | 2.4 | ▲ 2.7 | 2.9 |
| Private Consumption Expenditure | YoY (%) | 6.2 | 7.1 | 5.0 | 4.1 | ▲ 4.8 | 3.0 |
| Government Consumption Expenditure | YoY (%) | 0.1 | -4.6 | 1.6 | 1.5 | ▲ 2.0 | 2.2 |
| Private Investment | YoY (%) | 4.7 | 3.2 | -1.4 | 0.2 | ▼ -1.5 | 2.9 |
| Public Investment | YoY (%) | -3.9 | -4.6 | -2.3 | -1.1 | ▲ 2.5 | 5.8 |
| Nominal Exports in USD (f.o.b.)* | YoY (%) | 5.4 | -1.5 | 4.1 | 1.8 | ▲ 3.9 | 2.7 |
| Nominal Imports in USD (f.o.b.)* | YoY (%) | 14.0 | -3.8 | 5.2 | 3.5 | ▲ 4.7 | 3.5 |
| Current Account Balance | USD, bn | -17.2 | 7.4 | 5.3 | 8.0 | ▲ 9.0 | 10.5 |
| Tourist Arrivals | Mn, persons | 11.1 | 28.2 | 26.1 | 35.6 | = 35.6 | 40 |
| Headline Inflation | YoY (%) | 6.1 | 1.2 | 0.2 | 0.5 | ▼ 0.4 | 1.0 |
| Policy Interest rate (end of period) | (%) | 1.25 | 2.50 | 2.50 | 2.25 | = 2.25 | 2.00 |
| Dubai crude price - period average | USD/bbl | 96 | 82 | 82 | 83 | ▼ 80 | 78 |

Source: NESDC, BOT, MOC, MOTS, Bloomberg, Krungsri Research

# *2025: Year of normalization and a temporary rebound amid structural headwinds and policy uncertainty*

- **Krungsri Research projects the Thai economy to grow by 2.9% in 2025, up slightly from an estimated 2.7% growth in 2024.**
- **Normalized public spending will provide a transitory boost** to overall economic growth in 2025**.**
- **Investment growth is likely to turn positive with only mild expansion,** supported by accelerated public investment and investment relocation.
- **Tourism sector to recover to pre-pandemic level,** supported by rising demand, improving supply, and visa-free scheme.
- **Exports will grow at a moderate pace** amid structural headwinds, sub-par global growth, and uncertain US trade policy.
- **Consumption growth to normalize in line with overall economic expansion,** driven by a growing services sector, improving labor market, and stimulus measures. High household debt, weaker agricultural prices, and fading post-COVID tailwinds will slow down growth.
- **Expect MPC** to cut policy rate to 2.0% by 1Q25, to ease financial strain and nurture further recovery.
- **Risks & Challenges:** (i) Escalating trade tensions, US policy uncertainty, and geopolitical risk; (ii) Influx of Chinese imports; (iii) Climate fluctuations (risk of La Niña); (iv) Structural problems such as high household debt and weaker competitiveness; (v) Policy uncertainty and political risk in Thailand.

## Tailwinds

- **Normalized public spending and economic stimulus measures**
- **Recovery in tourism and employment**
- **Investment relocation amid rising trade tension, regionalization, ASEAN dynamism**
- **Food security and gains in related sectors**
- **Thailand’s sound economic fundamentals (high foreign reserves, relatively low external debt, and resilient banking sector)**

## Headwinds

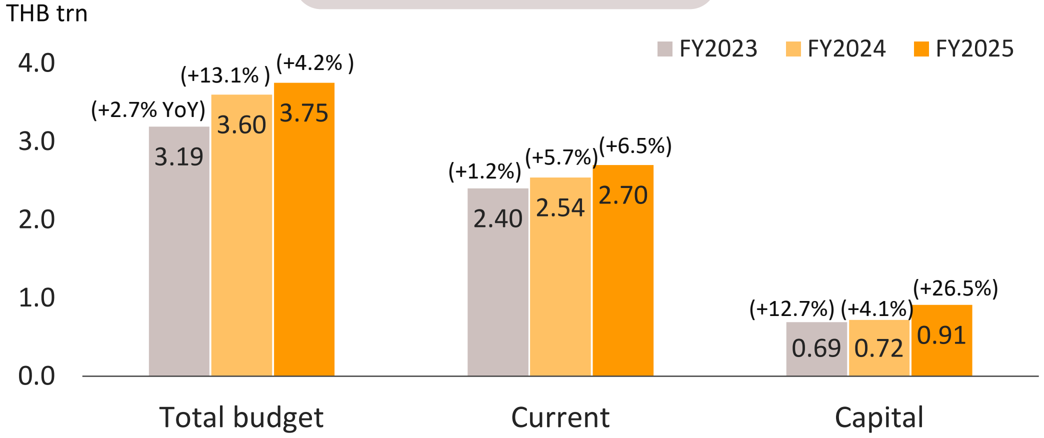
- **Structural headwinds, e.g. high household debt, weaker competitiveness, demographics**
- **Rising trade protectionism, geo-economic fragmentation and lingering geopolitical risk**
- **Sub-par global growth and volatile financial markets amid uncertain economic policy**
- **Impact of climate fluctuation, including floods**
- **Domestic political risk and policy uncertainty**

Source: Krungsri Research

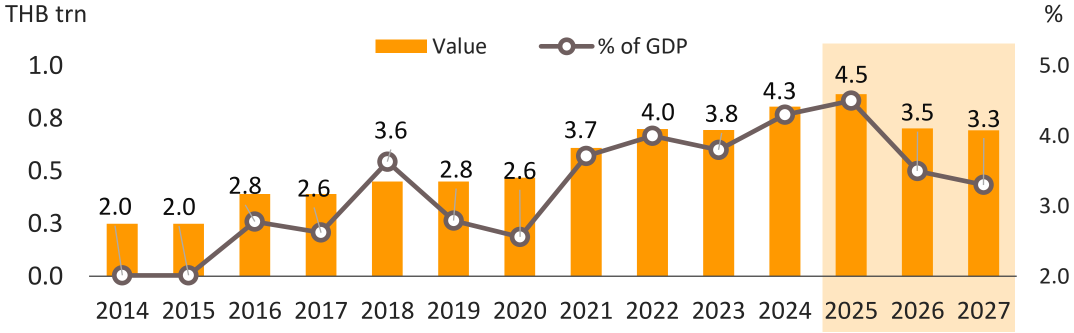
# *Normalized public spending* will provide a transitory boost to overall economic growth in 2025; A surge in capital budget expenditure will support investments

Public spending will return to normal disbursement levels in FY2025 (Oct'24-Sep'25) after long delays in FY2024. **The FY2025 annual budget of THB 3.75 trn (+4.2% YoY) consists of THB 2.70 trn (+6.5%) for current budget expenditures and THB 0.91 trn (+26.5%) for capital budget expenditures. FY2025 budget deficit will rise to THB 0.87 trn, accounting for 4.5% of GDP, the highest in Thailand's history.** We expect the accelerated disbursement of the capital budget, along with progress in mega infrastructure projects (including the three-airport high-speed rail link, Laem Chabang Port Phase 3, and several dual-track railway projects) to boost related investments in the private sector.

**Fiscal plan in FY2025**




**Planned budget deficit in FY2025-2027**




Source: NESDC, Ministry of Transport (MOT), Fiscal Policy Office (FPO), Krungsri Research

**Infrastructure investment in 2025 and beyond: Project Value (THB mn)**

| Projects awaiting cabinet approval | Value | Projects still under development | Value |
|---|---|---|---|
| Phase 2 of the high-speed railway (Nakhon Ratchasima-Nong Khai) | 341,351 | Suvarnabhumi Airport southern passenger terminal | 120,000 |
| Phase 2 of the twin-track railway (6 lines) | 297,926 | Andaman Airport | 80,000 |
| Bang Khun Thian-Bang Bua Thong motorway | 56,035 | Lanna Airport | 70,000 |
| Rangsit-Bang Pa In motorway (Don Muang Tollway extension) | 31,358 | Eastern section of Bangkok's third outer ring road | 69,950 |
| Bang Bua Thong-Bang Pa In motorway | 16,986 | Nakhon Pathom-Pak Tho motorway | 43,000 |
| Stage 3 of the Prasert-Manukitch Road - Outer Ring Road expressway | 16,960 | Muang Mai-Ko Kaew-Kathu motorway | 35,800 |
| Kathu-Pa Tong expressway | 16,190 | Sri Nakarin-Suvarnabhumi Airport expressway | 21,892 |
| Light Red SRT line (Sirirat-Taling Chan-Salaya) | 15,176 | Extensions to Chiang Mai and Phuket airports | 21,000 |
| Dark Red SRT line (Rangsit-Thammasat University Rangsit campus) | 6,474 | Koh Samui cruise ship port | 12,172 |
| | | Suvarnabhumi Airport eastern passenger terminal | 10,000 |
| | | High-speed rail bridge across the Mekong River | 2,000 |

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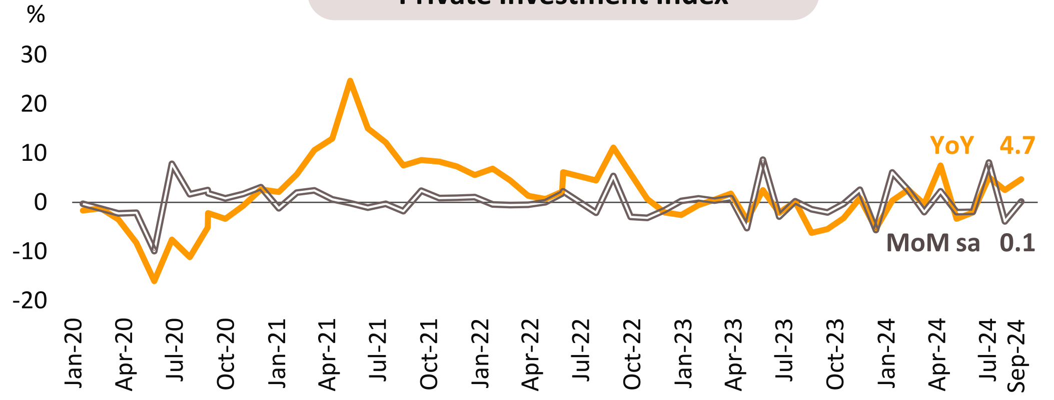
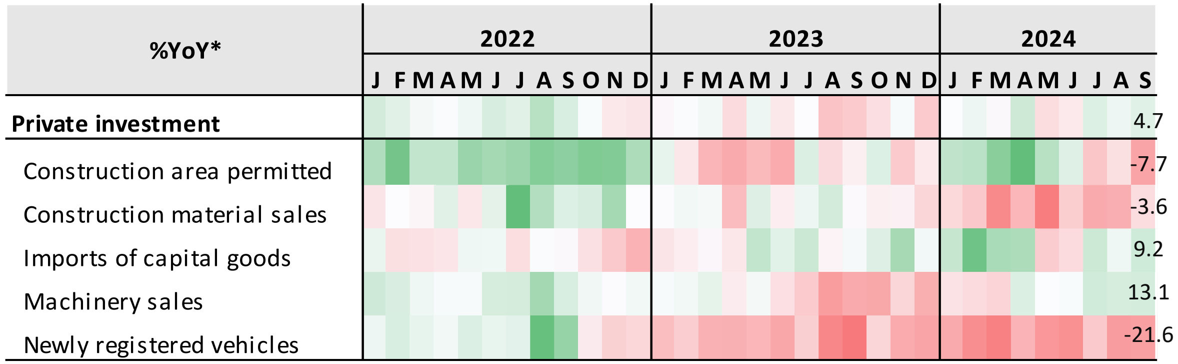
# *Private investment growth* likely to turn positive in 2025 with only mild expansion after weakness in 2024; it would be constrained by structural problems in key industries

**Private investment had been slow in 2023-2024 but is expected to register mild growth in 2025**, supported by (i) accelerated public investment after a long delay in budget disbursement in 2024; (ii) expanding domestic and tourism activities; (iii) incentives for targeted industries such as data centers, electric vehicles (EVs), bio-industries, clean energy, and air transportation; and (iv) the relocation of production bases of some industries to ASEAN and Thailand in response to rising trade tensions. **However, overall private investment will continue to be constrained by weak domestic demand, structural challenges in key industries, and uncertainty over the direction of domestic politics.**

### Private Investment Index

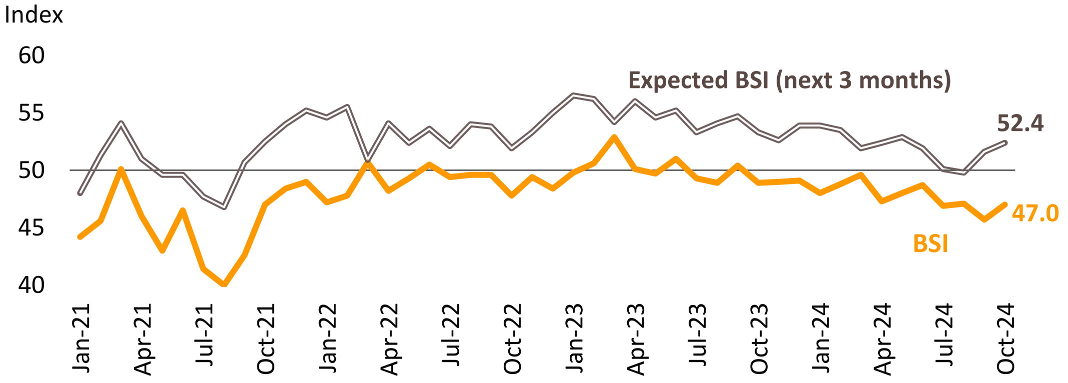



### Private investment by category

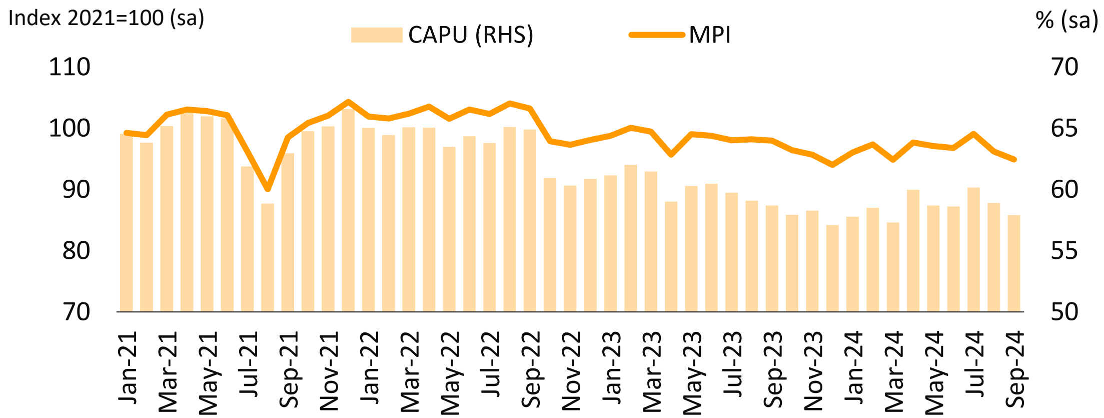



**Green >0%, Red <0% / Darker green (red) indicates stronger (weaker) momentum*

### Business Sentiment Index remains low but shows signs of recovery




### Manufacturing Production Index and Capacity Utilization Rate

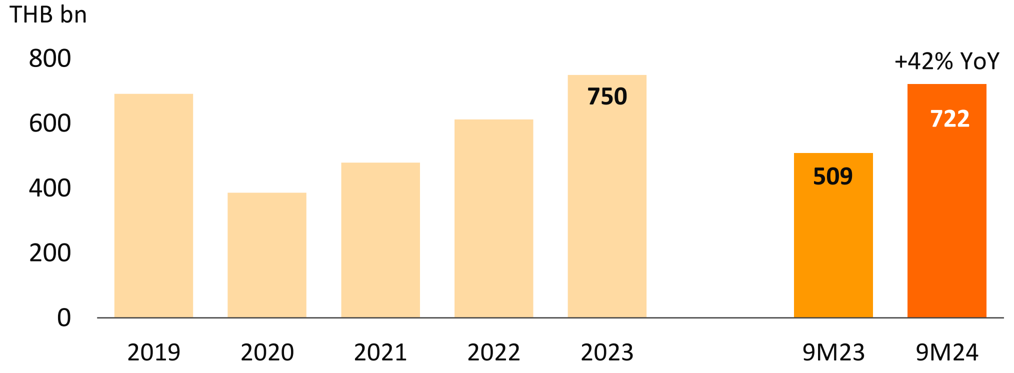



Source: BOT, Krungsri Research

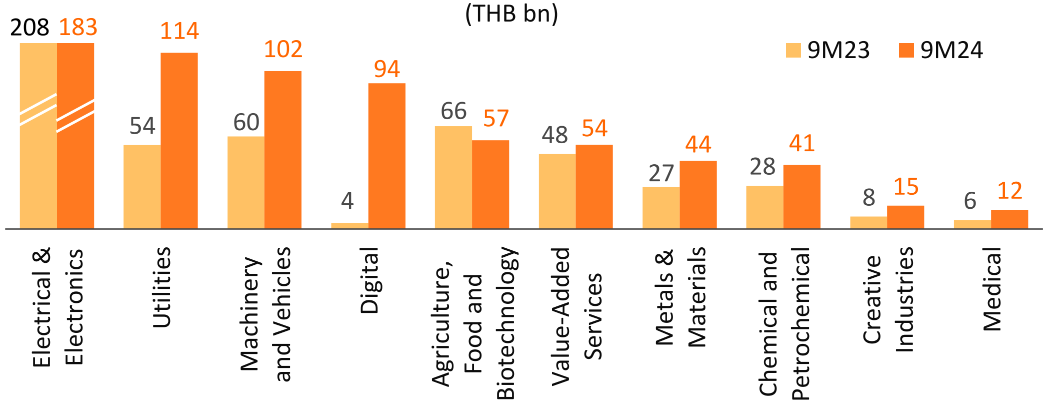
# BOI indicators signal positive outlook for investment in certain industries

**In the first 9 months of 2024, the BOI received applications for investment incentives for 2,195 projects (+46% YoY) with a total investment value of THB 722.5bn (+42%),** led by electrical & electronics, machinery & vehicles, and digital industries. There were Foreign Direct Investment (FDI) applications for 1,449 projects (+66%) with a total investment value of THB 546.6 bn (+38%), led by Singapore, China, Hong Kong, Taiwan and Japan. **For FDI applications in the Eastern Economic Corri**dor **(EEC)**, there were 811 projects (+59%) with a total investment of THB 422 bn (+39%), led by smart electronics, the digital industries, and next-generation automotive. The BOI has issued certificates for investment for 2,072 projects (+59%) with a total investment of THB 672.2bn (+101%), which would likely materialize within the next 1-3 years. **The Asia Pacific consensus forecasts indicate Thailand's net FDI will rise to USD 12.4 bn in 2025 vs an estimated USD 8.8 bn in 2024.** However, this remains below the 2018 level, before the COVID-19 pandemic.

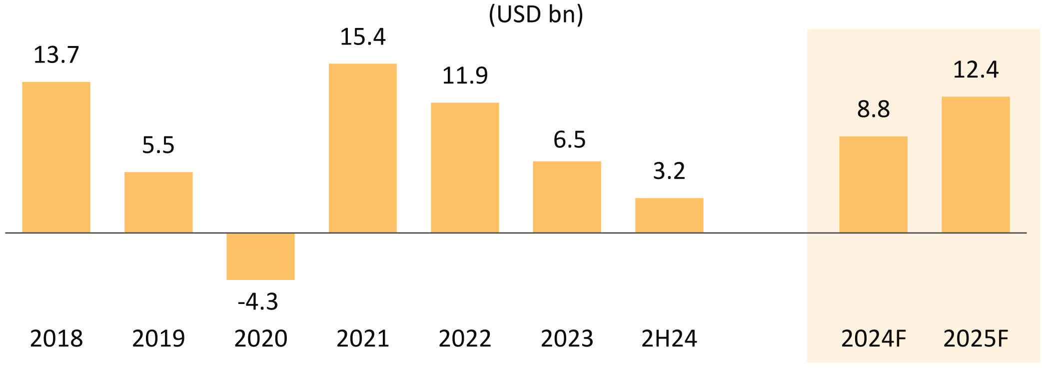
**Total applications for BOI investment incentives**



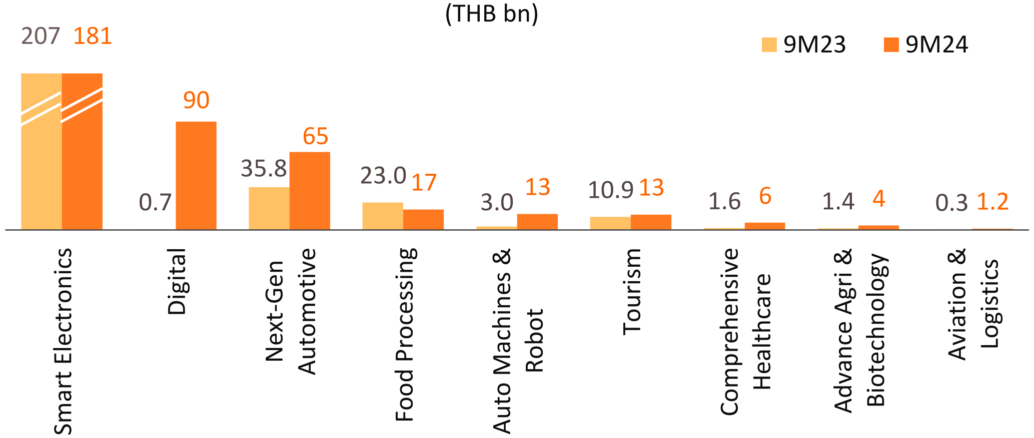

**Total applications for BOI investment incentives (by sector)**




**2024-2025 Net FDI forecast***




**FDI applications for BOI investment incentives in EEC (by sector)**




Note: * Asia Pacific Consensus Forecasts (November 2024)
Source: BOI, BOT, Consensus Economics, CEIC, Krungsri Research

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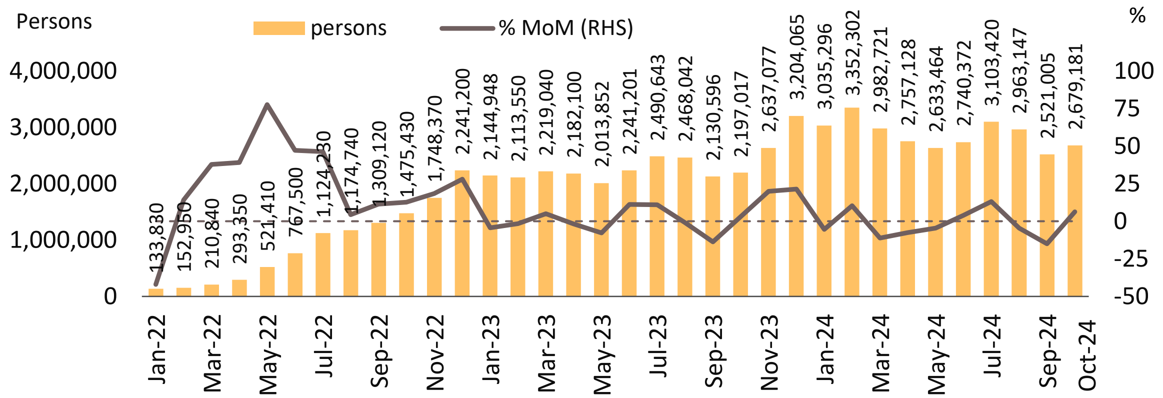
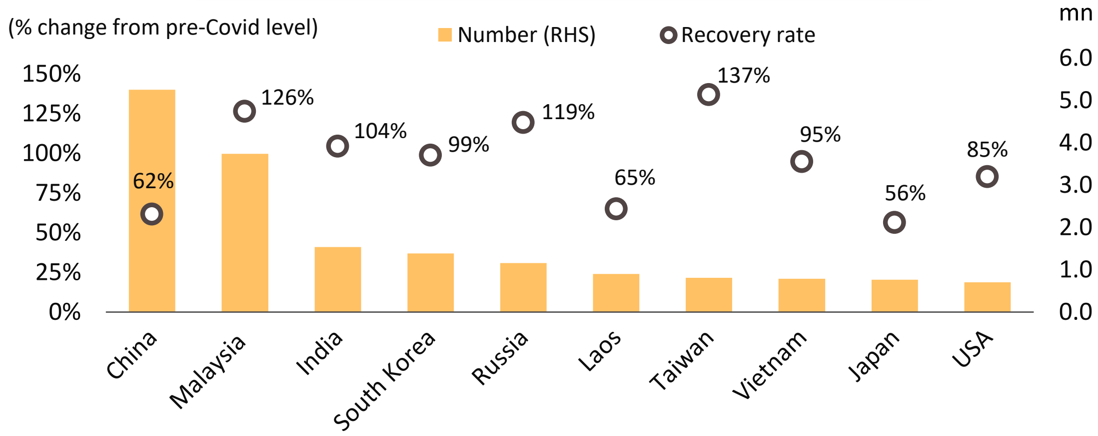
# *Tourism sector* will remain a key economic driver, with foreign tourist arrivals expected to reach the pre-pandemic level of 40mn in 2025

In the first 10 months of 2024, foreign tourist arrivals totaled 28.8 mn (88% of pre-Covid level) and generated THB1.34 trn receipts (87% of pre-Covid level). Arrivals from Malaysia, Russia, South Korea, and India reached 99-126% of pre-pandemic levels. Chinese tourists are returning slowly, at only 62% of pre-Covid level. In 2025, **we expect foreign tourist arrivals to reach 40 mn, compared to an estimated 35.6 mn in 2024.** Chinese and Malaysian tourists will remain key markets, followed by other high-potential growth markets including ASEAN countries and Eastern Europe. Chinese tourists are expected to reach 11mn in 2025 (same level as in 2019), driven by visa-free measures and ongoing tourism promotion activities between Thailand and China.

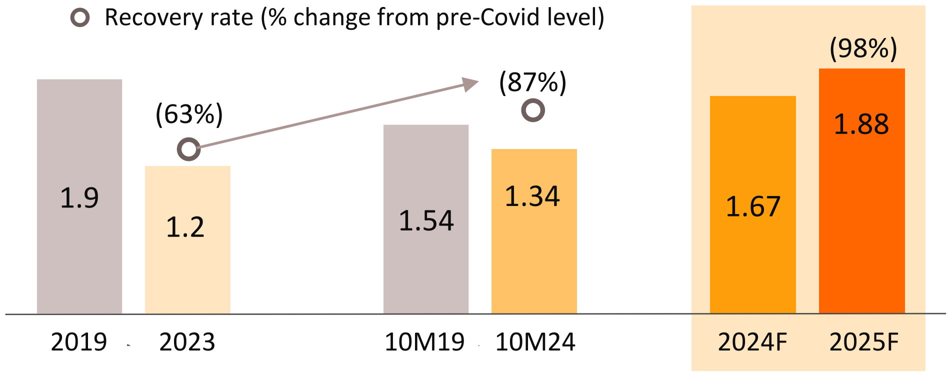
**Foreign tourist arrivals reached 28.8 mn during Jan-Oct’24**



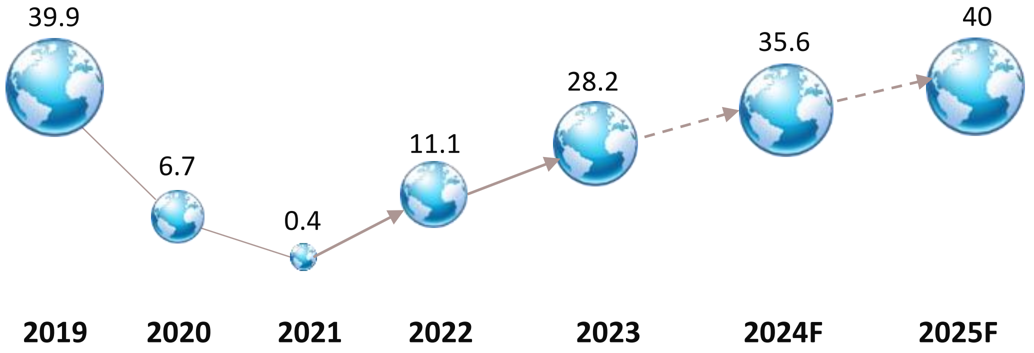

**Top 10 tourist arrivals by country during Jan-Oct’24**




**Foreign tourist receipt (THB, trn)**




**Forecast for foreign tourist arrivals (mn persons)**




Source: MOTS, CEIC, Krungsri Research

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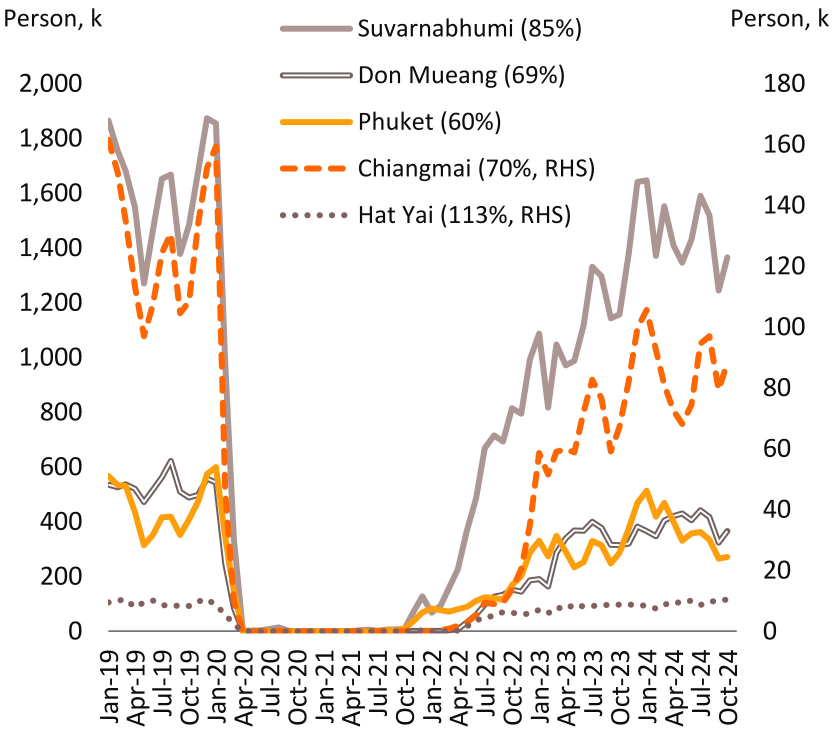
# Travel into Thailand through major airports is nearing pre-pandemic levels; Thailand remains a top destination for international tourists

The tourism sector is showing signs of recovery, with passenger traffic at Thailand's five major airports nearing/exceeding pre-COVID levels, led by Hat Yai Airport at 113% and others reaching 60-85% of pre-pandemic levels. Agoda, a leading global online travel platform, highlights positive factors driving Thailand's tourism recovery to pre-COVID levels next year, including: (i) the visa-free policy implemented in 2024 has resulted in a 30% increase in Indian tourists and a 16% increase in Taiwanese tourists; (ii) increased flight capacity to Thailand expected to grow by 6% in 2025; and (iii) Thailand ranked as the second most popular destination for repeat visitors after Japan. **Additionally, the IATA projects international airline passenger volume will return to pre-COVID levels by 2025.**

## Visitor arrivals at 5 airports

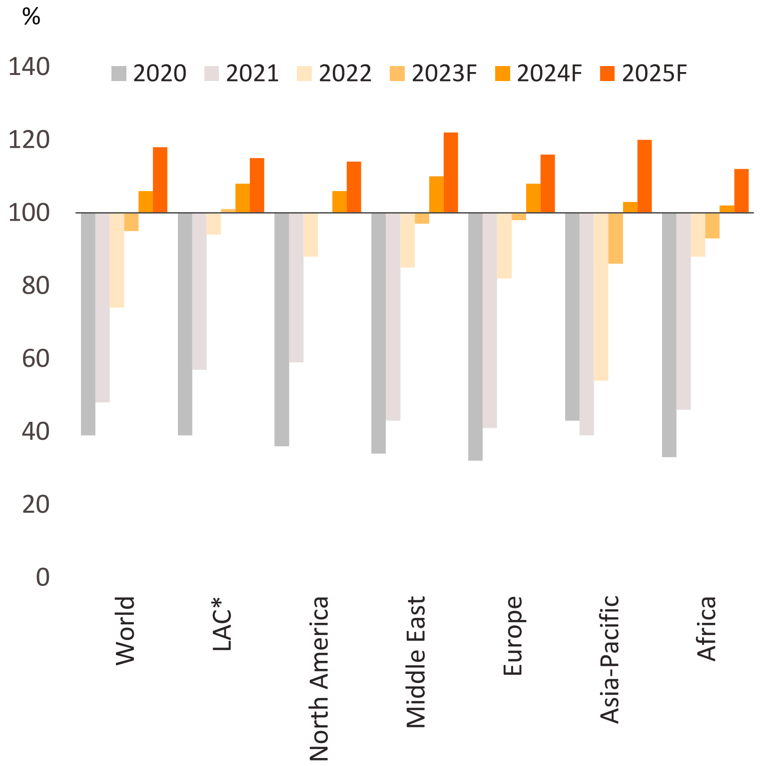
(%) compare with 2019 (pre-pandemic level)




## Agoda survey of foreign tourist arrival in Thailand (Jan-Oct 24)

| Top 5 Countries Which Searched for Accommodation in Thailand | Top 5 Most Visited Destinations in Thailand | Top 5 Secondary Cities in Thailand Most Searched by First-Time Travelers" |
|---|---|---|
| Malaysia | Bangkok | Koh Lipe |
| South Korea | Pattaya | Chiang Rai |
| Singapore | Phuket | Koh Chang |
| Japan | Chiang Mai | Betong |
| Hong Kong | Hat Yai | Pai |

## Rate of Recovery of Total Number of International Airline Passengers by Region
(Compared to 2019 Level)

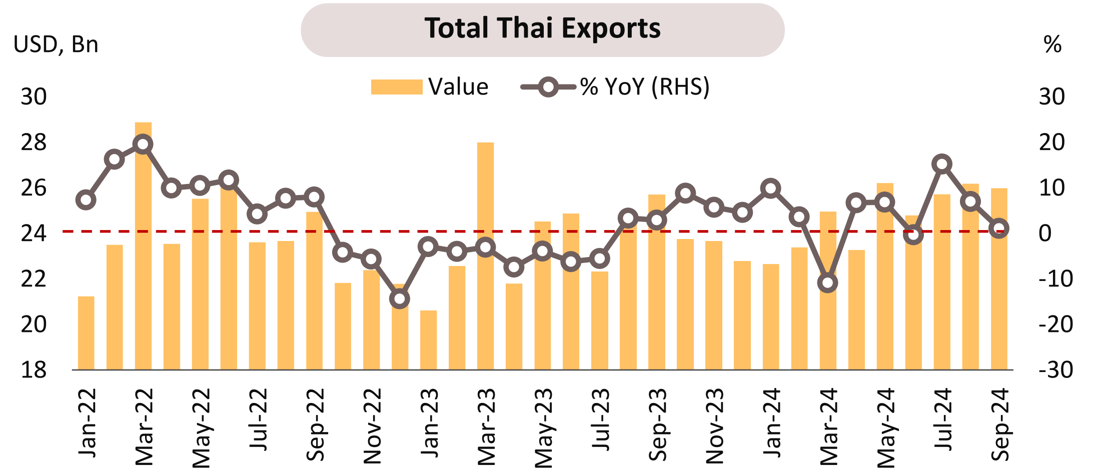


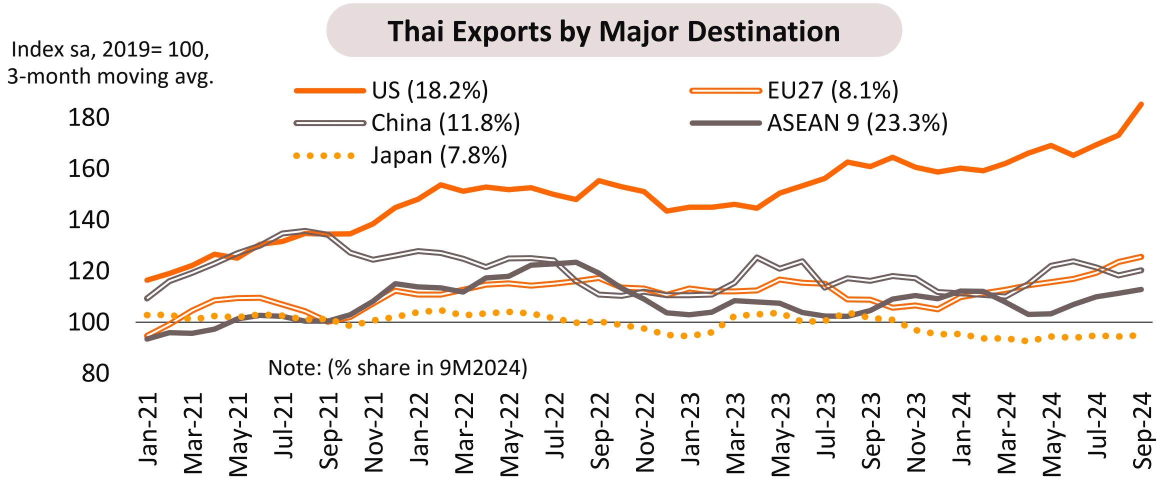

Source: Agoda, The Civil Aviation Authority of Thailand (CAAT), The International Air Transport Association (IATA) as of June 2023, CEIC, Krungsri Research

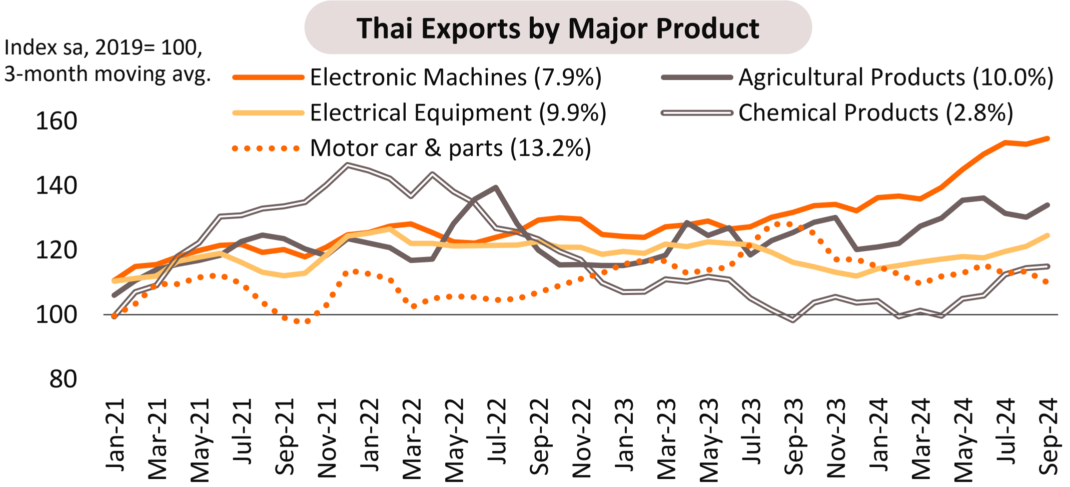
Note: *LAC refers to Latin America and the Caribbean.

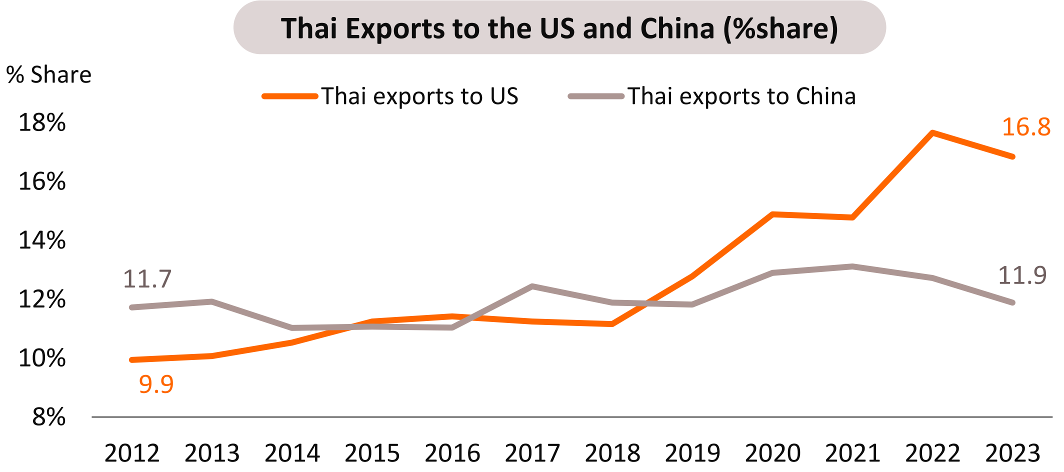
# *Exports* are expected to grow modestly amid structural challenges in manufacturing sector and rising trade tensions

**Thai exports are expected to grow at a moderate pace in 2025,** supported by (i) a gradual global economic recovery, (ii) demand in the electronics sector driven by the growth of the digital economy, and (iii) growing tourism and services sectors, which would boost exports of related goods, such as food, beverage, and agricultural products. However, exports still face challenges from structural problems and trade tensions between the U.S. and China, both of which are Thailand's key trading partners.




Note: (% share in 9M2024)
Source: MOC, CEIC, Krungsri Research

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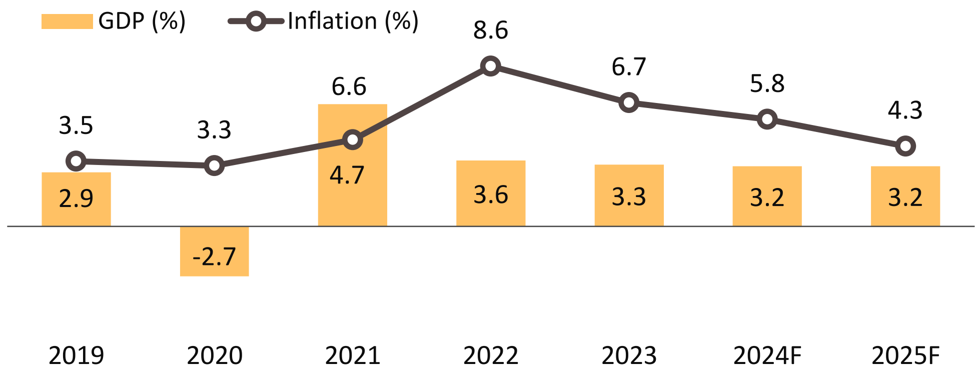
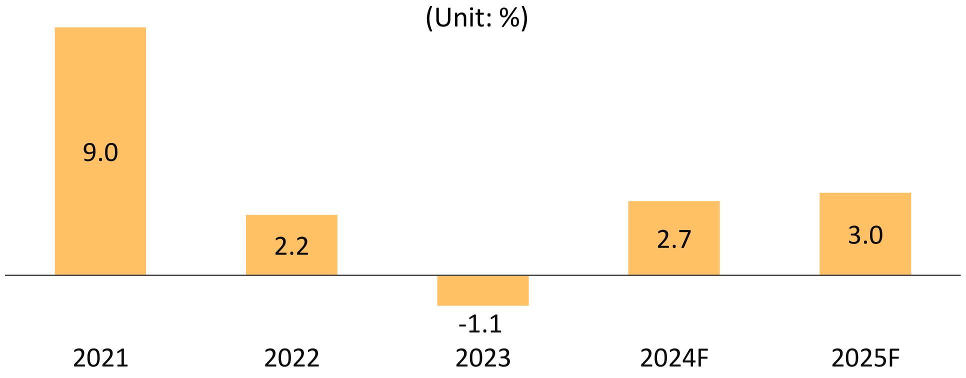
# Exports to grow along with global trade, but weak manufacturing sector and US-China trade tensions remain key risks

The IMF projects global economic growth will be stable in 2025. The WTO forecasts global trade volume will grow by 3.0% in 2025 from 2.7% in 2024, supported by softening inflation and lowering interest rates. However, negative signals in the global manufacturing sector and new export orders, which remain in contraction territory (index below 50), could dampen export growth. Escalating US-China trade tensions could also affect Thailand's exports in the coming period. **In the case of the US imposing tariffs on imports from all countries, including Thailand, with China's retaliation, our study shows that Thailand may not benefit from rising trade tensions.**

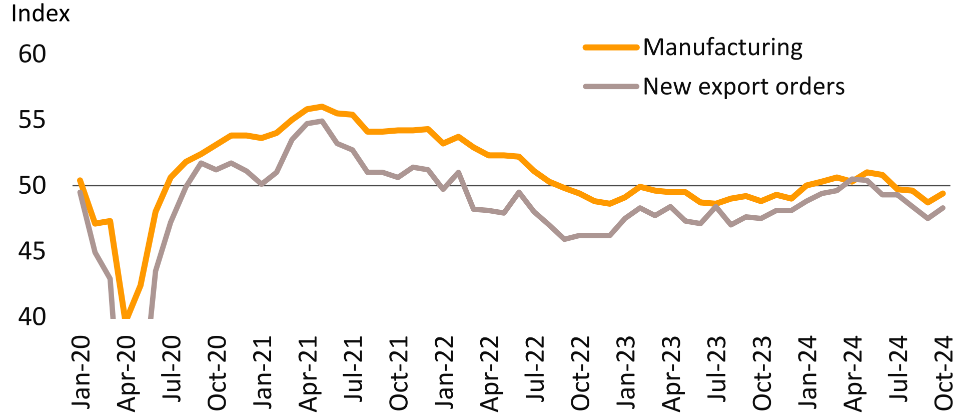
## World GDP Growth and Inflation (IMF)



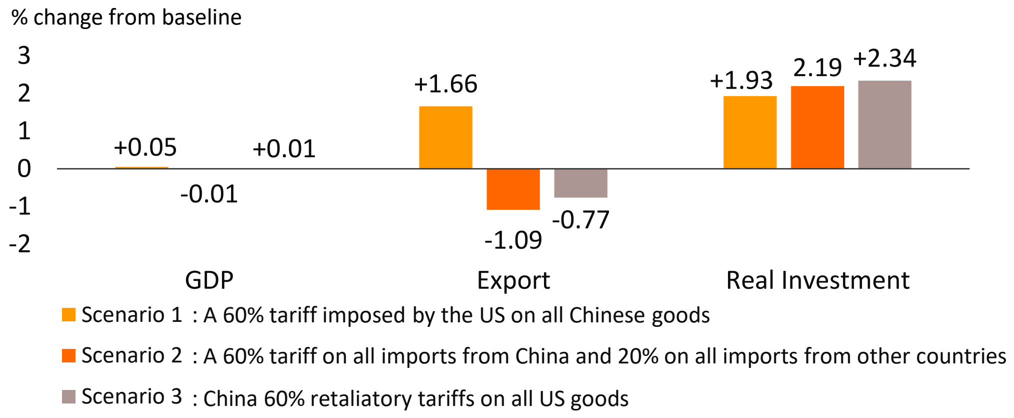

## World Merchandise Trade Volume Growth (WTO)




## Global Manufacturing PMI and New Export Orders




## US tariff policy: Impact on Thai economy



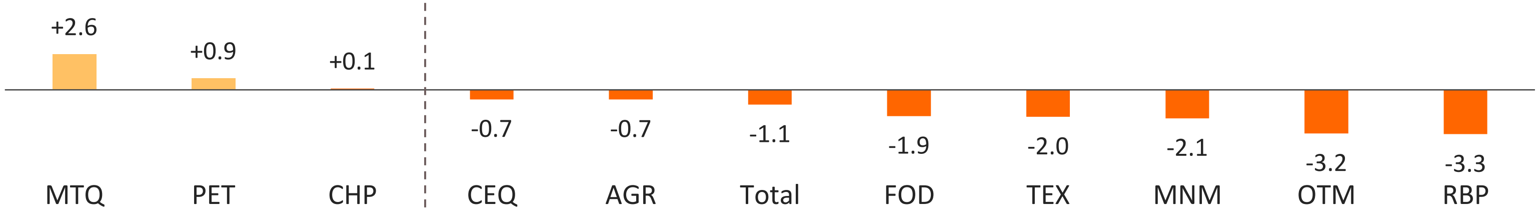

Source: International Monetary Fund (IMF), World Trade Organization (WTO), S&P global, Bloomberg, CEIC, GTAPP, Krungsri Research

# *US trade policy* may benefit *some* industries but would be negative for *most* industries

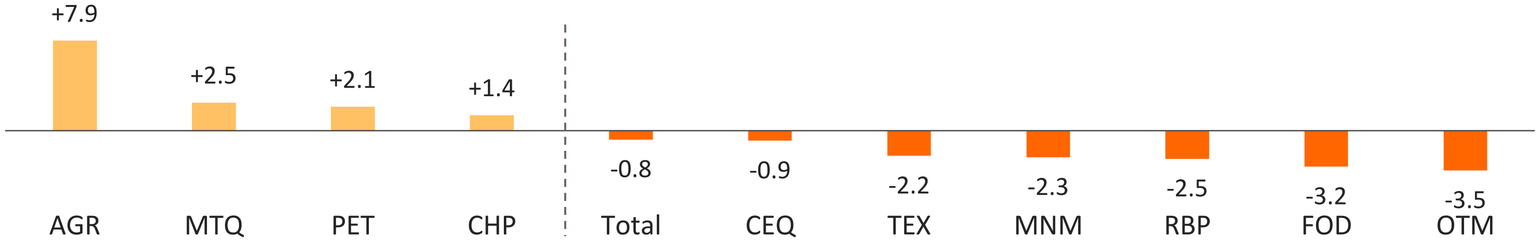
## Scenarios of US tariffs: Impact on Thai exports (analyzed by Krungsri Research)

**Scenario I: US imposes 60% tariff on all Chinese goods**


**Scenario II: US imposes 60% tariff on all imports from China and 20% on imports from other countries**




**Scenario III: China imposes 60% retaliatory tariffs on all US goods**




| | | | | | |
|---|---|---|---|---|---|
| AGR: | Agriculture | FOD: | Food and Beverages | PET: | Coke and Refined Petroleum |
| CHP: | Chemicals and Pharmaceuticals | MNM: | Metals and Non-metals | RBP: | Rubber and Plastics |
| CEQ: | Electronics and Electrical Equipment | MTQ: | Motor Vehicles and Transport Equipment | TEX: | Textiles, Leather and Footwear |
| | | | | OTM: | Other Goods |

**Scenario I: The US imposes 60% tariffs on all Chinese goods,** Thailand experiences a slightly positive impact, with gains in some exports such as electronics & electrical equipment, textiles, and leather, & footwear. However, its broader growth remains constrained due to Thailand's participation in the Chinese supply chain and reduced demand from key partners, especially from the US and China

**Scenario II: The US imposes 60% tariffs on Chinese goods and 20% tariffs on goods from other countries, including Thailand.** In this case, links between Thai industries and Chinese supply chains and the overall slowdown in the world economy will offset the positive effects of companies relocating production facilities to Thailand, and therefore Thai exports and GDP would fall from baseline.

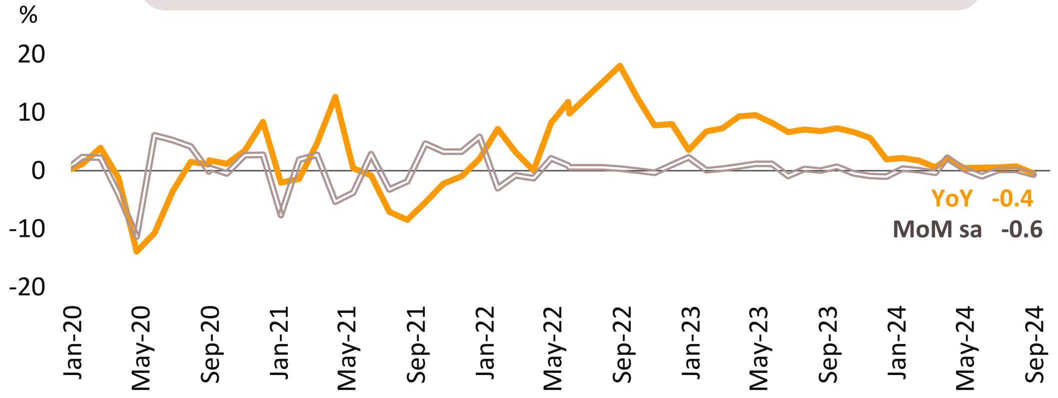
**Scenario III: Combination between Scenario II and China's retaliation with 60% tariffs on all US goods**. Despite investment relocation, The negative effects on the US, Chinese, and global demands will undercut Thai exports, such as food & beverages, and rubber & plastics.

Source: GTAP, ITC, WITS, CEPII and Krungsri Research

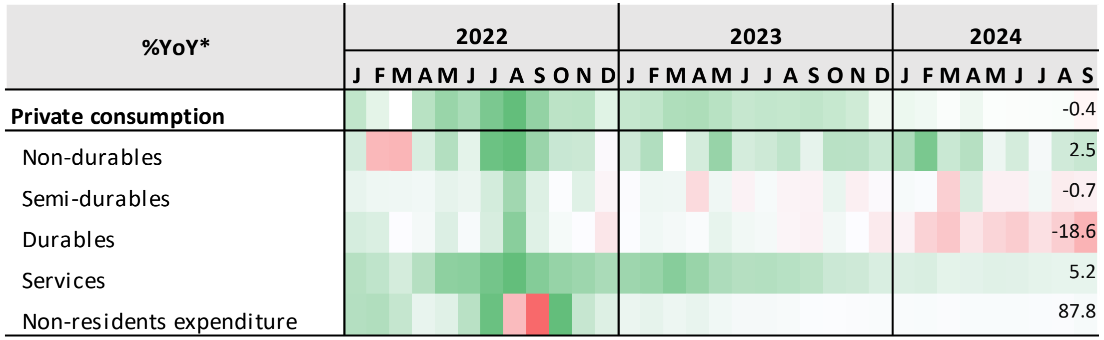
# *Consumption growth* to normalize in line with overall economic expansion but slower than in recent years due to fading post-covid benefits, structural issues, and declining farm prices

**In 2025, private consumption would continue to expand, albeit at a slower pace than previous years,** supported by: (i) growth in tourism activities, (ii) government stimulus measures, including a planned budget allocation of over THB153 bn under FY2025 budget for Digital Wallet Program, (iii) a stronger labor market, with employment levels across most sectors exceeding pre-pandemic levels, and (iv) falling borrowing costs in line with lower interest rates. However, there are several concerns: (i) still-weak consumer confidence, (ii) an expected drop in farm income in 2025 due to lower agricultural prices, and (iii) structural challenges from high household debt levels.

**Private consumption dropped slightly vs previous month**

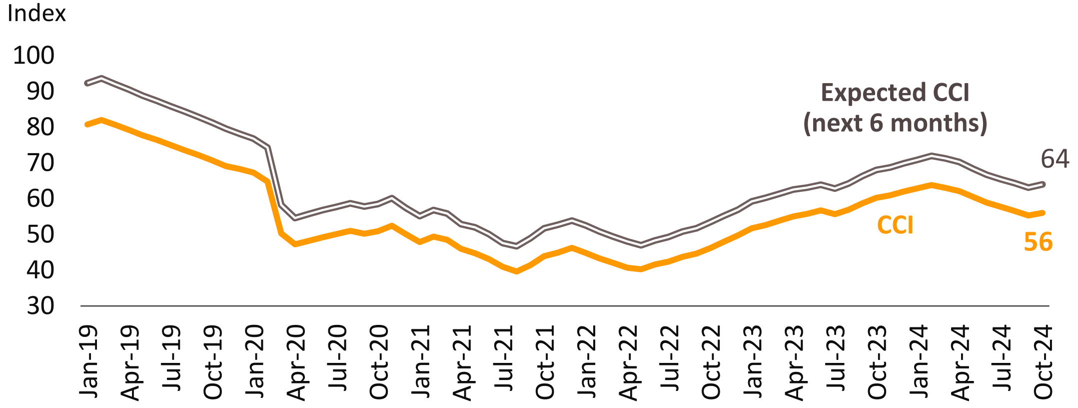



**Private consumption by category**

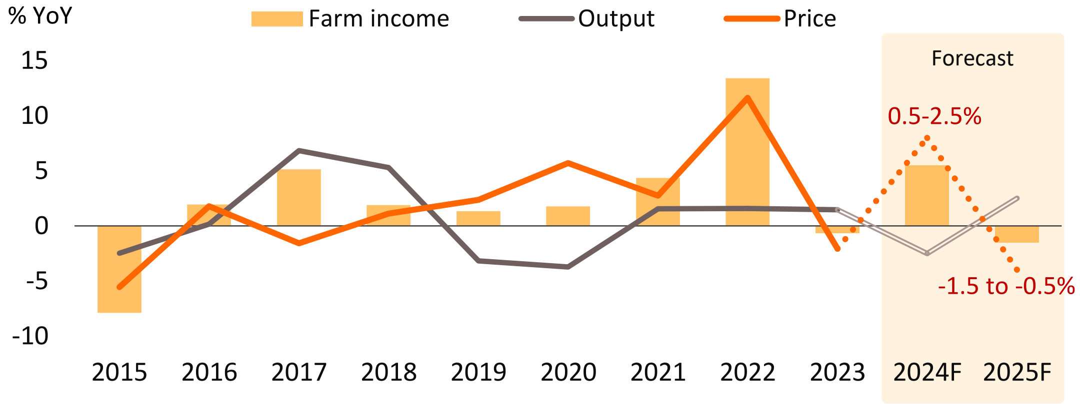



**Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum*

**Consumer confidence improved but remained below pre-COVID average**




**Farm income is expected to decline in 2025 due to falling prices**




Source: CEIC, BOT, University of the Thai Chamber of Commerce (UTCC), NSO, Krungsri Research

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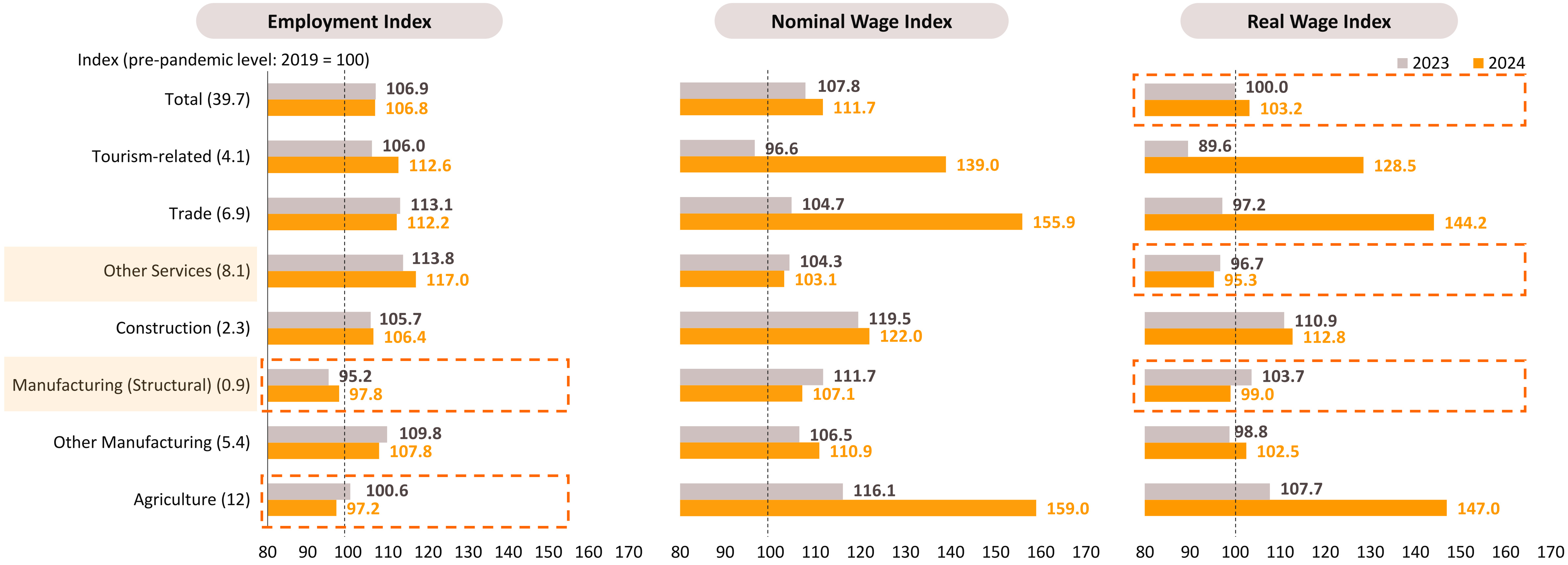
# Employment and nominal wages have risen beyond pre-covid levels, but real wage remains weak especially in manufacturing sector, reflecting still-weak purchasing power

Since the Covid-19 pandemic ended, **employment and nominal wages across most sectors in Thailand have** surpassed pre-pandemic levels by an average of 6.8% and 11.7% in 2024. **However, real wages have only seen a mild recovery** led by the agriculture, trade, and tourism sectors, which are 47.0%, 44.2%, and 28.5% higher than pre-pandemic levels, respectively. In the manufacturing sector which is suffering from structural problems, employment is 2.2% below the pre-covid level, suggesting it is affected by structural issues such as lower competitiveness, higher competition, or weaker labor productivity. **Overall, the key indicators suggest persistent headwinds and still-weak purchasing power, as real wage has risen by only 3.2% between 2019 and 2024, or an average of around 0.6% per year.**




Note: The number in brackets represents each sector's employment (mn persons) in 2023.
Manufacturing (Structural) includes textile and apparel, petrochemical products, basic metals, and HDD. Tourism-related includes hotel and restaurant, and recreation.

Source: NSO, BOT and Krungsri Research

# Vulnerable Thai households remain struggled as their assets decline

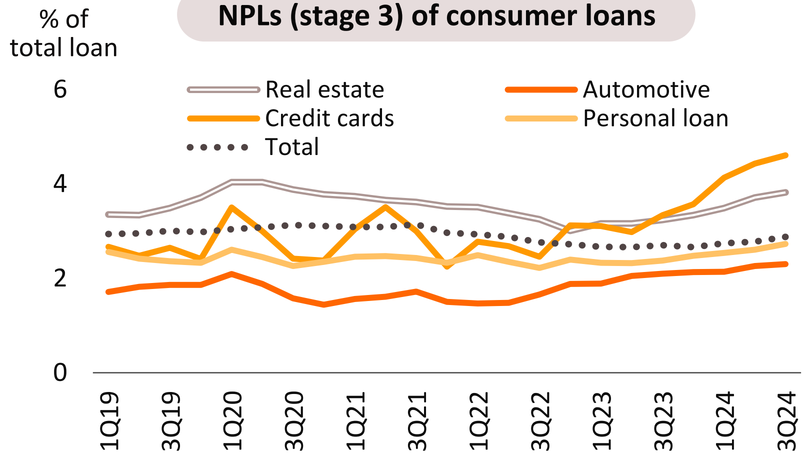
**The household debt problem in Thailand remains challenging due to the increase of delinquent loans and non-performing loans (NPLs) across various types of credit.** NPLs in auto loans have risen from a pre-covid level of 1.86% to 2.30% of total loans in 3Q24, while Significant Increase in Credit Risk (SICR or Stage 2) auto loans have surged from pre-covid level of around 7.43% to 15.69% of total loans. Besides, the warning signs of bad debt have now extended to mortgage loans as Stage-2 loans have continued to increase. **Amid the decline in debt quality and Thailand's sluggish economic growth, asset values have decreased among certain household groups, particularly those with monthly incomes below THB 20,000 and those with incomes above THB 100,000.** This is evident in assets such as real estate and vehicles, which are closely tied to the lives of most people and have seen a significant increase in their delinquency rates. In addition, financial assets for investment had also declined following lower prices of financial assets amid higher interest rates and sluggish economic growth.

**Change in assets of households during 2021 to 2023**

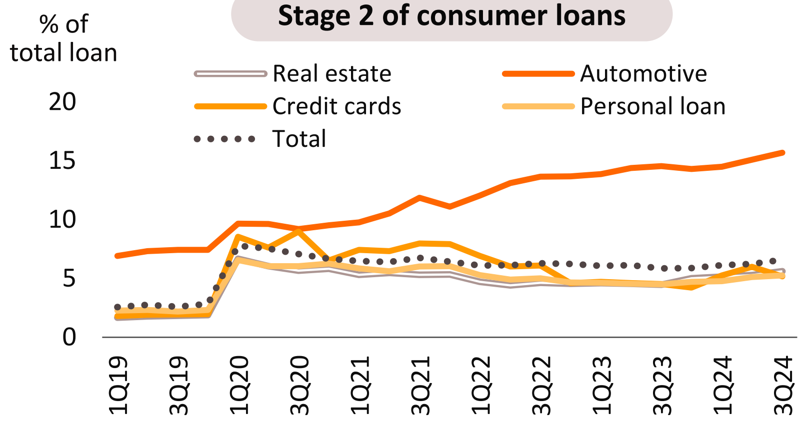
Unit: THB (000) per household per year

| | Deposit (8% share) | Financial assets for investment (0.5%) | Other financial asset (2%) | Vehicle (16%) | Real estate (74%) | Total asset (100%) |
|---|---|---|---|---|---|---|
| <10k (16%) | +0.43 | -0.08 | -0.24 | -7.24 | -75.05 | -82.17 |
| 10-20k (33%) | +1.35 | -0.05 | +0.50 | -1.90 | -15.52 | -15.62 |
| 20-30k (20%) | +7.84 | +0.29 | +2.15 | +14.98 | +53.24 | +78.51 |
| 30-50k (18%) | +14.19 | -0.70 | +4.03 | +27.17 | +59.56 | +104.27 |
| 50-100k (10%) | +16.22 | +0.90 | +11.83 | +64.84 | +162.34 | +256.14 |
| >100k (2%) | +18.75 | -64.82 | +20.24 | +143.81 | -506.65 | -388.62 |
| **Total** | **+6.73** | **-1.44** | **+2.92** | **+15.83** | **+9.34** | **+33.39** |

**NPLs (stage 3) of consumer loans**




**Stage 2 of consumer loans**




Source: BOT, NSO, and Krungsri Research

# Post-covid liquid assets of Thai households increase only slightly, while most households see their expenses outpacing income; Targeted measures needed to address debt burden

During 2021-2023, total liquid assets for each household increased by an average of 8,238 baht per year, mainly coming from the increase in deposits and other financial assets rather than a rise in net income (as income has increased at the same pace as expenses). This reflects the relatively weak and slow-growing consumption of households. **In particular, households with earnings of less than 30,000 baht per month (accounting for 67% share of total households) have been struggling with their expenses outpacing their income growth** (expense-to-income ratio exceeding 100%). Meanwhile, high-income households (earning over 100,000 baht per month) have faced a decline in their total liquid assets, mainly due to a drop in the value of their financial assets for investment. **However, the consumption capacity of households earning over 50,000 baht per month remains relatively strong.** This is reflected in their income growth outpacing expenses (expense-to-income ratio below 100%), indicating that middle-to high-income households will continue to contribute to consumption. On the other hand, low-income households remain financially vulnerable.

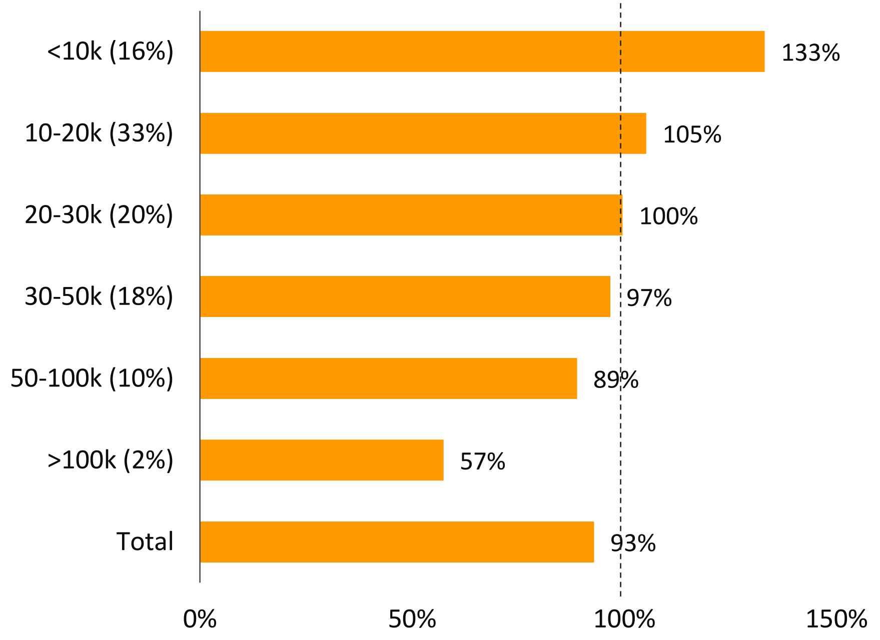
**Change in total liquid assets of households during 2021 to 2023**

Unit: THB (000) per household per year

| | Income | Expense | Debt payment | Deposit | Financial asset for investment | Other financial assets | Total liquid asset* |
|---|---|---|---|---|---|---|---|
| <10k (16%) | -0.36 | -0.37 | -0.10 | +0.43 | -0.08 | -0.24 | +0.22 |
| 10-20k (33%) | +0.30 | +0.53 | -0.17 | +1.35 | -0.05 | +0.50 | +1.74 |
| 20-30k (20%) | +2.01 | +2.22 | +0.01 | +7.84 | +0.29 | +2.15 | +10.07 |
| 30-50k (18%) | +3.35 | +3.30 | +0.13 | +14.19 | -0.70 | +4.03 | +17.43 |
| 50-100k (10%) | +6.27 | +5.73 | +0.42 | +16.22 | +0.90 | +11.83 | +29.06 |
| >100k (2%) | +5.34 | +2.69 | -0.71 | +18.75 | -64.82 | +20.24 | -22.46 |
| **Total** | **+1.81** | **+1.80** | **-0.02** | **+6.73** | **-1.44** | **+2.92** | **+8.23** |

**Expense-to-income ratio**

(data as of 2023)




Note: *Total liquid assets comprising of income, deposits, financial assets for investment and other financial assets deducted by total expenses (including debt payment)

Source: BOT, NSO, and Krungsri Research

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# Government plans to introduce measures to ease debt burdens for vulnerable groups

**To support individual borrowers and small business operators (SMEs) that are struggling with debt repayment due to slow and uneven economic recovery,** the Thai government, in collaboration with relevant agencies such as the Bank of Thailand (BOT), the Ministry of Finance, and financial institutions, have been working on details of measures to ease their financial burden. These measures aim to support economic recovery and address the challenges posed by high levels of household debt and NPLs. The program specifically targets borrowers who are committed to improving their financial status and demonstrate potential for recovery. They also seek to promote financial discipline, mitigate long-term debt risks, and prepare for structural debt resolution strategies in the future.

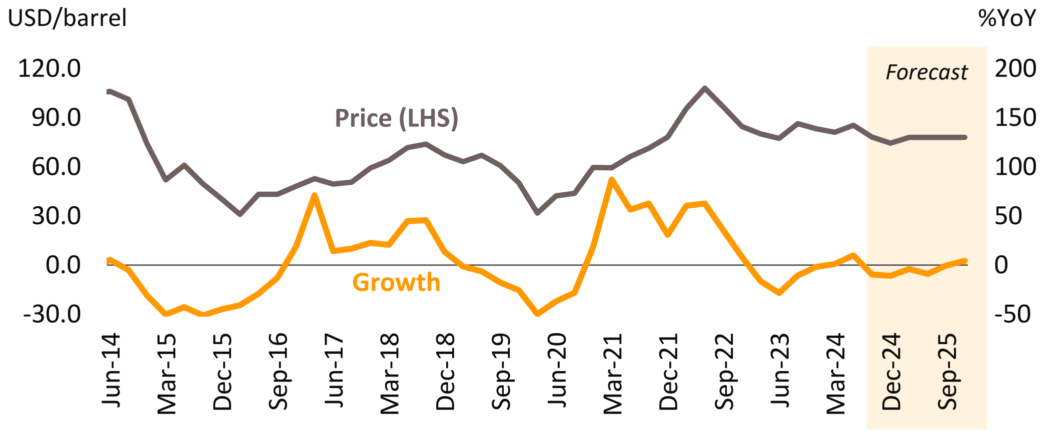
## Household debt relief program

| Topic | Draft of measures to ease debt burdens for vulnerable groups |
|---|---|
| **Objective** | **Mitigating Household Debt Risks**: Reduce the risks associated with household debt level which has reached nearly 90% of GDP.<br>**Enhancing Purchasing Power**: Restore consumers' ability to spend and invest.<br>**Strengthening Financial Stability**: Minimize risk of widespread defaults in the financial system. |
| **Target groups** | Borrowers in NPL status for not longer than one year (cut-off date: before October 31, 2024), divided into three main groups:<br>**(i) Housing Loans** (460,000 accounts): Maximum loan of THB 3,000,000 per head.<br>**(ii) Car Loans** (1,400,000 accounts): Maximum loan of THB 800,000 per car.<br>**(iii) SME Loans** (430,000 accounts): Maximum loan of THB 3,000,000 per head.<br>Total accounts: 2,300,000; **Total debt: THB 1.31 trn.** |
| **Benefits** | **Three-Year Interest Suspension**: Borrowers will only repay the principal during the suspension period.<br>**Reduced Monthly Repayment Burden**: Increase liquidity for borrowers to manage other financial responsibilities. |
| **Funding Sources** | **The Financial Institutions Development Fund (FIDF)**: Contribution rate for commercial banks will be reduced from 0.46% to 0.23% of deposits. These funds will be used to support interest suspension and reduce borrowers' interest burden.<br>**Support from Financial Institutions**: Financial institutions will provide additional funds to support the program. |
| **Duration** | Three years |

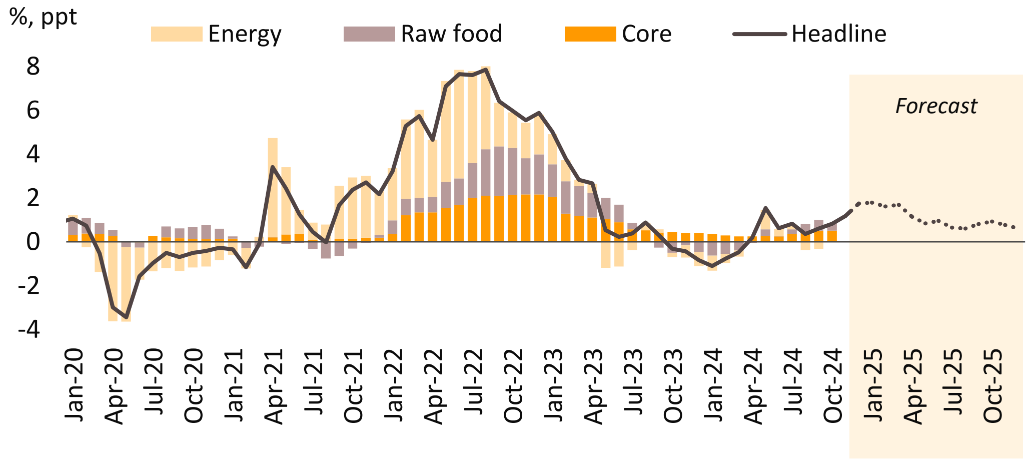
Source: BOT, MOF, NESDC, Krungsri Research

# *Headline inflation* is expected to rise to close to low-end of BOT's target range in 2025

### Dubai Oil Price (% Increase)




### Thai Inflation Projection




Source: MOC, EIA, Bloomberg, Krungsri Research

## Krungsri Research's view

- **Headline inflation is projected to rise to 1.0% in 2025 from an estimated 0.4% in 2024,** given improving domestic demand through private consumption, tourism, and government spending. Meanwhile, 2025 average global crude oil price is expected to be lower than in 2024, amid slowing global oil demand. Additionally, the government is likely to maintain energy subsidy measures such as capping electricity fees, diesel prices, and LPG prices, to ease the cost of living and support economic stability.

### Oil price assumptions and effects on Thailand's growth and inflation by scenario

| Scenario | Average oil price in 2025 ($/barrel) | % Increase from 2024 ($80/barrel) | Impact on GDP growth (ppt) | Impact on Inflation (ppt) |
|---|---|---|---|---|
| **Confined war** | $85-90 | ≤ 10% | ▼ ≤ 0.1 | ▲ ≤ 0.5 |
| **Wider regional war** | $95-100 | 20-25% | ▼ 0.2-0.3 | ▲ 1.0-1.5 |
| **Full-scale regional conflict** | $110-130 | 40-60% | ▼ 0.4-0.6 | ▲ 2.0-3.0 |

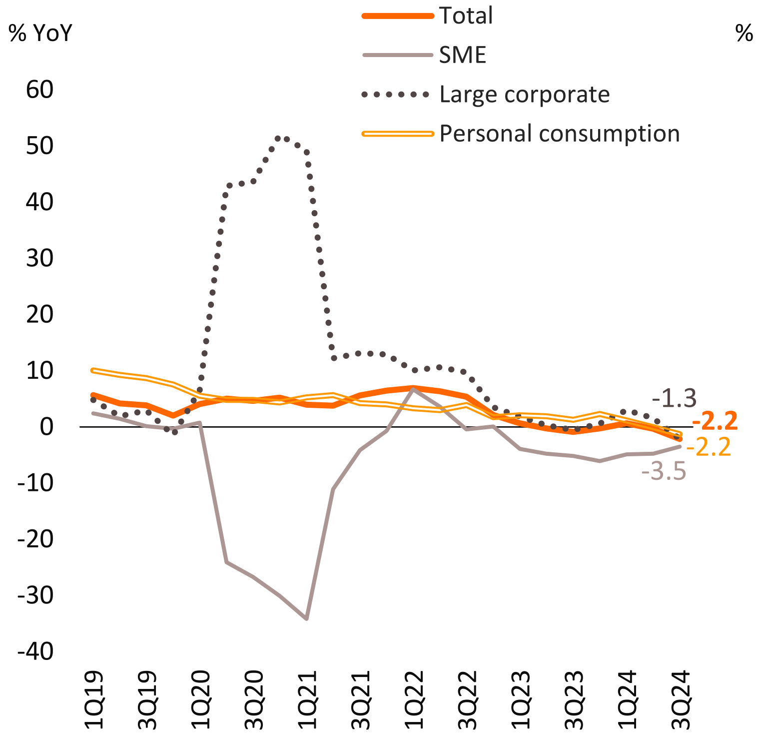
### Thailand's energy price subsidy measures

| Policy | | Details |
|---|---|---|
| **Energy subsidy policies** *(assuming their extension throughout 2025)* | **Electricity fee** | Capped at 4.18 baht/unit |
| | **Diesel price** | Capped at 33 baht/liter |
| | **LPG price** | Capped at 423 baht per 15-kilogram cylinder |

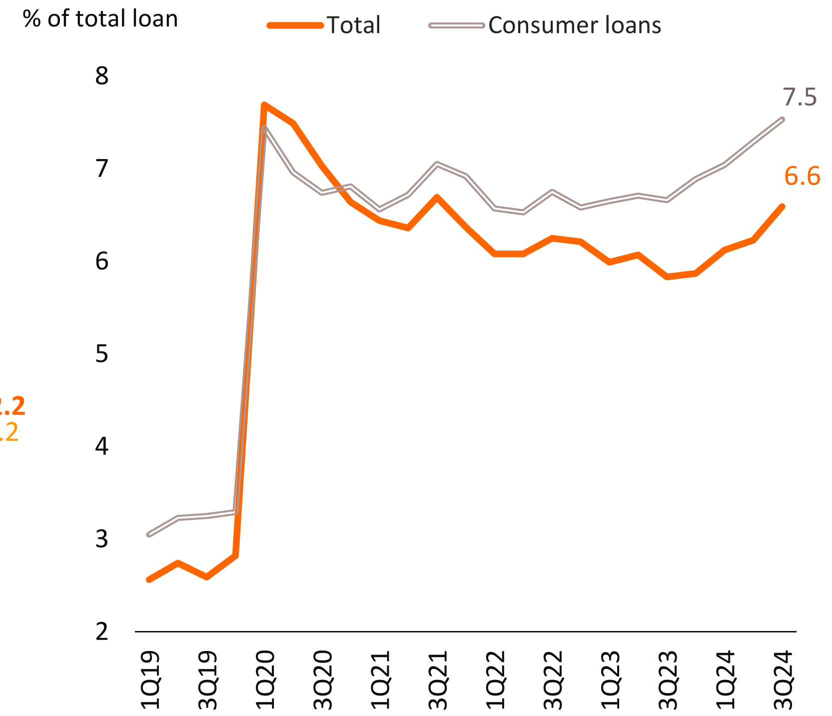
# *Expect MPC* to cut policy rate to 2.0% by 1Q25 to ease financial strain and nurture recovery

**We expect the Monetary Policy Committee (MPC) to cut the policy interest rate by 25bps to 2.0% by the first quarter of 2025,** to mitigate the impact of tightening financial conditions which have led to high borrowing costs, and reduced debt repayment capacity and increased the risk of non-performing loans. At end-3Q24, NPLs at Thai commercial banks stood at 2.88% of total loans, with approximately one-third attributed to consumer loans. Lower interest rates are expected to help encourage consumption and investment as well as enhance liquidity in the financial system, ultimately supporting the economic recovery in the period ahead.

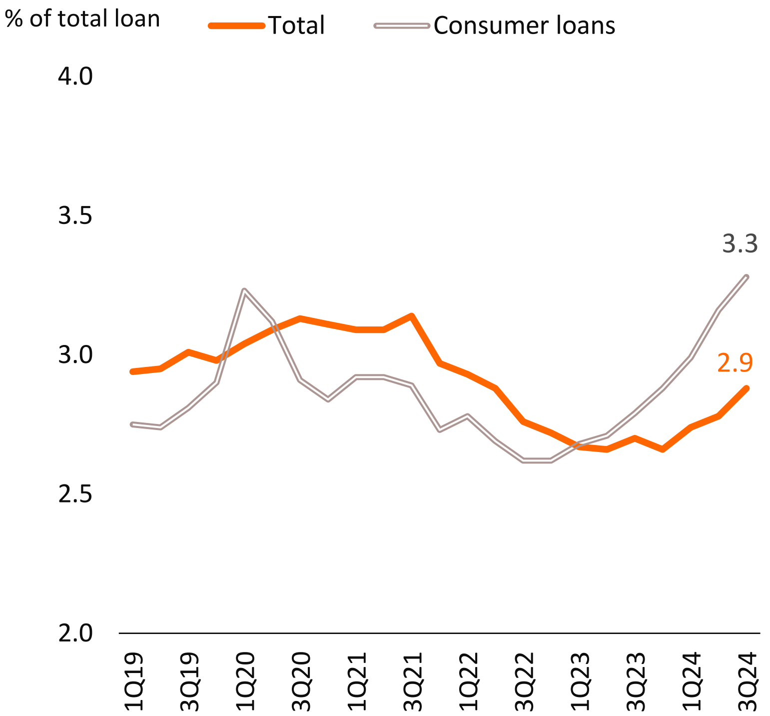
**Loan growth 1/**




**Loans with a significant increase in credit risk (SICR or stage 2 2/)**




**NPLs (Stage 3)**




Note: 1/ Commercial banks' total credit 2/ Stage 2 = the debt is overdue for more than 30 days but less than 90 days
Source: BOT, Krungsri Research

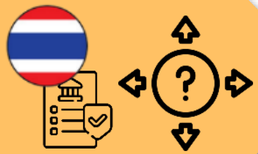
# *Risks & Challenges*

**Escalating trade tensions, US policy uncertainty, geopolitical risk**

**Influx of Chinese imports**

**Climate fluctuations (risk of La Niña)**

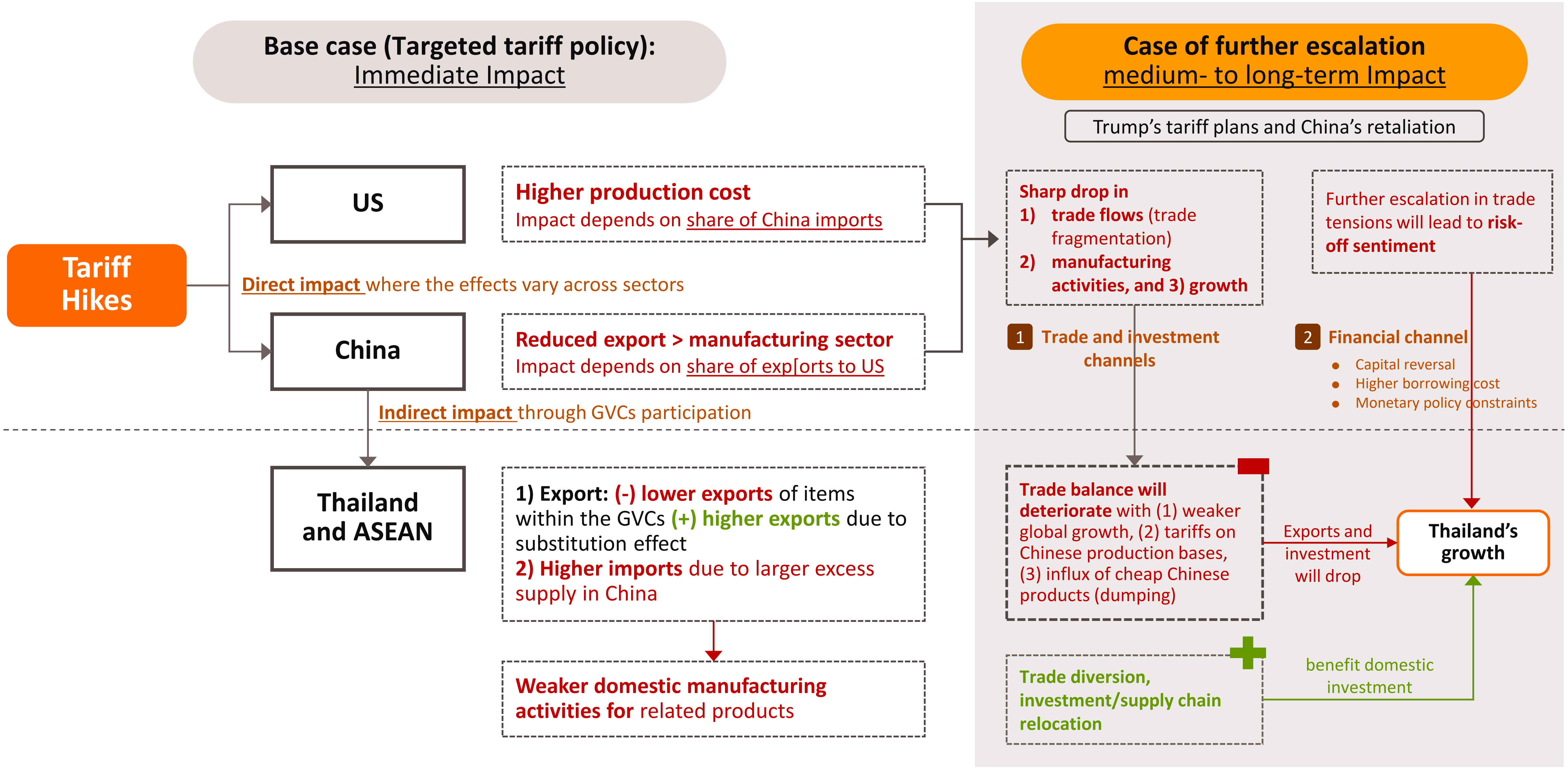
**Structural problems (labor productivity)**



**Policy uncertainty and political risk in Thailand**

Source: Krungsri Research

# *Economic impact of higher tariffs*

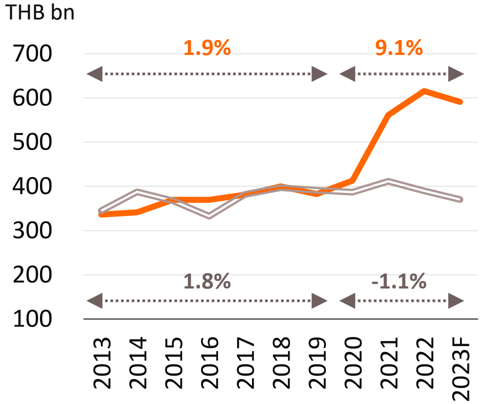



Source: Krungsri Research

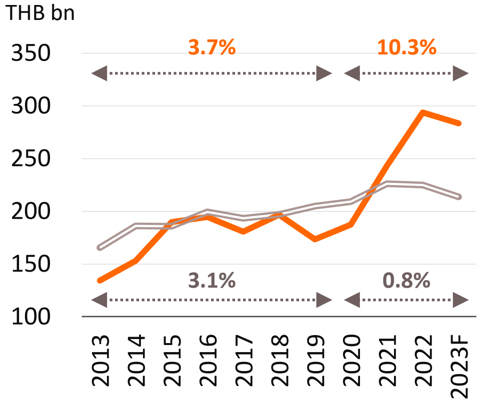
# Influx of *Chinese imports* and slower recovery in domestic production could hinder Thailand’s economic growth prospects

**As domestic production stagnated or declined post-COVID, imports from China have surged across most sectors.** In computers & electronics, electrical machinery, and other machinery & equipment, imports have even surpassed local production. The food & beverages sector is one of the few sectors in which trends remain positive. This sharp contrast presents two key challenges. First, the influx of cheaper Chinese goods has intensified competition and might have partly contributed to the closure of factories and job losses. Second, domestic productivity might not have returned to pre-COVID levels, leaving local businesses struggling to compete with foreign firms. **This dual challenge could threaten Thailand’s longer-term economic growth prospects.**

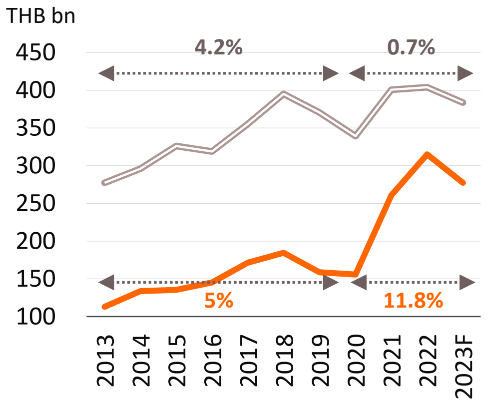
**Computer & electronics**



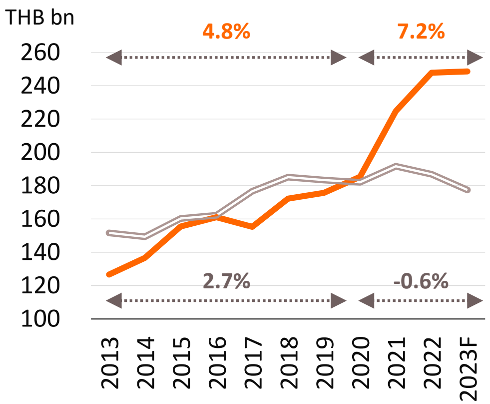

**Electrical machinery**



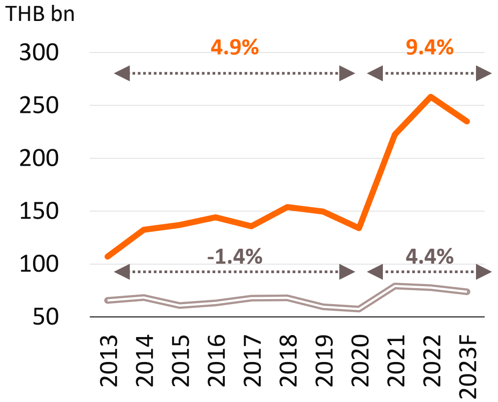

**Chemicals & chemical products**



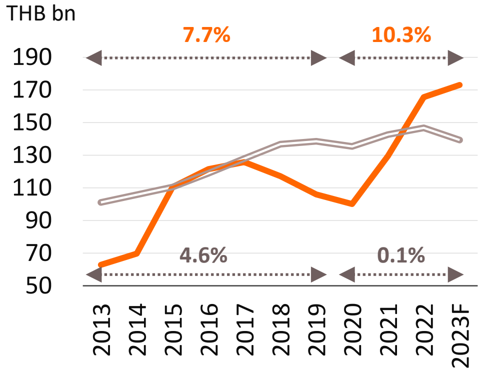

**Other machinery & equipment**



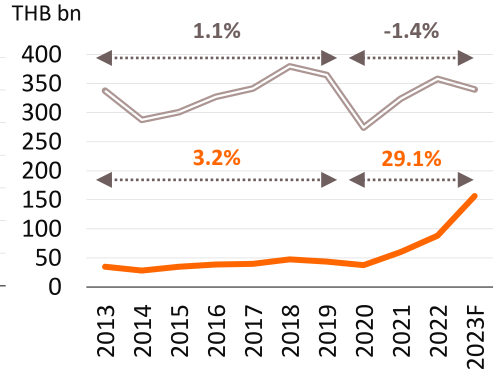

**Basic metals**



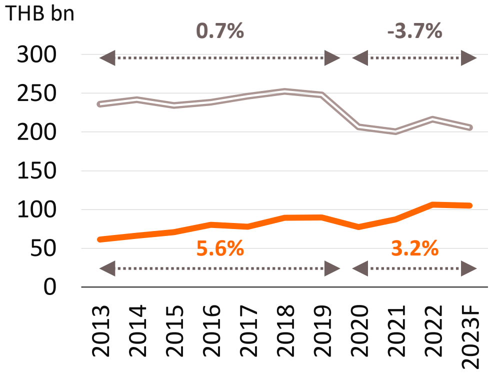

**Fabricated metals**



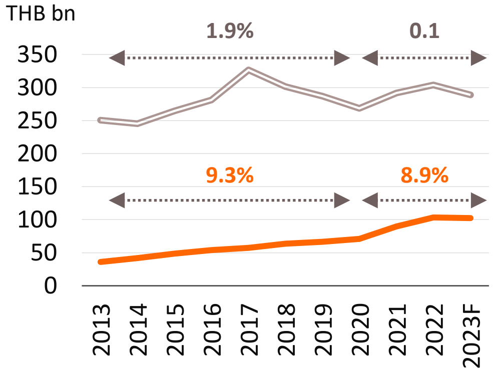

**Motor vehicles & trailers**



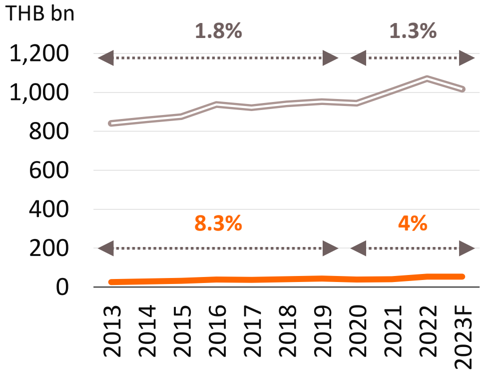

**Textiles, leather & footwear**




**Rubber & plastics**




**Food & beverages**




Import from China — Thailand GDP

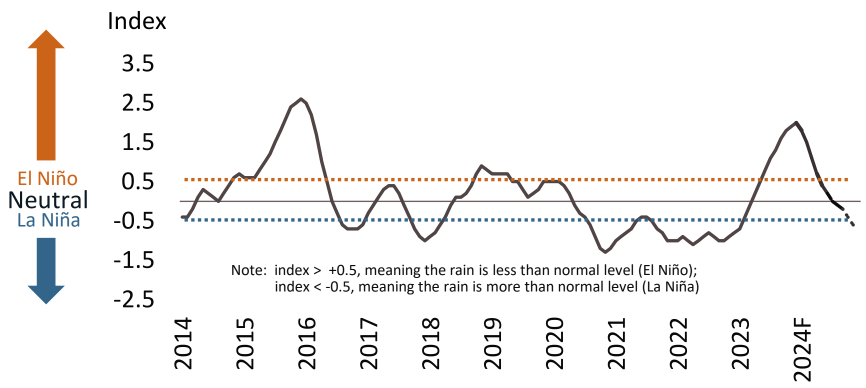
Note: 1) The 2023 sub-sector GDP is estimated by integrating the 2023 actual GDP value with the 2022 sub-sector.
2) The red numbers represent the Compound Annual Growth Rate (CAGR) of imports from China, while the blue numbers represent the CAGR of exports to China. The data covers both the pre- and after COVID periods.

Source: NESDC, TradeMap and Krungsri Research

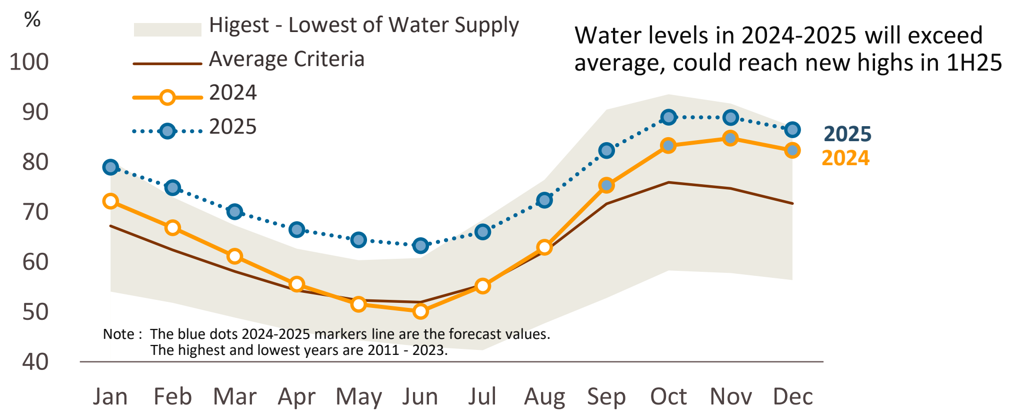
krungsri Research

# *Risk of flooding* as water levels in major dams could reach new highs in 1H25 and annual rainfall is expected to exceed the historical average in 2025

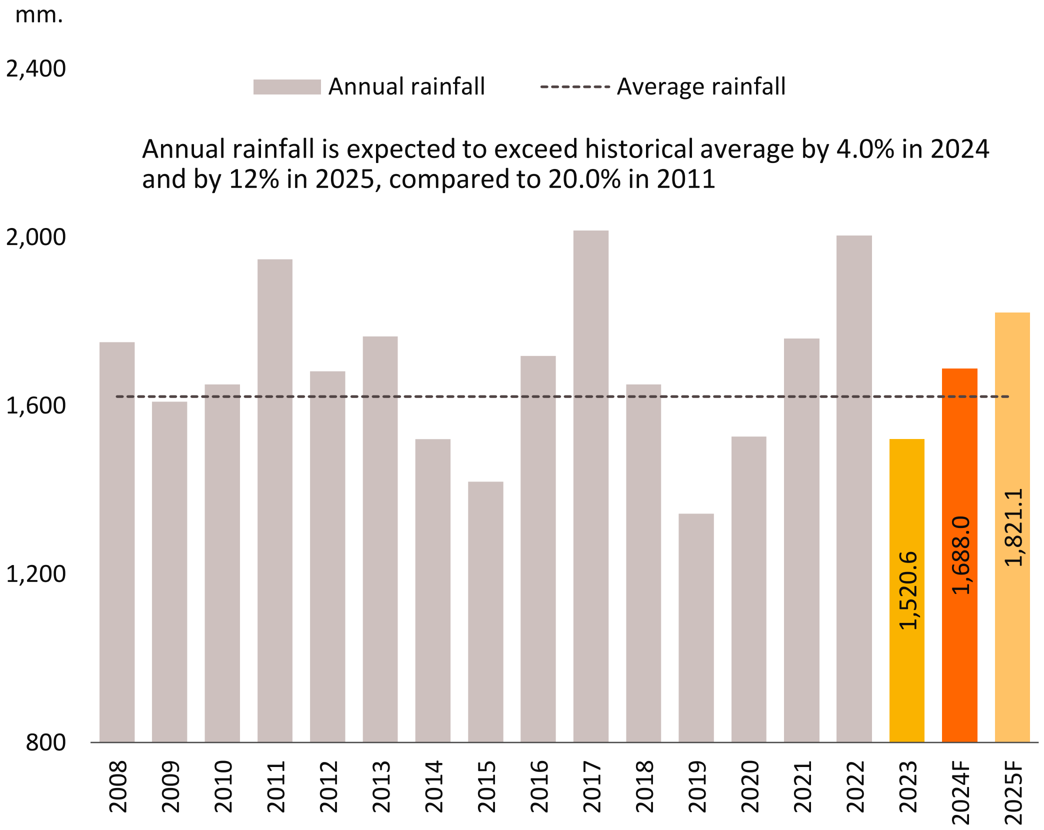
**ONI indices suggest El Niño conditions would turn Neutral in mid-2024, and higher risk of La Niña ahead**




**Water supply stats in Thailand**



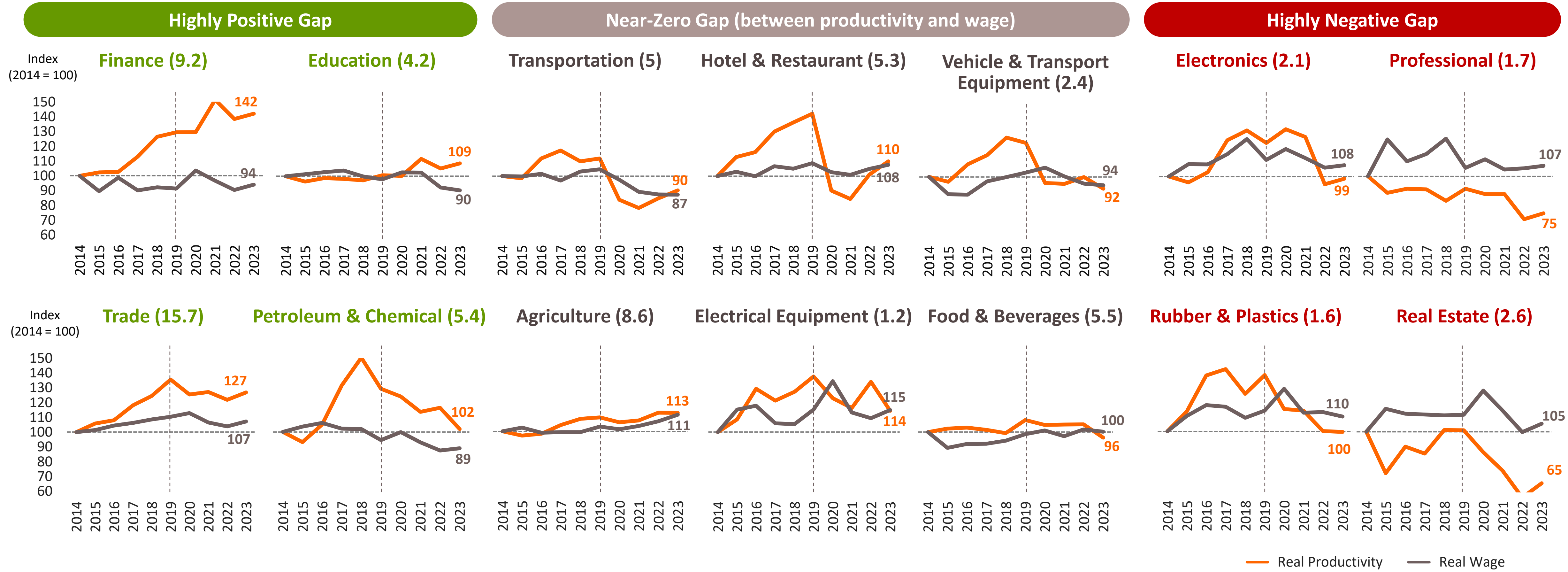

**Average annual rainfall is expected to hit new highs in 2024 and 2025 but stay below 2011 (Great Flood) level**




Source: National Oceanic and Atmospheric Administration, Thaiwater, Thailand Meteorological Department, Krungsri Research

# *New round of wage hikes* could put new pressure on *businesses with negative productivity-wage gaps*, particularly in key manufacturing sectors

**The plan to raise the minimum wage to THB400 nationwide remains uncertain** after several canceled meetings due to insufficient quorum. In early 2024, Thailand implemented two wage hikes: on January 1, the minimum wage was increased by 2.37% to THB330–THB370 per day, and on April 13, it was increased to THB400 per day for hotels with at least 4-star rating in selected areas across 10 provinces. **Despite a substantial drop in the share of minimum-wage workers** from 38.8% in 2014 to 16.1% in 2023, **businesses with negative productivity-wage gaps** — such as electrical equipment, vehicles & transport equipment, food & beverages, electronics, rubber & plastics, and real estate activities (as a service sector) — **could face growing pressure from the next round of wage hikes,** which could hurt their profitability, growth, investment, and competitiveness.




Note: % share of 2023 sectoral GDP in total GDP is shown in parenthesis.
Source: NSO, NESDC and Krungsri Research

krungsri Research

*Key factors in 2025*: Growth to pick up following normalized public spending, stimulus measures, and tourism activity recovering to pre-covid levels; but there are still structural and external risks

| Major factors affecting Thai economy | 2024 | 2025 |
|---|---|---|
| • Recovering tourism activity and employment | | |
| • Rising public spending and economic stimulus measures | | |
| • Investment relating to normalized disbursement of government budget | | |
| • Impact of high interest rates worldwide, including Thailand | | |
| • Risk of climate fluctuation (such as La Niña) | | |
| • Domestic political uncertainty | | |
| • Escalating trade tensions, geopolitical risk and fragmented globalization | | |
| • Losing competitiveness and rising imports from China | | |
| • Domestic structural headwinds (high household debt, demographic challenges) | | |

Negative impact    Positive impact

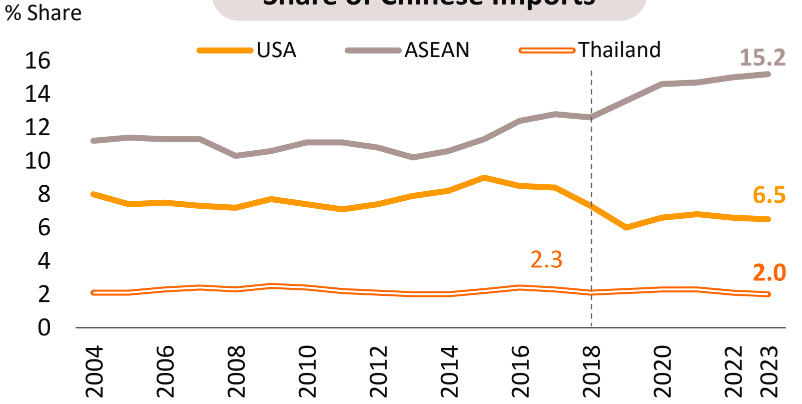
Source: Krungsri Research

# APPENDIX

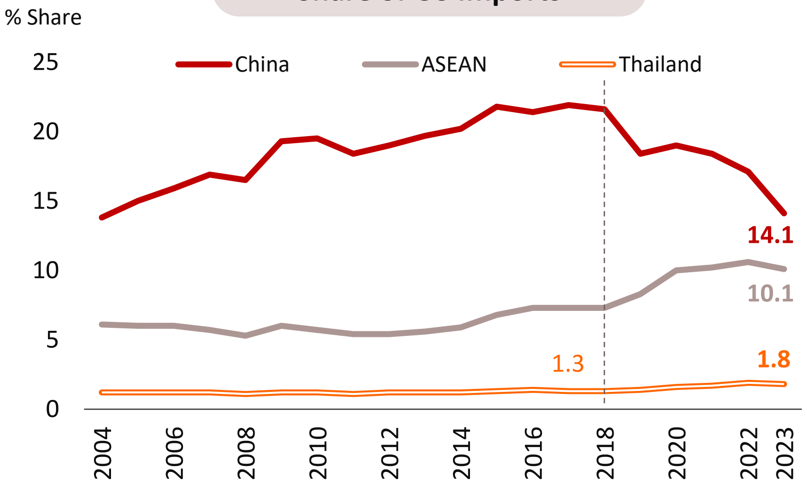
# Since the *trade wars started, ASEAN* exports to the US and China have increased

**Since 2018, ASEAN has been benefitting from trade reorientation. This is seen in the surge in the share of China's and the US's imports from ASEAN and a sharp drop in the US's share of imports from China. For Thailand, exports to the US had risen from 11.1% of total exports in 2018 to 16.8% in 2023,** while export share to China has been stable at 11.9%, suggesting the trade war has resulted in the diversion of US imports from China to other countries, including Thailand. In addition, the export of Thailand's key products to the US has increased and partly offset declining exports to China, including computer & electronics (CEQ), wood products (WOD), electronic machinery (ELQ), machinery & equipment (MEQ), and motor vehicle (MTR). **The escalating US-China trade war would damage the global economy with greater trade protectionism, but it would also create opportunities for Thai exports in certain product segments**.

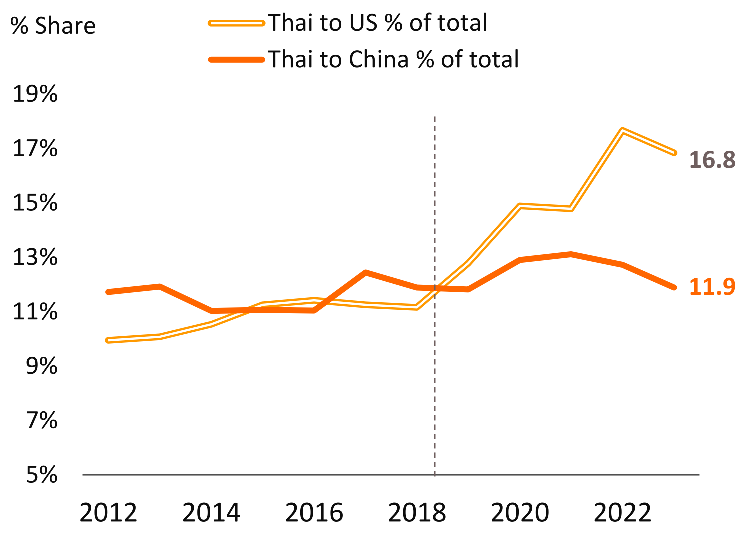
## Share of Chinese Imports




## Share of US Imports



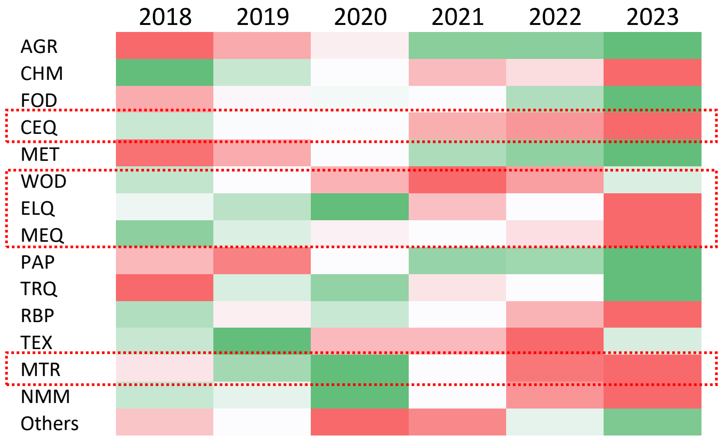

## Share of Exports from Thailand



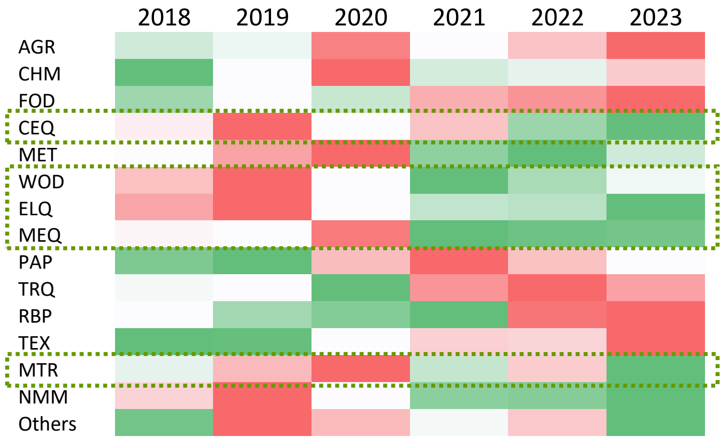

## Thai export products

| | | | |
|---|---|---|---|
| AGR | Agriculture, forestry & fishing | PAP | Pulp, paper, printing & publishing |
| CHM | Chemicals & chemical products | TRQ | Transport equipment |
| FOD | Food products, beverage | RBP | Rubber & plastic products |
| CEQ | Computer, Electronic & optical equipment | TEX | Texiles, leather & footwear |
| MET | Basic metals | MTR | Motor vehicles, trailers |
| MEQ | Machinery & equipment | NMM | Other non-metallic mineral |
| ELQ | Electrical machinery & apparatus | WOD | Wood products |

## Thai exports to China by product (% of total)




## Thai exports to the US by product (% of total)




Source: Reuters, CEIC, Trade map, Krungsri Research

# *Scenario 1: By sector,* many industries would be hurt by tariff hikes due to slower global demand, but some may benefit from the substitution effect and production relocation.

**This scenario shows positive effects on Thailand and ASEAN exports, triggered by the substitution effect and production relocation,** particularly in Electronics & Electrical Equipment (CN -10.1%, TH: +9.2%, ASEAN: +4.8%) and Textiles, Leather, & Footwear (CN: -7.4%, TH: +3.4%, ASEAN: +14.7%). **However, most sectors would see some losses as global demand weakens**, driven by higher consumer prices and production costs, especially in the US and China. This poses challenges for Thailand and ASEAN going forward, as exports remain a key growth driver. Sectors such as Chemicals & Pharmaceuticals (TH: -2.5%, ASEAN: -1.9%), Agriculture (TH: -2% and ASEAN: -1.1%), and Metals & Non-metals (TH: -1.6%, ASEAN: -1.7%) would be most affected. **However, losses in ASEAN GDP could be mitigated by an increase in investment.**

| | Electronics & Electrical Equipment | Textiles, Leather & Footwear | Food & Beverage | Coke & Refined Petroleum | Rubber & Plastics |
|---|---|---|---|---|---|
| Thailand | 9.2 | 3.4 | 0.6 | -0.1 | -0.3 |
| Vietnam | 1.2 | 15.5 | -3.1 | -3.0 | -6.8 |
| ASEAN-9* | 4.8 | 14.7 | -0.2 | 0.0 | 0.7 |
| United States | -9.1 | -5.6 | 1.7 | -1.2 | 0.0 |
| China | -10.1 | -7.4 | -2.0 | 2.4 | -9.7 |
| European Union | 0.2 | -1.7 | 0.1 | 0.4 | 0.0 |
| Mexico | 28.9 | 23.9 | -7.4 | -4.8 | 3.6 |
| Rest of the World | 2.6 | 5.0 | -0.1 | 0.2 | 2.7 |
| World | -0.9 | 0.5 | 0.2 | 0.3 | -0.2 |

| | Motor Vehicles & Transport Equipment | Metals & Non-metals | Other Goods** | Agriculture | Chemicals & Pharmaceuticals |
|---|---|---|---|---|---|
| Thailand | -0.7 | -1.6 | -1.9 | -2.0 | -2.5 |
| Vietnam | -5.6 | -6.7 | -5.8 | -2.3 | -6.2 |
| ASEAN-9* | -0.2 | -1.7 | -2.1 | -1.1 | -1.9 |
| United States | -1.2 | -0.9 | -0.9 | -0.6 | 0.0 |
| China | -1.4 | 1.3 | -2.3 | 2.0 | 0.7 |
| European Union | 0.2 | -0.3 | -0.3 | -0.1 | 0.0 |
| Mexico | -7.6 | -4.9 | -7.1 | -2.2 | -10.4 |
| Rest of the World | 0.4 | -0.4 | -0.4 | -0.9 | -0.9 |
| World | -0.1 | 0.2 | -0.7 | -0.6 | -0.1 |

Note: * ASEAN-9 refers to the ASEAN countries, excluding Myanmar, ** excluding electricity, gas and water
Source: GTAP, ITC, WITS, CEPII and Krungsri Research

Unit: % deviation from baseline

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# *Scenario 2: By sector,* most countries, led by the US, would see broader and larger *declines* in exports; Thailand to see a shift from gains to losses/weaknesses in most sectors

**The US would experience a significantly larger negative impact across sectors,** particularly in Electronics & Electrical Equipment (-39.4%) and Textiles, Leather & Footwear (-31.4%). **However, the impact on China would be similar to Scenario 1**, with larger positive gains as well as losses. Meanwhile, **Thailand would see shifts from gains to losses in some sectors**, such as Electronics & Electrical Equipment (+9.2% to -0.7%) and Textiles, Leather & Footwear (+3.4% to -2%). **Some sectors might see deeper losses**, including Rubber & Plastics (-0.3% to -3.3%). **Conversely, the negative impact might be less on some sectors** such as Agriculture (-2% to -0.7%) and Motor Vehicles (-0.7% to +2.6%). Other ASEAN nations, such as Vietnam, also show mixed results, with some sectors facing greater losses or smaller gains, such as Textiles, Leather, and Footwear (from +15.5% to +2.8%).

| | Motor Vehicles & Transport Equipment | Coke & Refined Petroleum | Chemicals & Pharmaceuticals | Agriculture | Electronics & Electrical Equipment |
|---|---|---|---|---|---|
| Thailand | 2.6 | 0.9 | 0.1 | -0.7 | -0.7 |
| Vietnam | 0.5 | 0.6 | -0.8 | -3.3 | -0.4 |
| ASEAN-9* | 2.6 | 1.2 | -1.0 | -2.2 | -1.1 |
| United States | -25.2 | -21.9 | -23.8 | -14.0 | -39.4 |
| China | -0.6 | 4.5 | 0.6 | -0.1 | -10.3 |
| European Union | -0.3 | 2.0 | -1.5 | -0.2 | -1.4 |
| Mexico | -14.2 | -4.0 | 1.7 | -10.5 | 9.3 |
| Rest of the World | -4.9 | 1.1 | -2.2 | -2.7 | -1.2 |
| World | -5.6 | -2.1 | -4.2 | -4.1 | -5.6 |

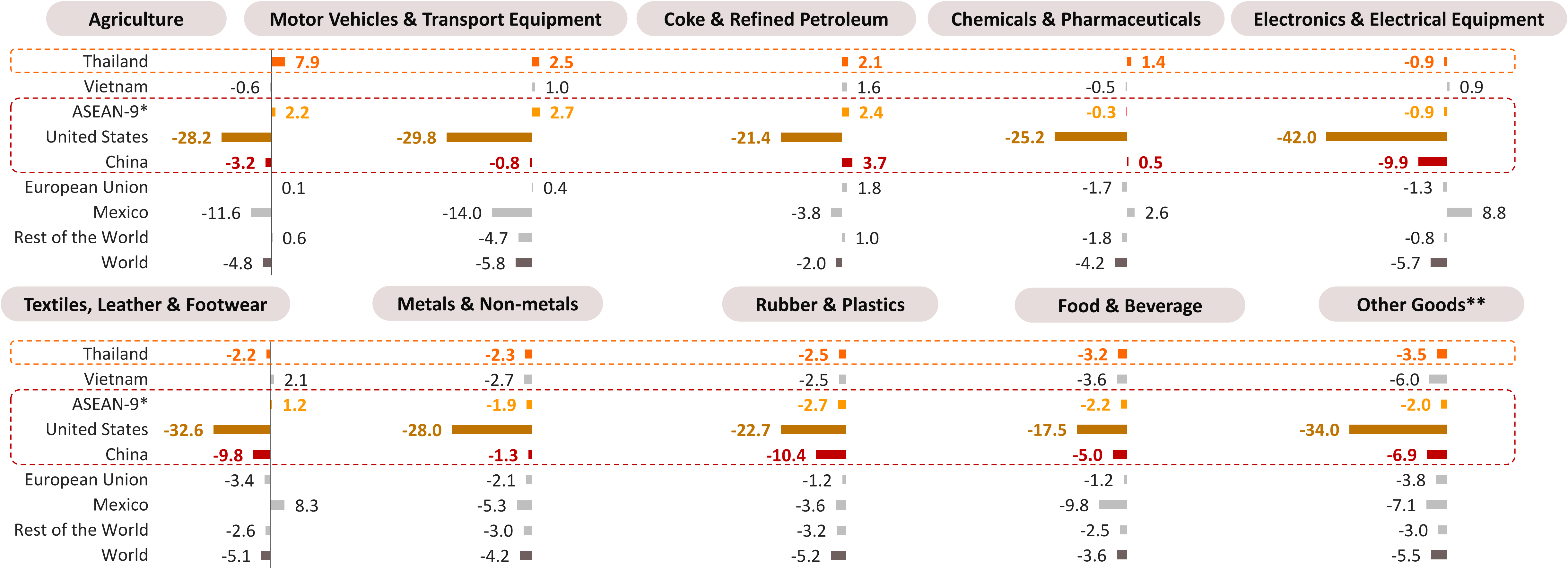
| | Food & Beverage | Textiles, Leather & Footwear | Metals & Non-metals | Other Goods** | Rubber & Plastics |
|---|---|---|---|---|---|
| Thailand | -1.9 | -2.0 | -2.1 | -3.2 | -3.3 |
| Vietnam | -3.4 | 2.8 | -2.7 | -6.0 | -3.1 |
| ASEAN-9* | -2.1 | 0.9 | -1.9 | -2.9 | -3.2 |
| United States | -16.0 | -31.4 | -26.5 | -33.6 | -21.3 |
| China | -3.9 | -9.3 | -1.1 | -6.4 | -10.2 |
| European Union | -1.2 | -3.5 | -2.1 | -3.6 | -1.3 |
| Mexico | -9.8 | 8.3 | -5.3 | -7.4 | -3.6 |
| Rest of the World | -2.4 | -2.3 | -3.0 | -3.8 | -3.3 |
| World | -3.4 | -4.9 | -4.0 | -5.5 | -5.2 |

Note: * ASEAN-9 refers to the ASEAN countries, excluding Myanmar, ** excluding electricity, gas and water
Source: GTAP, ITC, WITS, CEPII and Krungsri Research

Unit: % deviation from baseline

# *Scenario 3: By sector,* negative impacts would worsen for US and China, and Thailand and ASEAN would see smaller export gains from the trade war if both sides retaliate

**Both sides in the dispute would suffer greater losses than Scenario 2.** The US would see severe and across-the-board declines in exports, particularly in Electronics & Electrical Equipment (-42%), Textiles, Leather & Footwear (-32.6%), and Motor Vehicles (-29.8%), due to their deep ties to global supply chains, especially with China. China would also see losses across most sectors but the impact would be less severe than for the US, except in Coke & Refined Petroleum and Chemicals & Pharmaceuticals. **Thailand would benefit the most in Agriculture (+7.9%), Motor Vehicles (+2.5%), and Coke & Refined Petroleum (+2.1%).** The overall impact on ASEAN would be similar to Scenario 2. However, there could be excessive optimism over Thailand's and ASEAN's gains from the trade war, especially if both sides retaliate.




Note: * ASEAN-9 refers to the ASEAN countries, excluding Myanmar, ** excluding electricity, gas and water
Source: GTAP, ITC, WITS, CEPII and Krungsri Research

Unit: % deviation from baseline

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