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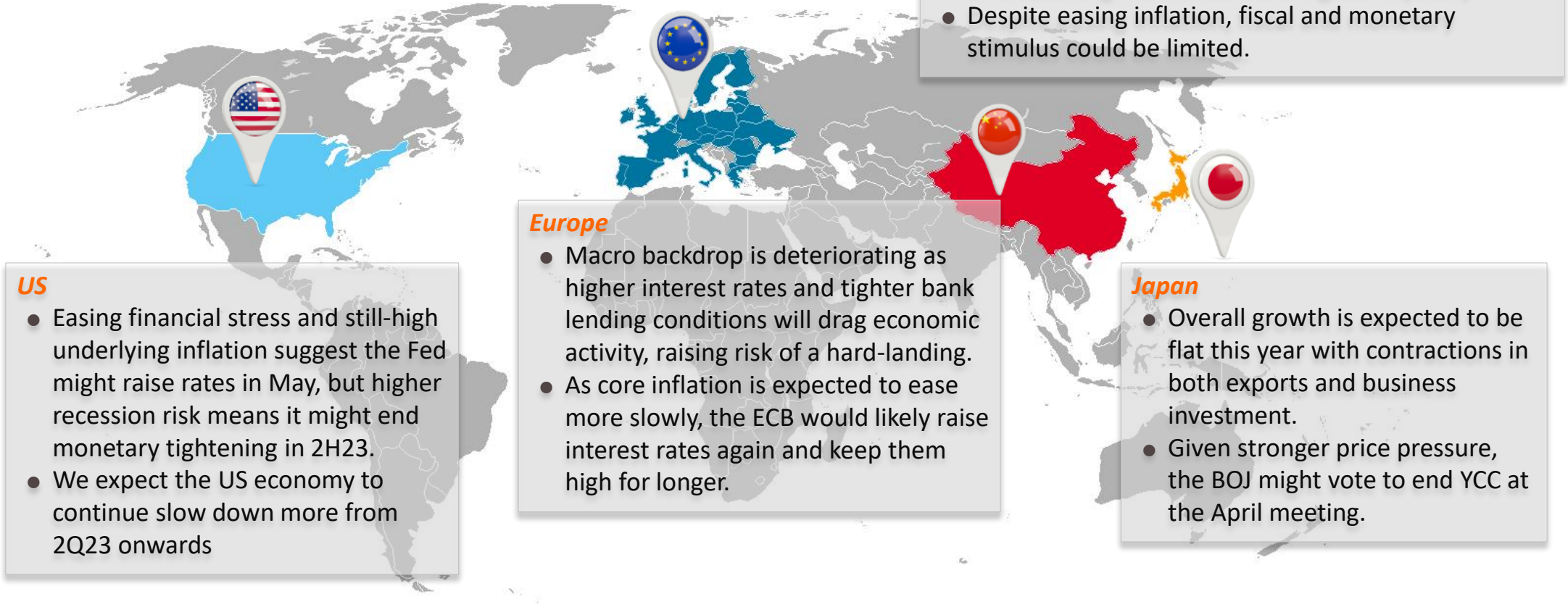
MONTHLY ECONOMIC BULLETIN

April 2023



Krungsri Research

Global: From banking turmoil to recession risk



China

- Reopening effects have supported economic activity, especially in the services sector, but there are signs of weakening momentum and tighter liquidity.
- Despite easing inflation, fiscal and monetary stimulus could be limited.

Europe

- Macro backdrop is deteriorating as higher interest rates and tighter bank lending conditions will drag economic activity, raising risk of a hard-landing.
- As core inflation is expected to ease more slowly, the ECB would likely raise interest rates again and keep them high for longer.

US

- Easing financial stress and still-high underlying inflation suggest the Fed might raise rates in May, but higher recession risk means it might end monetary tightening in 2H23.
- We expect the US economy to continue slow down more from 2Q23 onwards

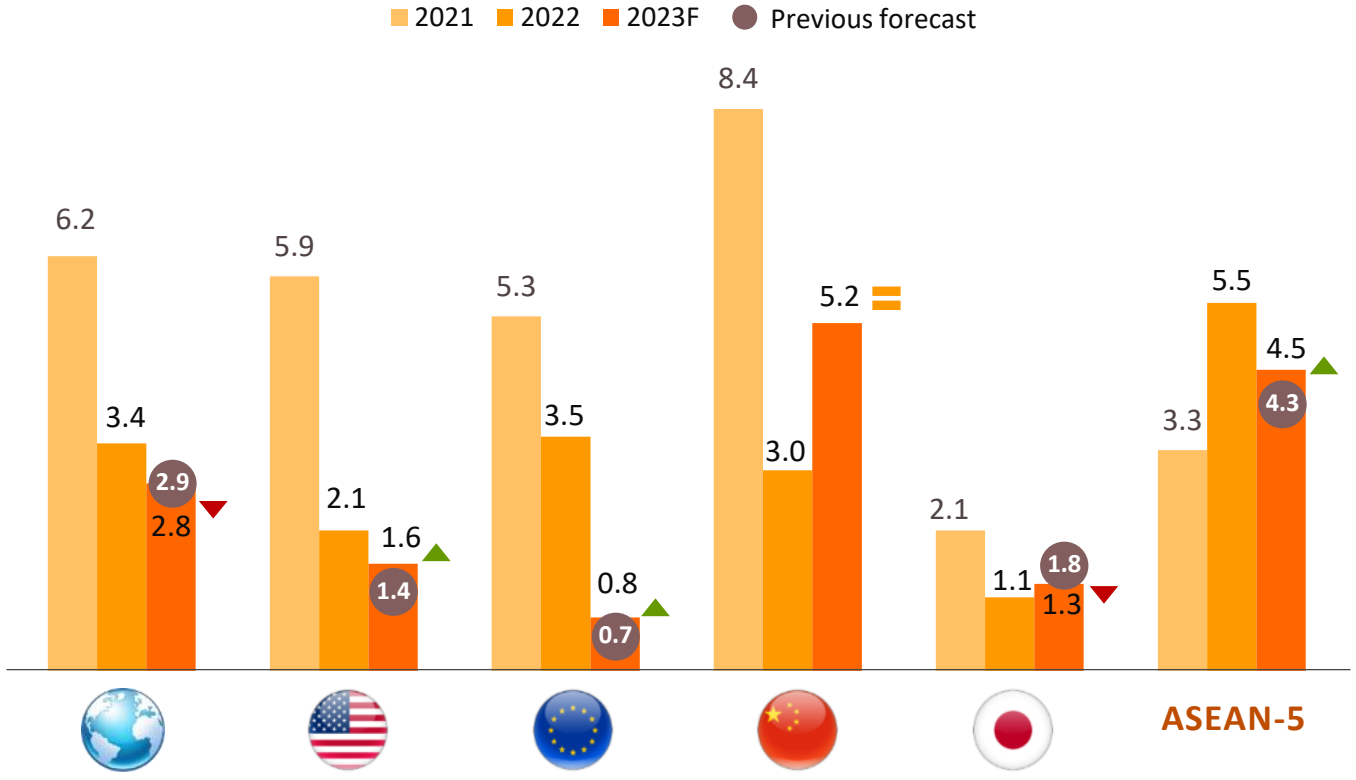
Japan

- Overall growth is expected to be flat this year with contractions in both exports and business investment.
- Given stronger price pressure, the BOJ might vote to end YCC at the April meeting.

IMF sees smaller chance of a soft landing for the global economy given stubbornly-high inflation and the recent financial sector turmoil

The IMF and the WTO project global growth and trade would fall below trend this year. The IMF said the global economic outlook is uncertain again following the financial sector turmoil, high inflation, and the impact of the ongoing Russia-Ukraine war and three years of pandemic controls. **The IMF has trimmed 2023 global economic growth forecast from 2.9% to 2.8%, slower than 3.4% in 2022 and averaging only 3% over the next 5 years compared to 3.8% over the past 2 decades.** The IMF views that **significant tightening in the financial sector could bring down 2023 global growth to 2.5%, or even down to 1% if it is severe.** The IMF also expects geopolitical tensions, especially the US-China conflict over access to technology, would cut long-term global GDP by 2%. Likewise, given the extended conflict in Ukraine, stubbornly-high inflation, and tighter monetary policies worldwide, **the WTO forecasts global trade would grow by only 1.7% this year vs 2.7% last year and 2.6% average for the past 12 years.**

Economic growth projections for global and major economies (%)

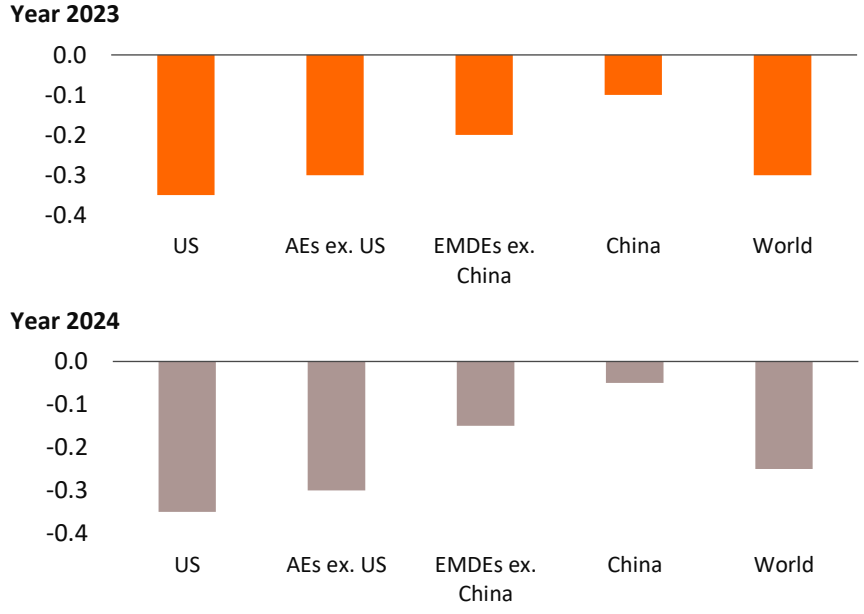


Source: IMF (World Economic Outlook, April 2023), Krungsri Research

Real GDP in plausible alternative scenario in 2023-24

(% deviation from baseline)

Moderate tightening in financial conditions could reduce world output by 0.3% in 2023, implying 2.5% real growth instead of 2.8% in the baseline forecast - the weakest since the global slowdown in 2001 (excluding COVID-19 period).

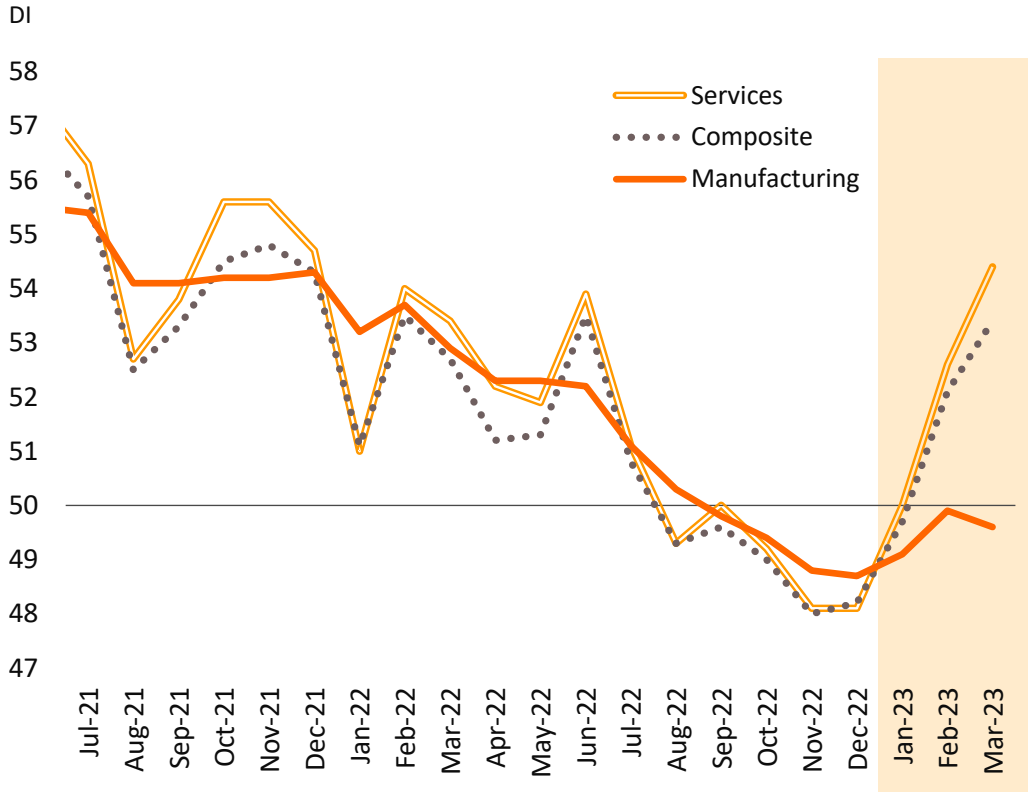


Note: AEs ex. US = advanced economies excluding US
EMDEs ex. China = emerging market and developing economies excluding China

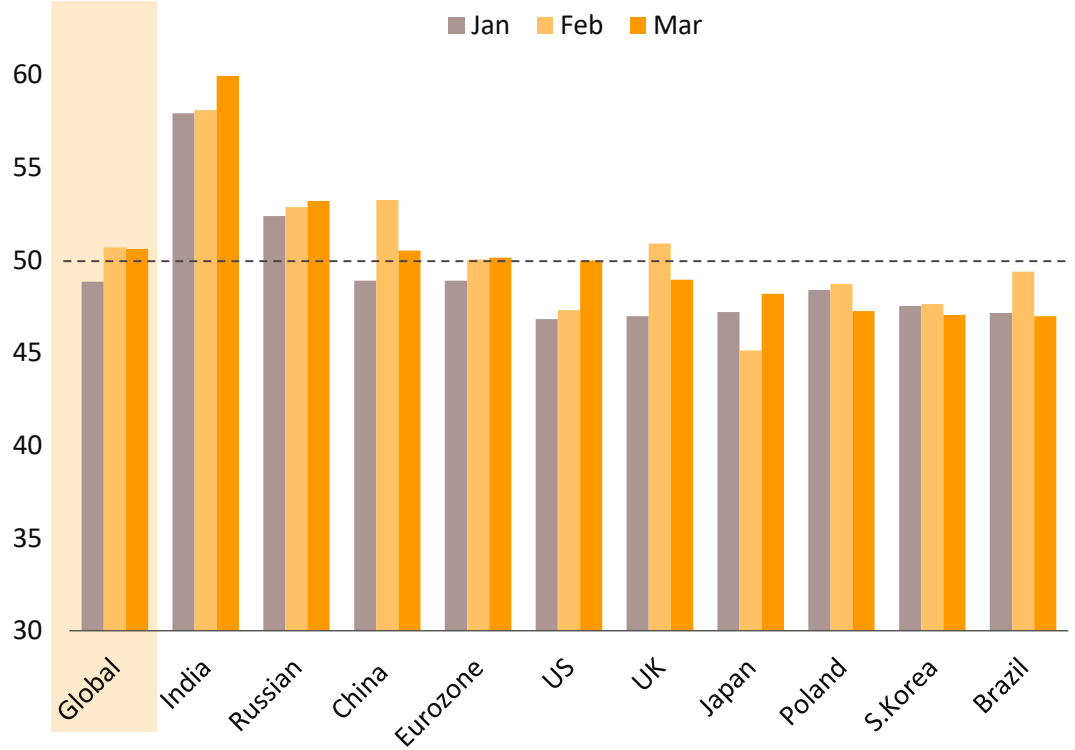
Global economic activity improved in 1Q23 driven by services sector since China reopening and improving weather, but manufacturing activity contracted

The global services sector as well as those in many countries continued to benefit from the China reopening, but world trade is slowing and the WTO and IMF predict weaker global growth in 2023. Latest data also indicate manufacturing activity is softening. In March, the Manufacturing PMI remained in contraction zone in the US and it contracted for the 11th straight month to a 4-month low in Eurozone. In Asia, Japan's Manufacturing PMI contracted for the 5th month and the Chinese Caixin Manufacturing PMI fell to 50, indicating zero growth.

Global PMI



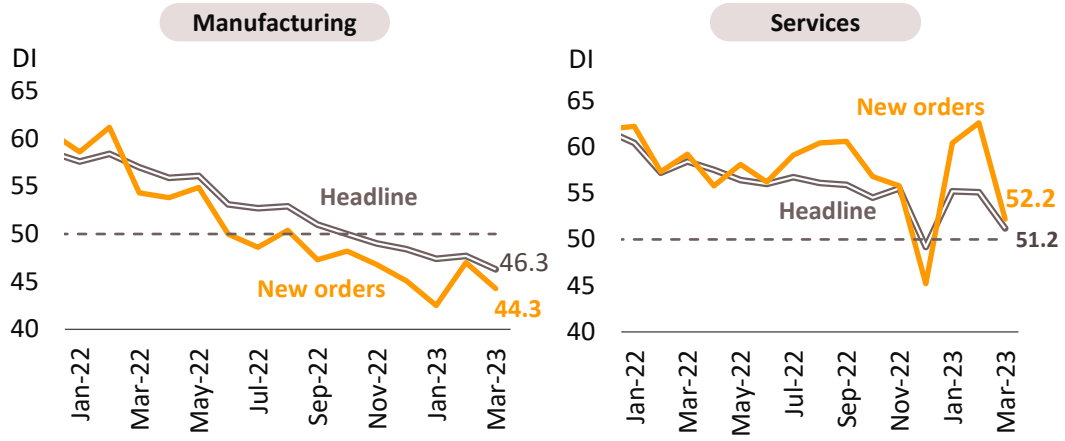
Manufacturing PMI: Output



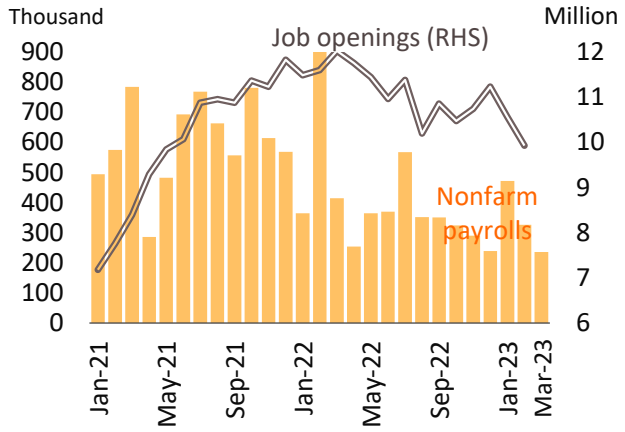
Source: S&P Global, Capital Economics, Bloomberg, Krungsri Research

US: Easing financial stress and still-high underlying inflation suggest the Fed might hike rates in May but higher recession risk could prompt end to monetary tightening in 2H23

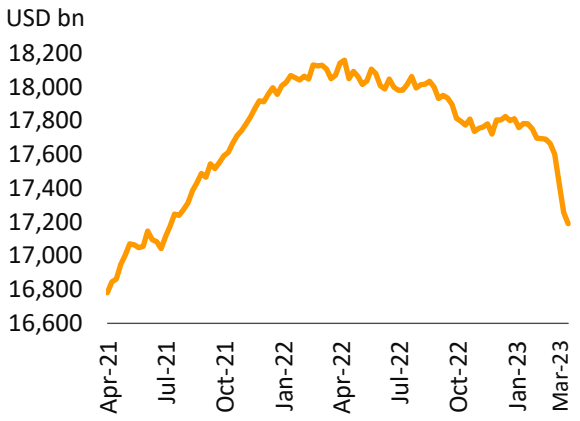
ISM Manufacturing and Services PMI



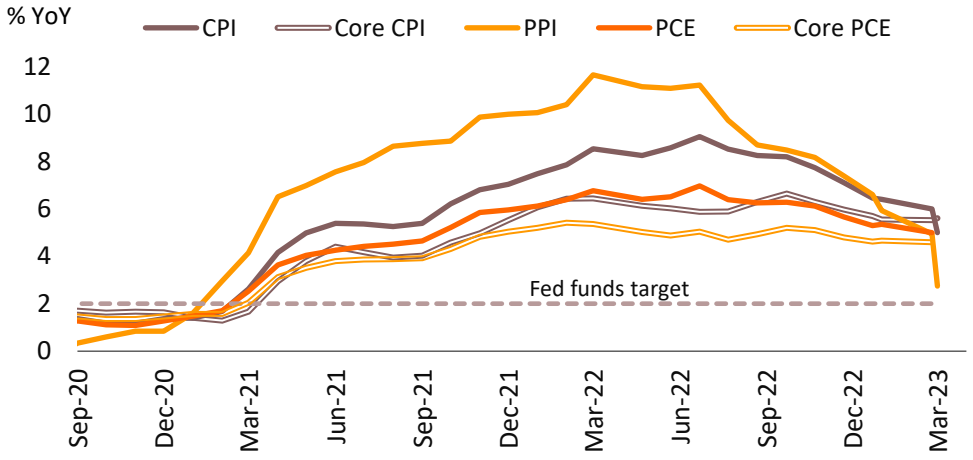
Non-farm payrolls and job openings



Bank deposits



Inflation: CPI, Core CPI, PPI, PCE, and Core PCE

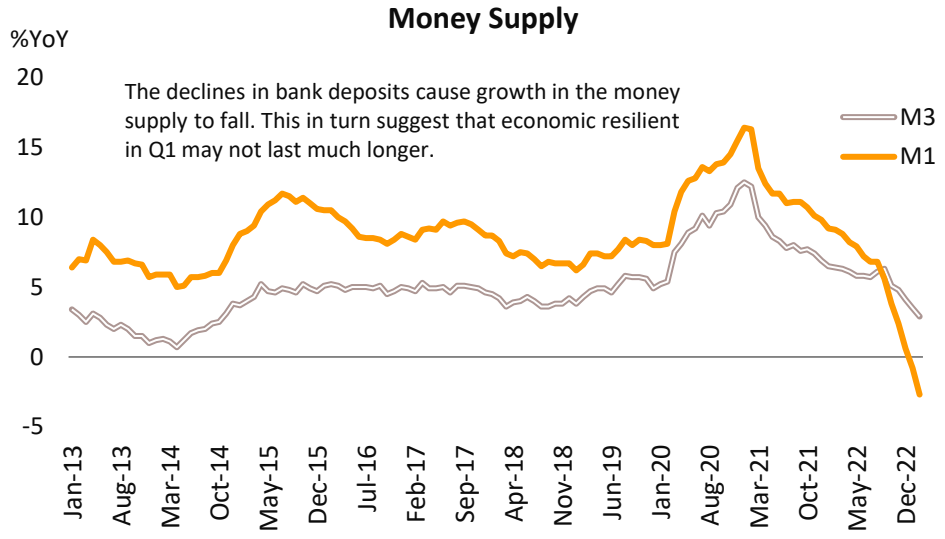


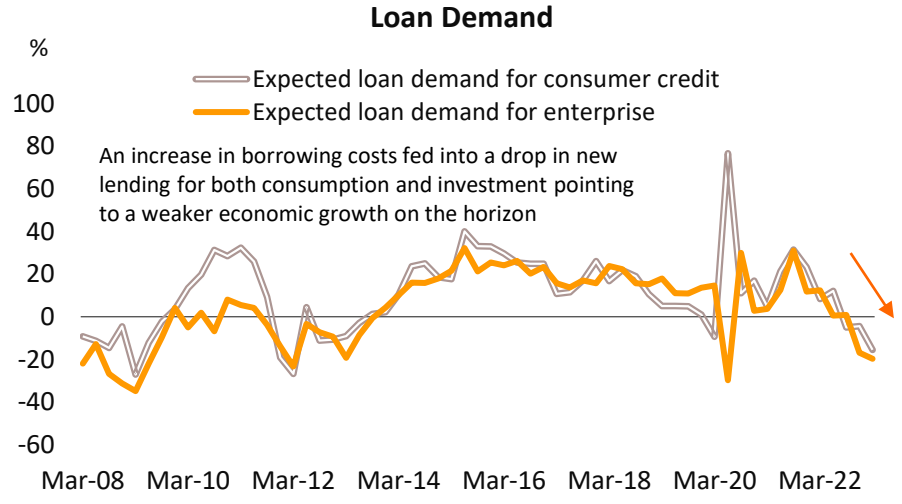
Source: Institute for Supply Management (ISM), Bureau of Labor Statistics (BLS), CEIC, Bloomberg, Krungsri Research

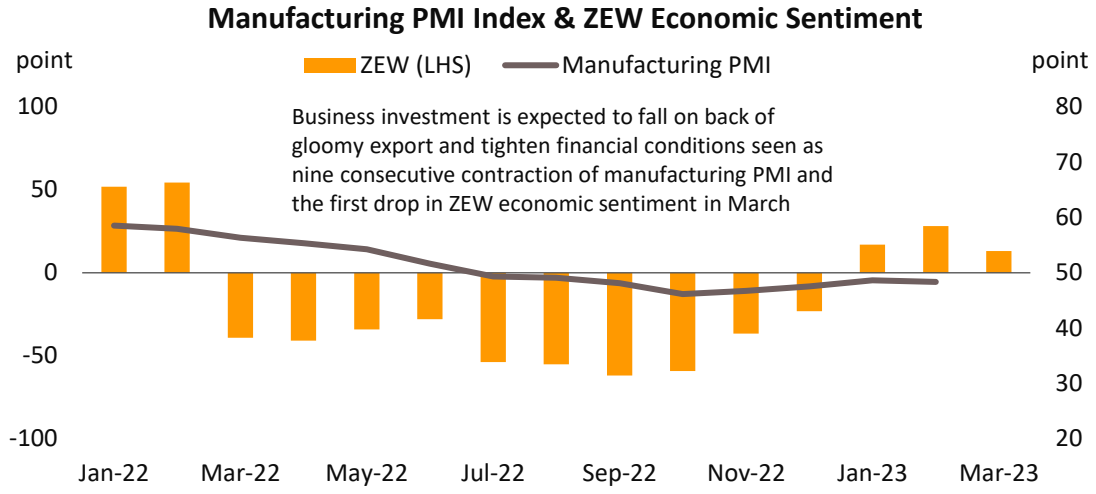
Krungsri Research's view

- **Given easing fears of a banking crisis, lower jobless rate (3.5% in March), and still-high core inflation (5.6%), the US Fed is expected to raise the Fed Funds rate once more at its 2-3 May meeting.**
- **However, risk to US economic growth is tilted to the downside, suggesting the Fed might halt the rate upcycle in 2H23.** The combined effects of rapid rate hikes, tighter credit standards, and tightening financial conditions, are emerging in economic data:
  - **Manufacturing activity hit a 3-year low in March** and contracted for the fifth straight month with a drop in new orders. **Services activity slowed more than expected** with a sharp drop in ISM Non-Manufacturing PMI and new business orders. **Retail sales contracted further** (-1.0% MoM in March vs -0.4% expectation and -0.2% in February) as consumers cut back on big-ticket items amid high inflation and rising interest rates.
  - **March jobs openings posted the weakest in almost 2 years** and non-farm payrolls rose at the slowest pace since December 2020. Despite a dip in unemployment rate, average hourly earnings rose just 0.3% MoM and 4.2% YoY, the mildest increment since June 2021.
  - **Headline inflation** eased to almost 2-year low at 5% YoY in March from 6% in February, and **Services sector inflation** rose at the slowest pace in nearly a year. **Producer Price Index (PPI)** rose at the smallest rate since January 2021, at 2.7% vs 4.9% in February.
  - **The FOMC minutes** said *"recent developments in the banking sector were likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation."* There is uncertainty in both magnitude and timing.
- **We expect the economy to continue to slow down more, especially from 2Q23. There is greater uncertainty about rate cuts in 2H23 because they will depend on the severity of the economic slowdown and inflation trends.**

Europe: Macro backdrop is deteriorating as higher interest rates and tighter bank lending conditions will drag economic activities, raising fears of a hard-landing







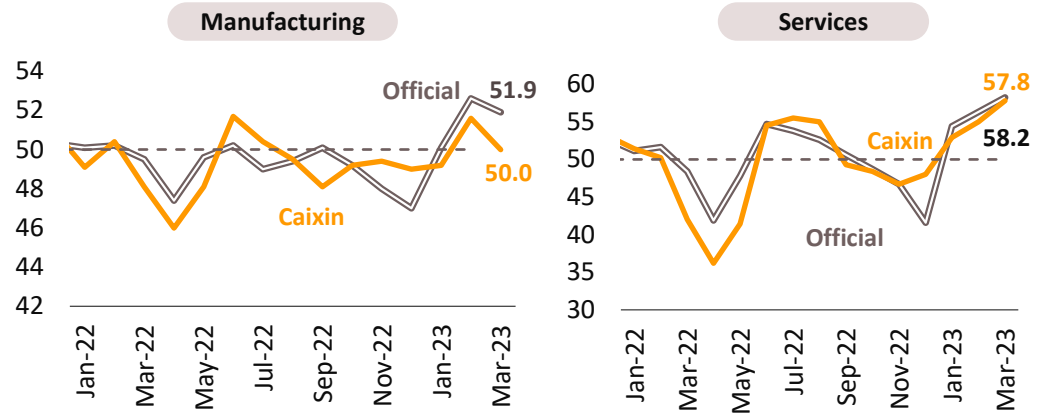
Source: ECB, CEIC, Eurostat, Bloomberg, Krungsri Research

Krungsri Research's view

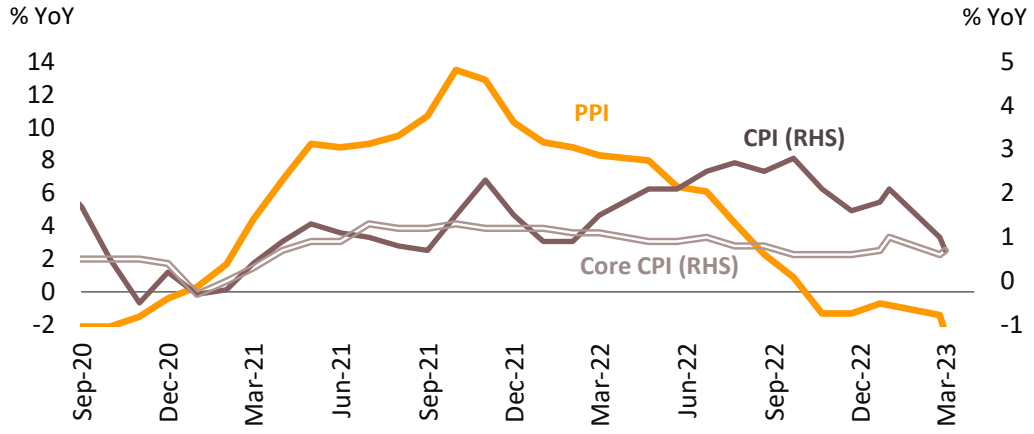
- **Money and credit data were weaker in February.** There was a drop in demand for consumer and business loans, and bank deposits fell for the second consecutive month - caused by rising interest rate and stress in banking sector. Expectations of tighter financial conditions are **consistent with projection of weak eurozone economic growth in the second-half of this year.**
- **The contraction in bank deposits caused money supply growth to fall.** In February, narrow money (M1), which represents ready cash, dropped by 2.7% YoY, the weakest since the series started in 1981. Growth in broad money (M3), which covers financial instruments, was also the weakest since October 2014. **This suggests the economic resilience visible in Q1 might not last much longer**.
- **Given still-high interest rates and inflation, household consumption would decline further due to** falling real disposable income along with low consumer confidence. Also, business investment is expected to fall further premised on gloomy exports outlook and tighter financial conditions; Manufacturing PMI has contracted for the ninth consecutive month and the ZEW economic sentiment index dropped for the first time in March after rising for five consecutive months.
- Headline inflation is expected to drop sharply given lower energy and food prices year-on-year, but **core inflation is expected to ease more slowly as the still-strong labor market conditions cold prompt the ECB to hike interest rates further and keep them high for longer - expected at 4.0% by year-end** as its priority is to control inflation and ensure price stability, despite recession risks. However, given higher risks in the financial sector, the ECB might be convinced to halt Quantitative Tightening (QT) sooner than expected, to address liquidity problem and prevent a wider financial system fallout.

China: Reopening effects have supported economic activity especially in the services sector, but there are signs of weakening momentum and tighter liquidity

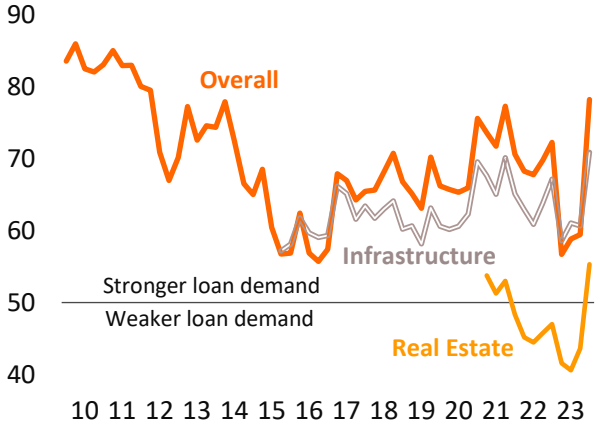
Manufacturing and Services PMI



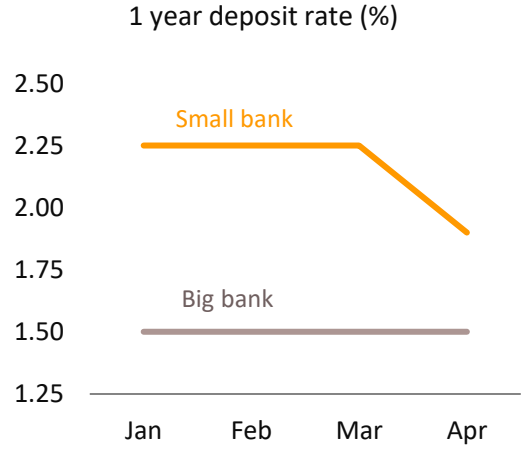
Inflation: CPI, Core CPI, PPI and Core PPI



PBOC Banking Survey on Loan Demand (diffusion indices)



Deposit rates at big and small banks



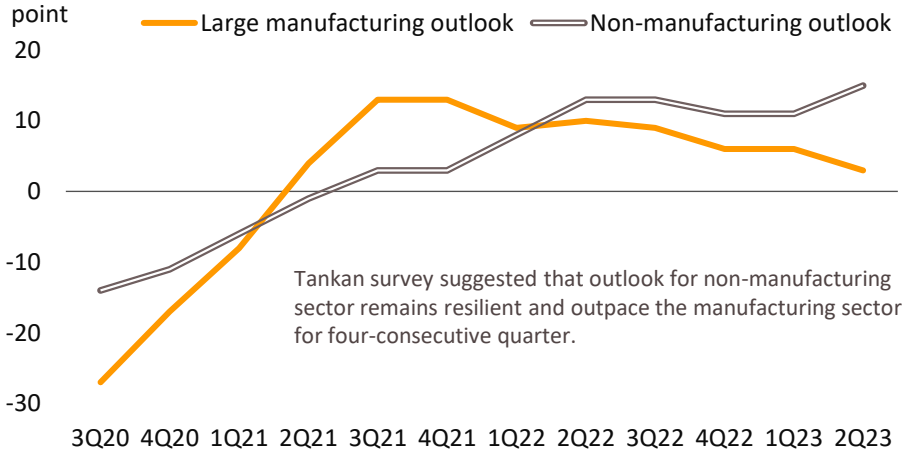
Source: National Bureau of Statistics, Markit Economics, Capital Economics, CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

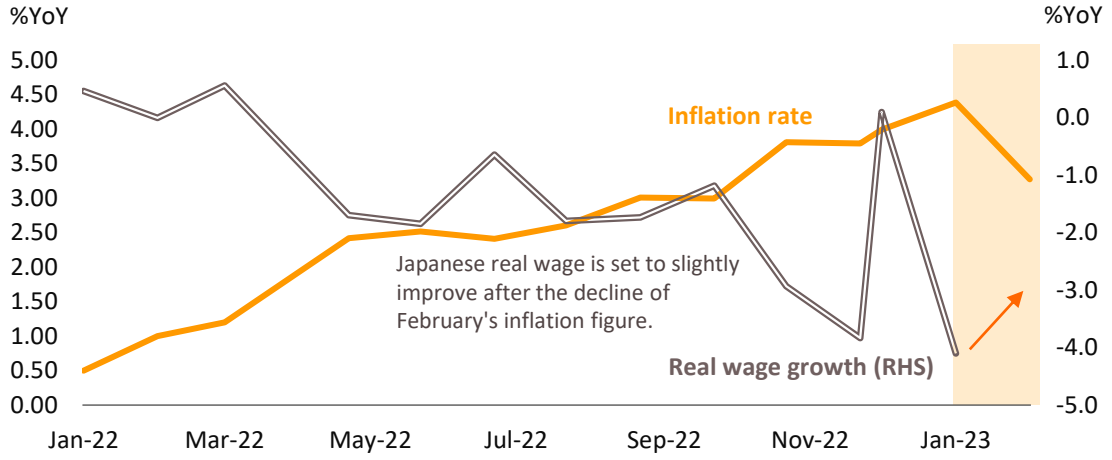
- **Economic activity has been improving since China's reopening, the end of strict Covid controls, measures to boost consumption, stimulus measures to support construction activity, and signs of an end to the tech crackdown.**
  - **The official Services PMI continued to rise** in March. With easing supply disruption, exports grew unexpectedly by 14.8% YoY, snapping 5 straight months of decline. **Retail sales** rose 3.5% YoY over January and February, and fixed asset investment growth beat market forecasts at 5.5%. To boost **tourism**, China has started to issue tourist visas again since 15 March. Data from the WTTC shows that in 2019, 11.6% of GDP came from travel and tourism activities.
  - **The crackdown on tech companies that began in late 2020 could end soon.** E-commerce giant Alibaba is conducting a major reorganization to strengthen its competitiveness and increase shareholder value. Its founder Jack Ma has returned to China.
  - **The World Bank has revised up 2023 economic growth projection for China** from 4.6% predicted last October to 5.1%, higher than the official target of 5.0%. The IMF projects 2023 growth at 5.2%.
- **However, China recovery could lose momentum premised on the following: (i) a weaker global economy** will dampen manufacturing activity. Caixin Manufacturing PMI fell to 50 in March, indicating zero growth. **(ii) Low inflation** reflects weak domestic demand and pent-up demand could fade in the coming months. **(iii)** Despite easing inflation, **fiscal and monetary stimulus could be limited** given high levels of local government debts and concerns over financial stability. Recently, to ease liquidity stress, the PBOC reduced RRR and small banks had cut deposit rates following weaker performance. **(iv) The still-troubled real estate sector** could affect overall investment with real estate investment contracting by 5.7% and weak loan demand. **(v) US technology restrictions on Chinese companies will hurt** China's economic growth.

Japan: Despite improving domestic spending, overall growth is expected to be flat this year premised on weak exports and business investment

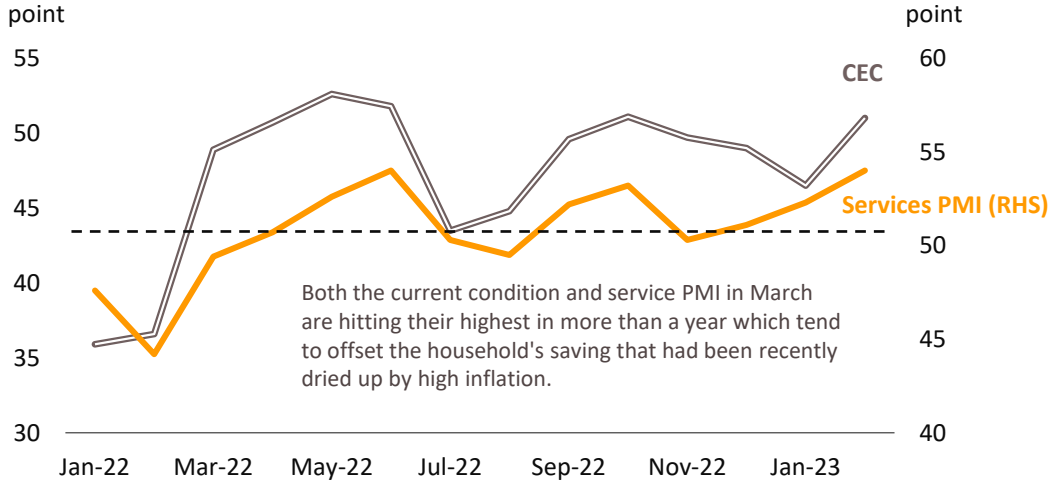
Japan's Tankan Manufacturing Outlook & Non-Manufacturing Outlook



Japan's Real Wage Growth vs Inflation Rate



Japan's Current Economic Condition & Service PMI



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

Krungsri Research's view

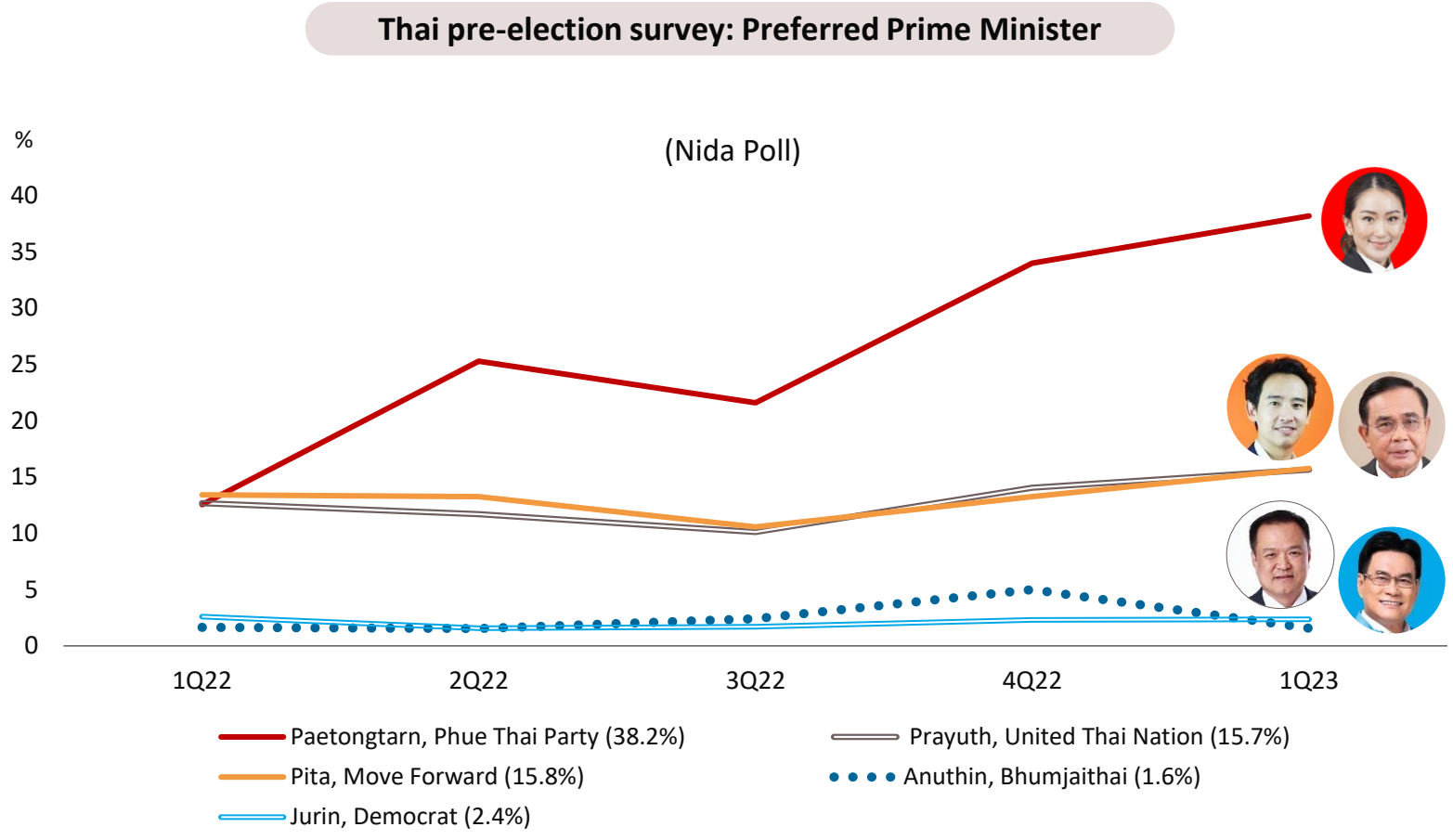
- In Q2, thanks to reopening tailwinds especially in the travel industry, the Tankan survey suggested the non-manufacturing sector remained resilient, rising 15 points (vs +11 points in Q1). It outpaced Manufacturing sector growth which dropped to +3 points (vs +6 points in Q1) for the fourth consecutive quarter. **Given that both exports and business investment are expected to drop again in the second half of this year, GDP growth would be flat this year**. In April, the IMF revised down its 2023 economic growth projection for Japan by 0.5 percentage point to +1.3%.
- **Real wage is projected to improve slightly given that inflation fell in February (annual headline CPI: 3.3% vs 4.3% in January),** the lowest since last September. And, it is expected to keep falling to 2% in the second half of this year, which would support domestic consumption. The indices for Current Economic Conditions and Services PMI hit 1-year highs in March and offset household savings which had shrunk due to high inflation. **Meanwhile, the recent surge in oil prices - after OPEC cut supply - does not change our inflation outlook as higher recession risk would dampen global oil demand**.
- **Kazuo Ueda, the current Bank of Japan (BOJ) governor, noted in his inaugural press conference that more time is needed to see if wage growth would be sustainable at a level where it will support long-term inflation at or above the 2% target**. Given smaller chance of loosening policy because of stronger price pressure and risk of another speculative attack on the yield target, **the BOJ might vote to end yield curve control (YCC) at its April meeting and start to implement that in the second half of the year.**

2023 Thai Election: Uncertainty over next government and direction of economic policies

- The polls show PM Prayut is far less popular than the Pheu Thai Party (PTP) candidate. They suggest the core opposition party is likely to return to be part of the next government and no single party would get a landslide victory. So, there would be a coalition government.
- Based on polls, parliamentary seat predictions also suggest conservative parties have little chance to win the election and PTP is likely to get the most seats to form the next government. The list of parties who would join PTP would determine whether there will continue to be deep conflicts in the next government or a chance for reconciliation.
- There is a chance PTP might get a landslide victory or conservative parties might secure sufficient votes to form the next government. However, we see little chance of that happening and if it does, there would continue to be socio-political conflicts.
- On policy direction, most of the political parties are focusing on policies to boost spending (e.g., cash aid, wage hikes, and debt moratorium), raising concern over Thailand's fiscal position. Policies to boost investment include infrastructure development projects, digital economy, new business zones, and measures to support SMEs and tourism, but there are scarce details on budgets and projects.
- We expect domestic spending to improve, like after the past elections. However, the direction of public spending would depend on how quickly the next government is formed. In the 2023 election, the next government is expected to be formed in August. That is less than two months before the 2024 fiscal year (1 October 2023), which implies possible delays in implementing the FY2024 budget bill.

Polls show PM Prayut is less popular than Pheu Thai Party candidate

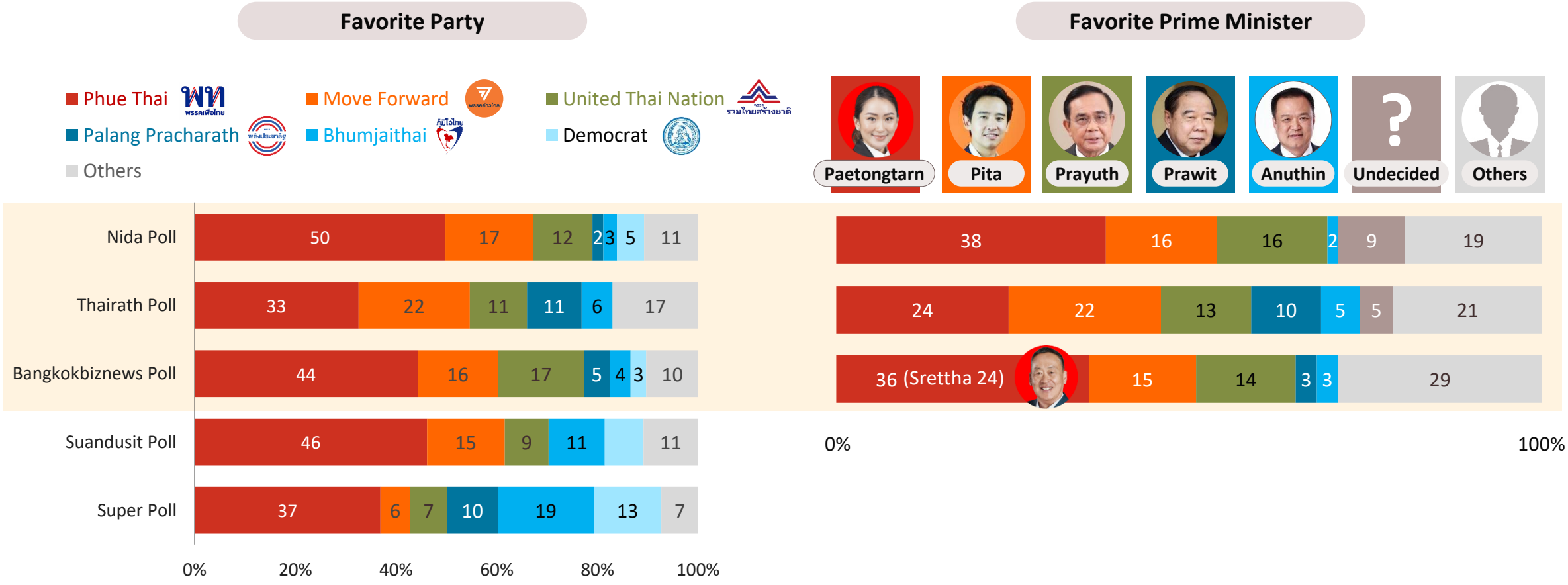
In the 1Q23 Nida poll, Prime Minister Prayuth Chan-Ocha's secured only 15.7% of votes. Despite improving from 14.1% in 4Q22, he is still in 3rd place, behind first place holder Paetongtarn Chinawatra (Pheu Thai Party) with 38.2% of votes and Pita Limjareonrat (Move Forward Party) with 15.8%. This suggests low probability of Prayuth Chan-Ocha returning a Prime Minister for another term.



Source: NIDA Poll (Survey during 2-8 March)

Polls suggest core opposition party is likely to return to be part of the next government and there would be a coalition government

Opinion polls show most voters expect the liberal democratic parties such as Pheu Thai and Move Forward to win the election rather than the conservative parties, Palang Pracharath, United Thai Nation, Bhumjaithai, and Democrat. Likewise, the favorite Prime Minister (PM) candidates are from Pheu Thai Party (PTP), followed by Move Forward Party (MFP). Nevertheless, no single party would secure majority seats and there would be a coalition government.



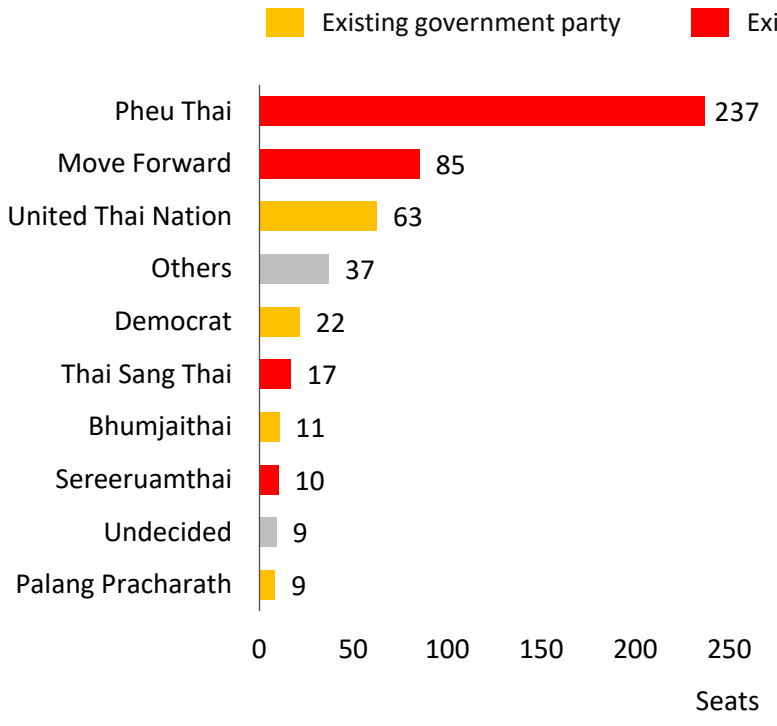
Source: Local Press, Krungsri Research

NIDA and Thairath polls predict major opposition parties would win majority seats in the Lower House

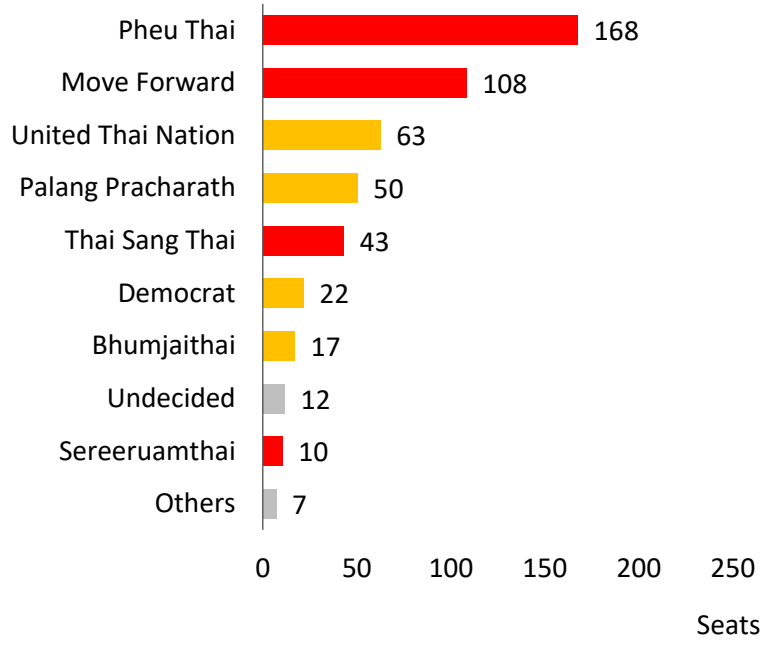
The prediction is based on 500 seats in the House of Representatives (400 seats for single-member constituencies, and 100 seats party-list MPs). They suggest the major opposition parties, including Pheu Thai, Move Forward, and Sereeruamthai, are likely to win a total of 309 seats in the Lower House, beating the rival camp that includes Palang Pracharath, United Thai Nation, Bhumjaithai, Democrat, and Thai Sang Thai which are expected to get a total of 158 seats. However, the polls are based solely on public opinion as of March 23, and actual results could be very different.

Seat predictions in Lower House

NIDA Poll

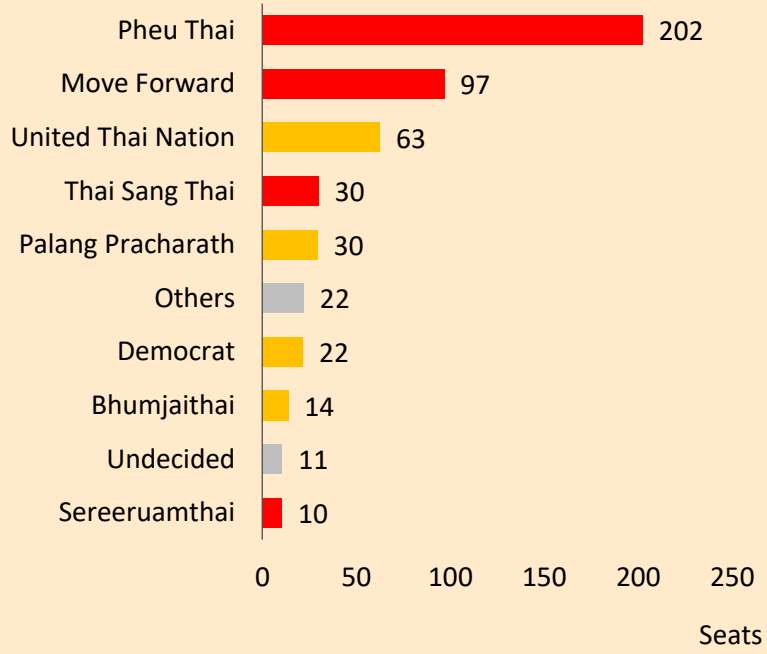


Thairath Poll



Average

Seats calculation used for our scenario analysis.



Source: Local Press, Krungsri Research

Based on polls, conservative parties have little chance of winning the election and Pheu Thai is likely to get the most seats, which could change Thailand's political direction

We summarize four scenarios for Thailand's election results based on the assumption that the 250 senators would support the core parties who win majority seats in the Lower House (at least 250 seats) to form the next government. The 2023 election contest will be between two rival camps – conservative political parties and current opposition parties. Pheu Thai Party (PTP) is likely to get the most seats and to form the next government. The list of parties who will form the coalition government with PTP will determine whether there would still be deep conflicts or a chance for a reconciliation.

*Formular #1: PTP and MFP form next government

Medium probability due to conflicting polices between PTP and MFP on Article 112 (social conflict remains)

New government (seats: 326)		New opposition		
PTP: 202 seats	Others + Undecided vote : 16 seats	UNTP: 63 seats	PPRP: 30 seats	Others + Undecided vote : 16 seats
TLP: 10 seats	MFP: 97 seats	Democrat Party: 22 seats	BJTP: 14 seats	TSTP: 30 seats

Scenarios for the formation of the next coalition government

- **PTP and allied parties win the election with 326 total seats** in the Lower House, beating the conservative parties which which would secure 150 seats.
- **MFP would join PTP** to form the next government.
- **Senators would support the core parties** who win majority seats in Lower House (at least 250 seats) to form the next government.
- **Next prime minister (PM):**



*Formular #2: PTP, PPRP and BJTP form next government

Medium probability (chance for reconciliation)

New government (seats: 258)		New opposition		
202 seats	Others + Undecided vote : 16 seats	63 seats	97 seats	Others + Undecided vote : 16 seats
14 seats	30 seats	22 seats	10 seats	TSTP: 30 seats

Scenarios for the formation of the next coalition government

- **PTP and other opposition parties are unable to form the next government because of conflicting policies or weak support from the Senators**. To win the election, PTP might join hands with Palang Pracharath Party (PPRP) and Bhumjaithai Party (BJTP) to form the next government.
- **MFP plays the role of opposition** as it is against working with PPRP, which it describes as a military political party.
- **Senators would support the core parties** who win majority seats in Lower House (at least 250 seats) to form the next government.
- **Next prime minister (PM):**



Note: * based on polls
Source: Local Press, Krungsri Research

However, if Pheu Thai gets a landslide victory or conservative parties have sufficient votes to form the next government, there will continue to be deep conflicts

****Formular #3: PTP gets more votes than polled and secures a landslide victory**

New government (seats: 310++)	New opposition
PTP gets a seat more than polls	UNTP, PPRP, TSTP, Democrat Party, BJTP, MFP
TLP	

Low to medium probability due to strong competition between PTP, MFP, and TSTP

Scenarios for the formation of government

- **PTP gets a landslide victory (seats: 310++).**
- **MFP and Thai Sang Thai Party (TSTP) play the role of opposition** because of their policies conflict with Pheu Thai's.
- **Senators would support the core parties** who win majority seats in Lower House (at least 250 seats) to form the next government.
- **Next prime minister (PM):**







****Formular #4: UNTP gets votes more than polled and forms the next government**

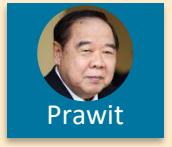
New government (seats: 200++)	New opposition
UNTP gets a seat more than polls	พรรคเพื่อไทย, ก, รวมพลังประชาชาติไทย, พรรคก้าวไกล

Low probability as next government would be weak

Scenarios for the formation of government

- **If PTP is unable to form the next government, several of its MPs might hop to other parties.**
- **The 250 senators might wield their power to recognize conservative parties and their allies as the winners in the election.**
- **The next government would be weak; that suggests** difficulty in implementing new economic policies and there would still be social-political conflicts.
- **Next prime minister (PM):**







Note: ** based on assumptions
Source: Local Press, Krungsri Research

On policy direction, most political parties are focusing on policies to boost spending (e.g., cash aid, wage hikes, and debt moratorium), raising concerns over the national fiscal position

The Thailand Development Research Institute (TDRI) has called on parties to clarify the fiscal and legal feasibility of their policies. The TDRI warned that the announced policies could worsen public debt which stands at 61% of GDP and wholesale debt forgiveness would create a moral hazard. "Although many policies announced by political parties are well-intentioned and aimed at resolving suffering," TDRI wrote in February, "there are still many policies that are likely to cause problems for the country in the long run." TDRI also suggested political parties propose new policies to increase productivity in the manufacturing, business and agricultural sectors, as well as labor market.

Consumption	 Pheu Thai	 Move Forward	 Thai Sang Thai	 Palang Pracharath
Cash in hand	☑ Digital wallet THB10,000 per person, Spend within 6 months (worth THB550 bn)	☑ Welfare: children THB1,200/month, elderly THB3,000/month (worth THB526 bn)	☑ People's pension THB3,000; 5 mn persons	☑ Welfare card: THB700/month vs THB300 currently, increase allowance for elderly, children and pregnant women (worth THB639 bn)
Wage	☑ THB600 daily minimum wage by 2027 ☑ THB25,000 minimum for employees with at least a bachelor's degree	☑ THB450 daily minimum wage, increase every year		
Farmers	☑ 3-Year, debt moratorium ☑ Increase farm income 3 times by 2027			
Others	☑ Raise minimum household income to THB20,000 per month	☑ THB0.70/unit cut in electricity bill ☑ THB5,000 coupon for job training (1 million workers)	☑ Online quick loan, interest 1%/month ☑ Set up a fund to resolve NPL for individual borrowers.	

Consumption	 United Thai Nation	 Democrat	 Bhumjaithai	 ChartpatanaKLA
Cash in hand	☑ Welfare card: THB1,000/month (worth THB310 bn)	☑ Village agricultural volunteers : THB1,000/month		
Wage				
Farmers	☑ Set up fund to support prices of agricultural products	☑ Price guarantee scheme (worth THB144 bn)	☑ Price guarantee scheme	
Others	☑ Co-payment scheme & Travel Together ☑ Adjust Elderly allowance	☑ Elderly club receive THB 30.000/year	☑ 3-year, debt moratorium ☑ Free solar cell roof (worth THB106 bn) ☑ Support to buy EV motorcycles	☑ Reduce personal income tax

Note: (Expected budget for implanting policy estimated by UTCC)
Source: Local Press, TDRI, UTCC, Krungsri Research

Policies to boost investment include infrastructure development, digital economy, new business zones, and measures to support SMEs & tourism, but details are scarce

The TDRI said the consequence of increasing public debt would be a smaller investment budget for Thailand. The money must be used to repay the debt, which will affect the long-term ability to sustain development. This could force the state to secure extra-budgets through state-owned specialized financial institutions (quasi-fiscal measures) which do not require approval from the House of Representatives. This would raise questions about transparency. In addition, they are still scant details on budgets and project feasibility.

Investment	 Pheu Thai	 Move Forward	 Thai Sang Thai	 Palang Pracharath
Digital economy	☑ Thailand is ASEAN's Blockchain Hub and FinTech Center	☑ Focus on Chip industry	☑ To achieve digital economy via digital skill development, investment in innovation, and government support	☑ Mega investment in 5G
Infrastructure	☑ High-speed train China-Thailand-Singapore	☑ Electric buses in every province, Drinkable tap water		
Special Economic Zones	☑ Set up "New Business Zones" to support start-ups and SMEs			
Tourism	☑ Develop medical tourism and healthcare landmarks			☑ Develop community tourism
Others (Green, SMEs, jobs)		☑ Create 1 million jobs	☑ Set up a fund worth THB 300bn to support SMEs	☑ Create a bio-economy

Investment	 United Thai Nation	 Democrat	 Bhumjaithai	 ChartpatanaKLA
Digital economy		☑ 1 million free internet points in every village, every classroom		☑ Create digital economy THB1.75 trn
Infrastructure	☑ Develop modern infrastructure			☑ Motorways throughout Thailand, 4 direction, 2,000 km
Special Economic Zones	☑ Set up Economic Corridors in 4 regions ☑ Upgrade infrastructure in economic corridors			
Tourism			☑ Increase foreign tourists to 80 mn, tourism revenue to THB6 trn by 2027 ☑ Create 10 million jobs	☑ Increase foreign tourist from 40 mn to 70 mn
Others (Green, SMEs, jobs)	☑ Tax breaks for businesses that hire people beyond retirement age	☑ Support funds to create "soft power" ☑ Support SMEs ☑ A local bank to boost the local economy		☑ Creative business capital up to THB1 mn per person ☑ 500,000 jobs for elderly

Source: Local Press, TDRI, Krungsri Research

Other policies are to improve social welfare and education, amend charter, and anti-corruption; the key campaign policies could require a 3 trillion baht budget

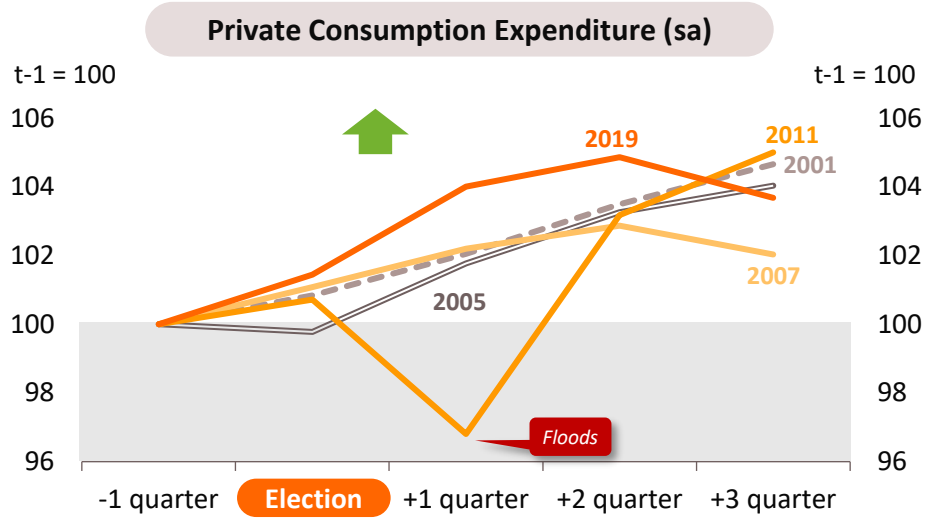
The TDRI analyzed a total of 87 policies promised by 9 parties as of February 20. The policies covered the economy, society, education, health, SME, as well as reforming laws and regulations. It found many policies were targeted at enhancing competitiveness, which are long-term policies with hazy budgets. It also found that **if political parties implement their campaign promises, they would need up 3 trillion baht budget. That means the government would be forced to raise public debt.**

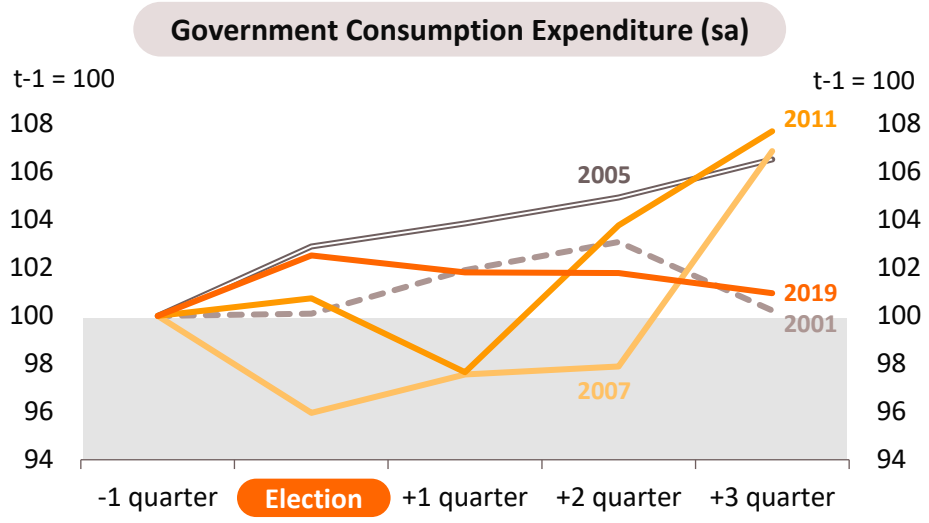
Social & others	 Pheu Thai	 Move Forward	 Thai Sang Thai	 Palang Pracharath
Social	☑ Solve PM2.5	☑ Safe school		☑ Reform bureaucracy to increase business opportunities
Politics	☑ Charter rewrite, anti-coup bill ☑ Prevent corruption	☑ Charter rewrite, anti-coup bill ☑ Election of governors of all provinces ☑ Stop corruption ☑ MFP will not join any coalition that includes military political parties		☑ Cooperation with all political parties
Others	☑ Abolish military conscription	☑ Abolish military conscription ☑ Strengthen antimonopoly laws to spur innovation		☑ Agriculture reform: "Increase revenue, increase innovation, increase choices" and "reduce debt burden, reduce risks, reduce costs

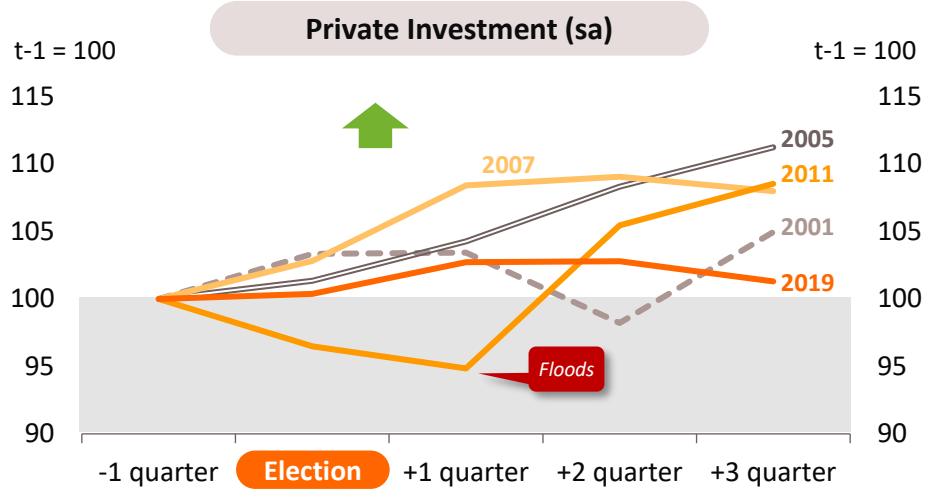
Social & others	 United Thai Nation	 Democrat	 Bhumjaithai	 ChartpatanaKLA
Social	☑ Establish a 24-hour medical system	☑ Free education to undergraduate level	☑ Provide universal healthcare, including free dialysis and cancer screening centers	☑ Create multi-lingual Thai children (3 languages)
Politics				
Others	☑ Amend land laws		☑ Interest-free loans for education	☑ Bureaucratic reform (Gov-Tech) ☑ Cancel credit bureau blacklists

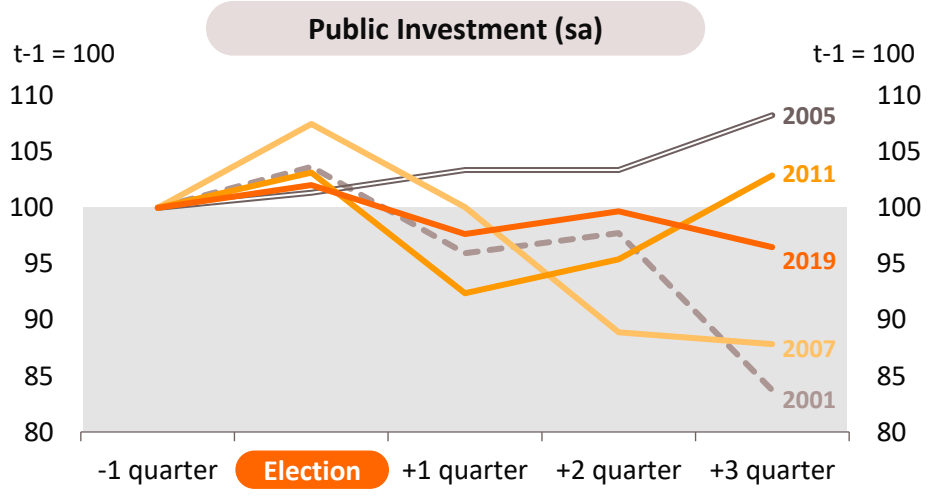
Source: Local Press, TDRI, Krungsri Research

Domestic spending could improve, like after past elections, but direction of public spending would depend on how quickly the next government is formed









Note: 2001, 2005: PM Thaksin, 2007: PM Samak, 2011: PM YingLuck, and 2019: PM Prayuth
Source: NESDC, Krungsri Research

2023 General Election timeline: Expect next government to be formed in August, which means there could be delays in approving and implementing FY2024 budget bill

The general election will be held on May 14, which implies the next government would be formed by August. That is less than two months before the 2024 fiscal year (starting October 1, 2023). So, there is risk of a delay in approving and implementing the FY2024 budget bill. In the 2019 election, the government was formed in early July but the FY2020 budget bill (which should start on October 1, 2019) was delayed by 3-4 months and only approved in January 2020.

Election timeline and budget bill approval: 2023 vs 2019

2023 Election

Mar'23 | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan'24

FY 2024

1. **14 May: General election**
2. **Early Jul:** Election results certified (within 60 days after election)
   End Jul: New parliament sitting and appointment of President of the Parliament (within 15 days after election results are certified)
3. **Early Aug:** New PM is elected
   Aug: New cabinet is appointed
4. ? With less than two months to approve the FY2024 budget bill, which is scheduled start on 1 October 2023, there is **risk of a delay** in approving and implementing the budget

2019 Election

Mar'19 | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan'20

FY 2020

1. **24 Mar: General election**
2. **9 May:** Election results are certified
   24 May: New parliament sitting and appointment of President of the Parliament
3. **5 Jun:** New PM is elected
   10 Jul: New cabinet is appointed
4. In 2019, the new government had more than two months to approve FY2020 budget bill, but it was only implemented in Jan 2020, after **a delay of 3-4 months**.

Source: Local Press, Krungsri Research

Thai economic outlook: Balanced upside and downside risks

- Krungsri Research is keeping 2023F GDP growth projection at +3.3%. This would be led by stronger recovery in the tourism sector and improving domestic spending. But there could be downside risks from weak exports (which could hurt business investment) and uncertainty over the next government after the election (which could delay approval for FY2024 budget bill).
- In the tourism sector, foreign tourist arrivals have recovered to almost 60% of pre-Covid level.
- Private consumption will continue to improve driven by tourism during the long holidays and general election activities in April and May.
- However, exports might weaken due to slow global trade and sluggish manufacturing activity in major countries.
- Private investment has been improving very slowly amid weak exports. 2022 FDI exceeded pre-Covid level, which is a positive sign for medium-term investment.
- Inflation slowed to a 15-month low of 2.8% in March and had returned to the BOT's target range of 1-3% quicker than expected.
- The BOT has normalized monetary policy because of concerns about demand-pull inflation. It is likely to keep policy rate at 1.75% at the MPC meeting on May 31 because of easing upward pressure on interest rates. However, if the MPC's focus is to bring real interest rate back to positive territory based on the BOT's optimistic views on growth and concerns over sticky inflation, it might raise rate by 25bp to 2%.

Krungsri Research Forecasts for 2023

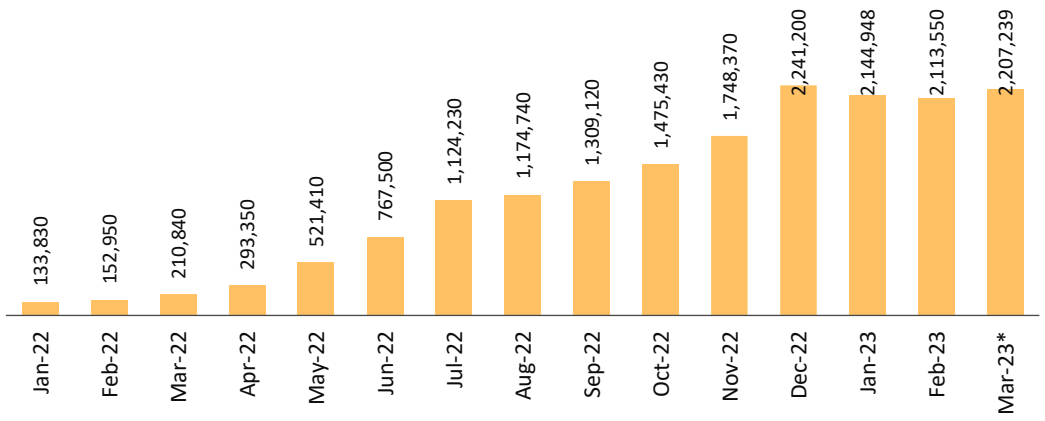
Krungsri Research Forecast		2021	2022	2023F
GDP growth	YoY (%)	1.5	2.6	3.3
Private Consumption Expenditure	YoY (%)	0.6	6.3	3.3
Government Consumption Expenditure	YoY (%)	3.7	-0.04	-1.0
Private Investment	YoY (%)	3.0	5.1	2.7
Public Investment	YoY (%)	3.4	-4.9	1.5
Nominal Exports in USD (f.o.b.)*	YoY (%)	19.2	5.5	0.5
Nominal Imports in USD (f.o.b.)*	YoY (%)	27.7	15.3	1.0
Current Account Balance	USD, bn	-10.6	-16.9	8.0
Tourist Arrivals	Mn, persons	0.4	11.1	25-28
Headline Inflation	YoY (%)	1.2	6.1	2.5
Policy Interest rate (end of period)	(%)	0.50	1.25	1.75
Dubai crude price - period average	USD/bbl	69	96	82

Note: * base on BOT data
Source: NESDC, BOT, MOC, MOTS, Bloomberg, Krungsri Research

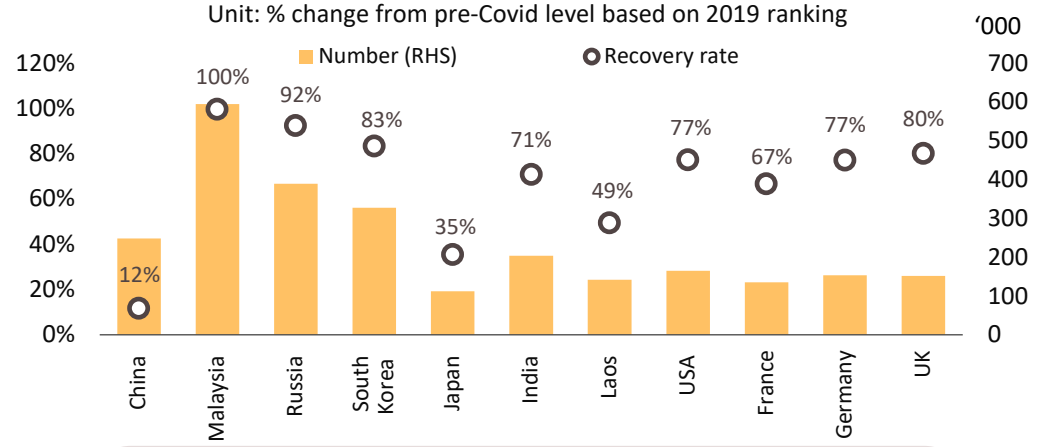
Tourism sector: Foreign tourist arrivals have recovered to 60% of pre-Covid level

Preliminary data from the Tourism Authority of Thailand indicates the country welcomed 2.21mn foreign tourists in March, up from 2.14 mn in January and 2.11mn in February. **In 1Q23, tourist arrivals should reach 6.46mn or 60% of pre-Covid level (2019)**. **They generated THB256 bn receipts (50% of pre-Covid level).** In the first 2 months of 2023, arrivals from Malaysia, Russia, South Korea, and the UK had reached 80-100% of pre-pandemic levels. Chinese tourists are returning slowly but that could surge in 2H23 (preliminary TAT data shows 500,000 Chinese tourists visited Thailand in 1Q23, or 16% of pre-Covid level).

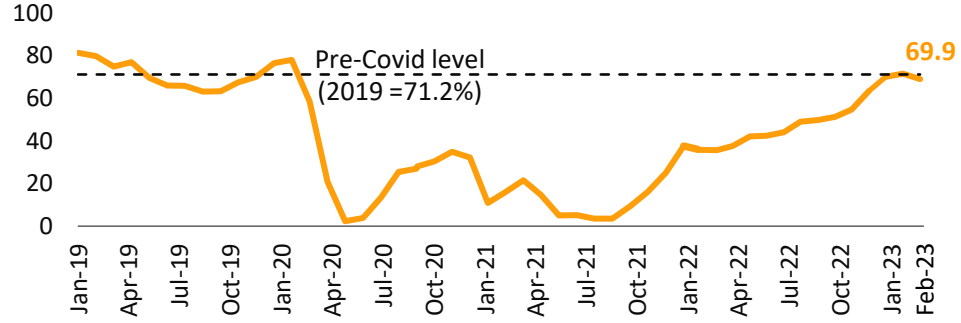
Foreign tourist arrivals reached 6.46 mn in 1Q 2023



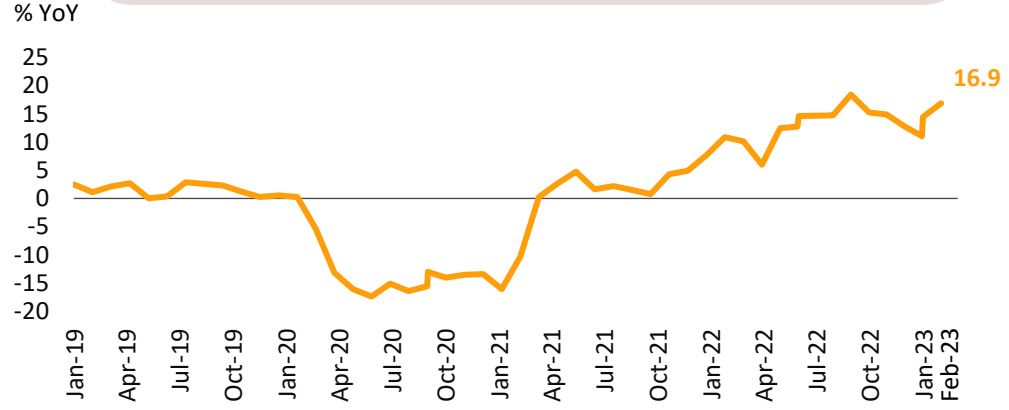
Recovery rate of international arrivals (Jan-Feb 2023)



National average occupancy rate was stable at 70% in February, approaching pre-Covid level



Recovering tourism activity caused Service Production Index (SPI) to surge

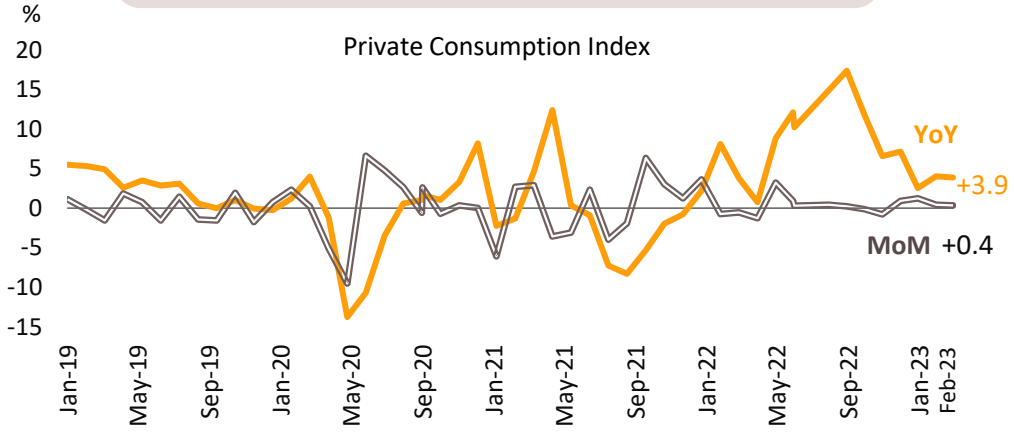


Note: * preliminary data
Source: MOTS, CEIC, Krungsri Research

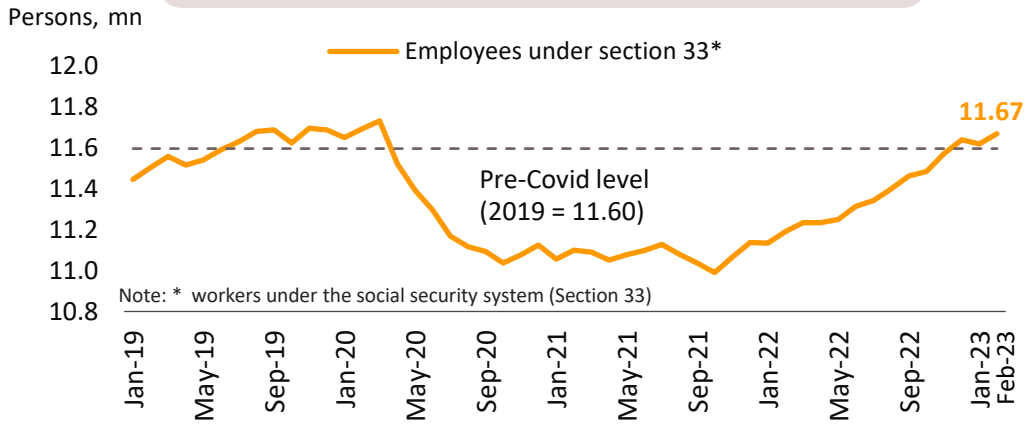
Private consumption will continue to recover driven by tourism activity during long holidays and general election activities in April-May

Private Consumption Index rose 3.9% YoY in February led by all expenditure categories following improving confidence, better employment data since the pandemic, and strong farm income. **We expect private consumption to continue to improve in April-May supported by long holidays and domestic tourism stimulus measures (*We Travel Together* scheme) and election-related activities in April-May.** However, high household debt could limit consumer spending, especially in the low-income segment. Household debt level remained high at 86.9% of GDP at end-2022.

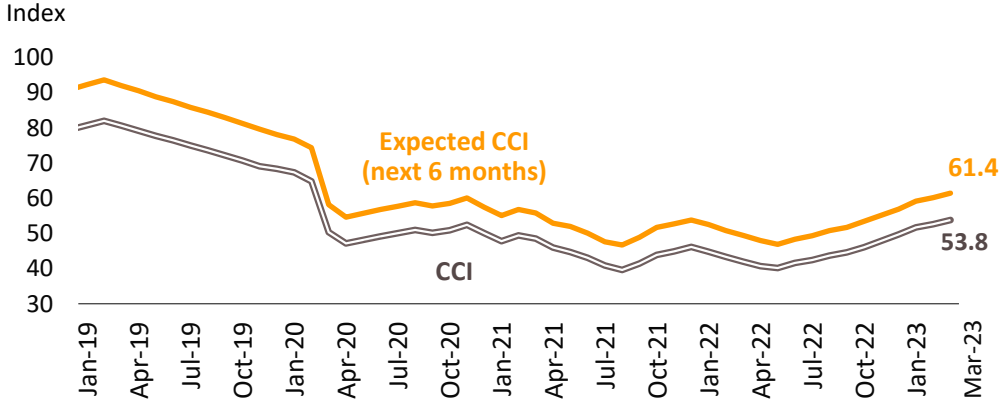
Private consumption remains positive



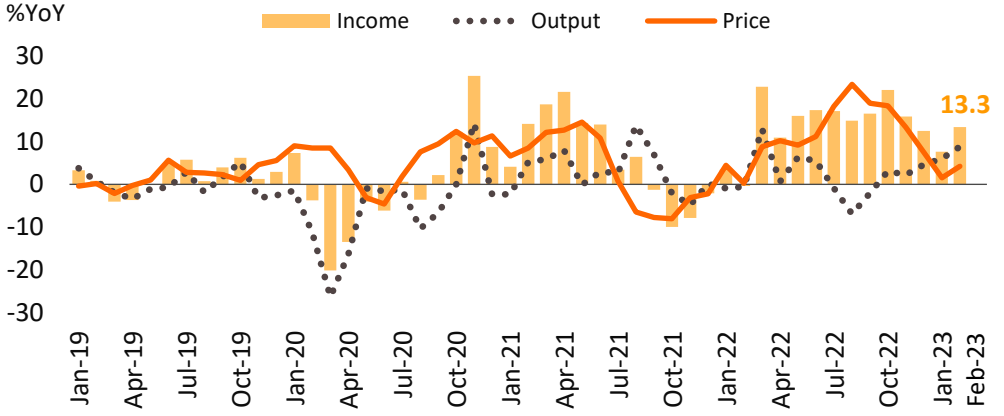
Employment has exceeded pre-Covid level



Consumer confidence hit a 37-month high in March



Farm income rose by double-digit again in February

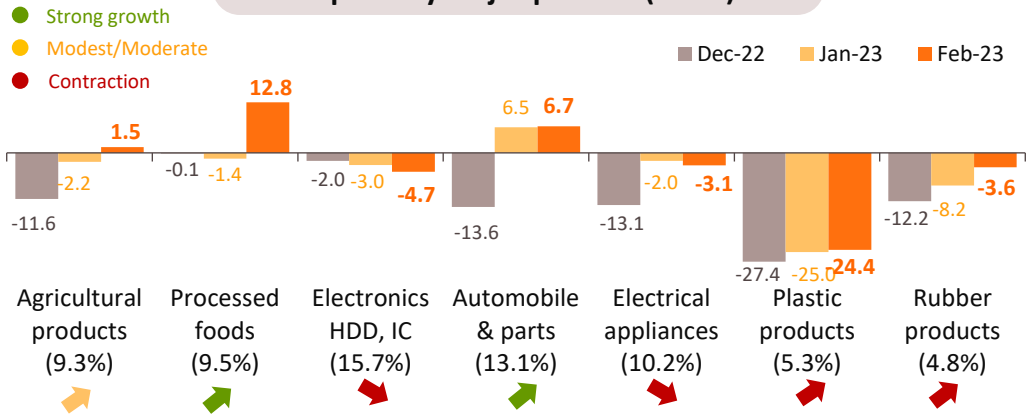


Source: BOT, UTCC, MOL, Krungsri Research

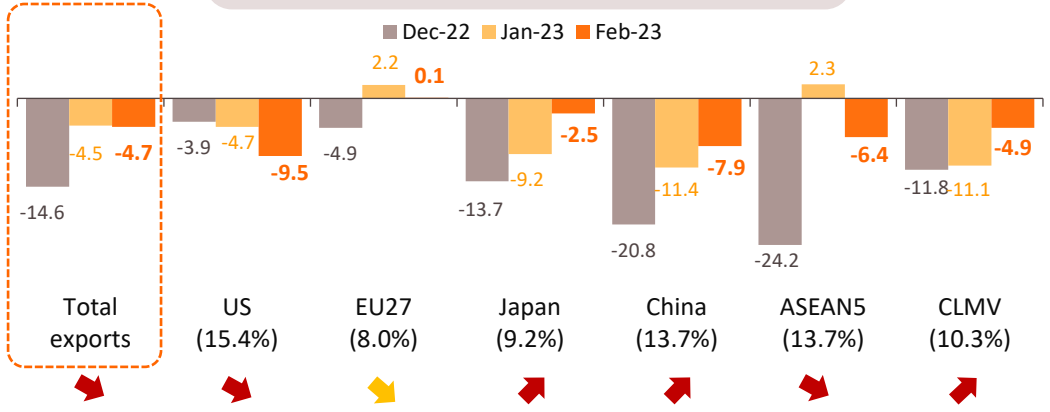
Exports could weaken due to slow global trade and sluggish manufacturing activity in major countries

In February, merchandise export value fell for the fifth consecutive month, by 4.7% YoY to USD22.4 bn. Exports to all major markets and in several products fell. **Looking ahead, exports will remain weak,** given that the WTO forecasts global trade volume would grow by only 1.7% in 2023 from 2.7% in 2022, and had been below the last 12 years' average of 2.6% (since the 2008 financial crisis). In addition, there are discouraging signs in PMI Manufacturing data for the US, Europe, and Japan, which remain in contraction territory. Despite reopening effects, China's PMI Manufacturing index slid to non-expansion territory.

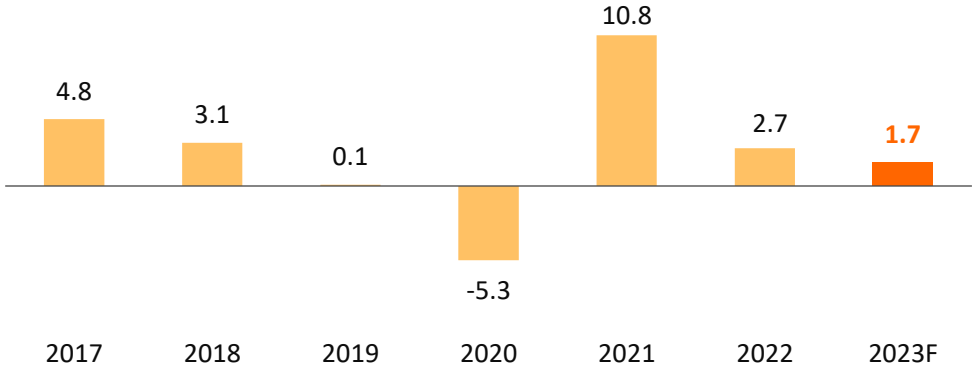
Exports by major product (%YoY)



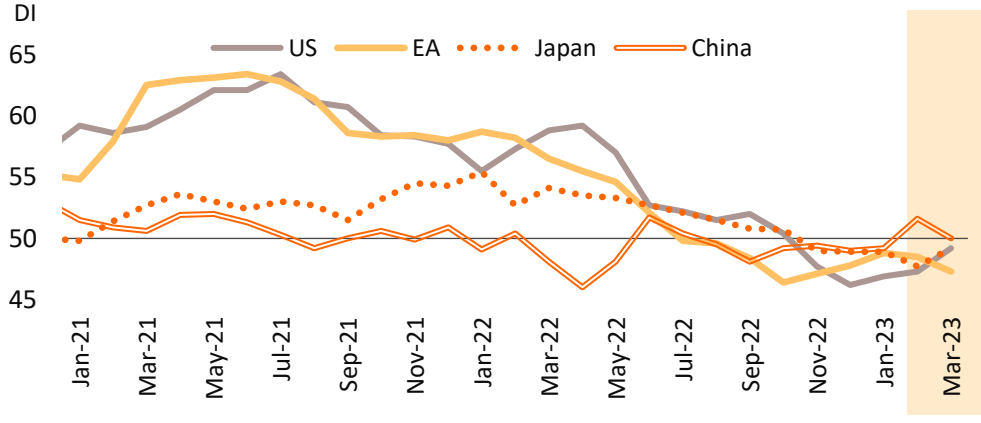
Exports by major destination (%YoY)



Global trade volume (%)



PMI Manufacturing data for core countries are softening

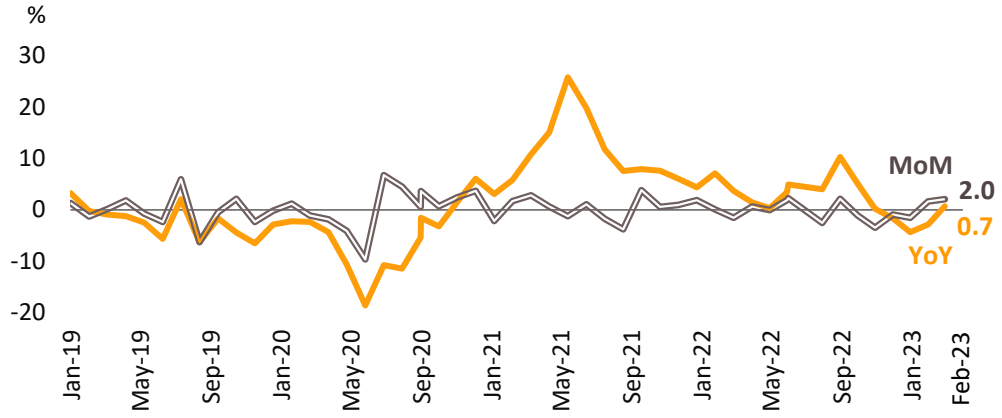


Note: (% share in 2022)
Source: MOC, Krungsri Research

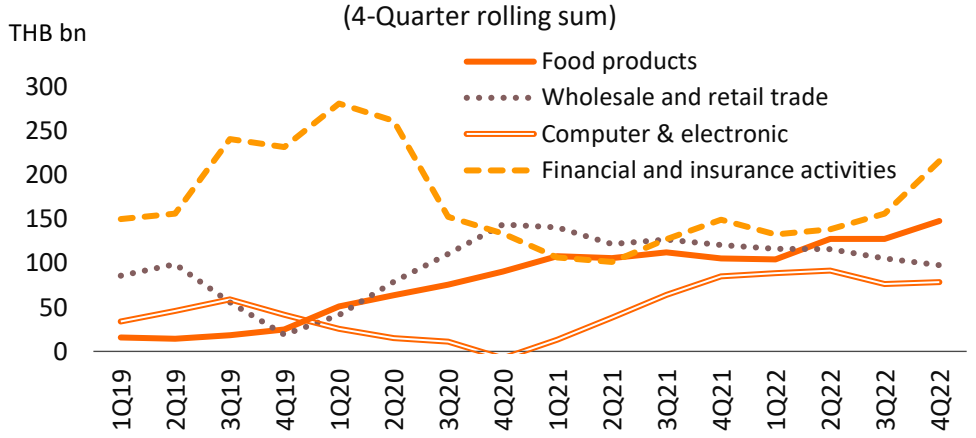
Private investment recovered only gradually amid weak exports. However, FDI is higher than pre-Covid level, which suggests investment would improve in the medium-term

Private Investment Index rose for the first time in 3 months in February, by 0.7% YoY and by 2% MoM. **Recovery will be gradually as the weak export sector might discourage export-related investments. However, there are positive signs from strong FDI last year into several sectors**. The value of FDI in some sectors had exceeded pre-pandemic levels, such as in financial and insurance, food products, computer & electronics, and wholesales & retail trade. This could drive private investment in the periods ahead.

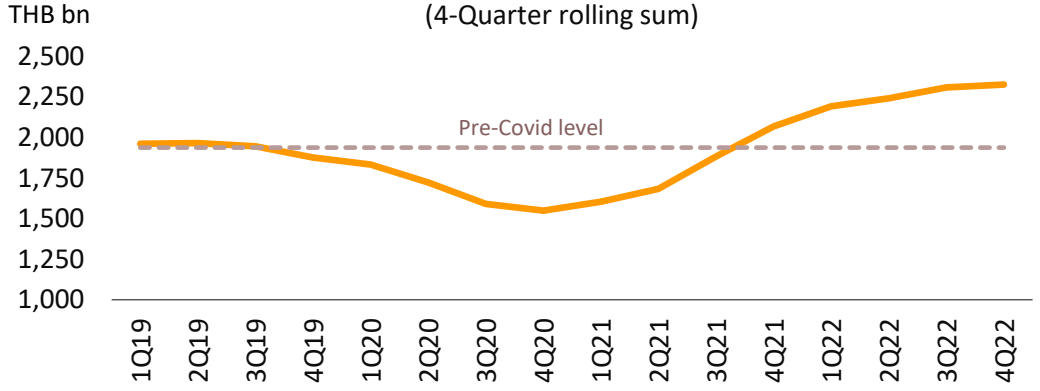
Private investment inched up in March



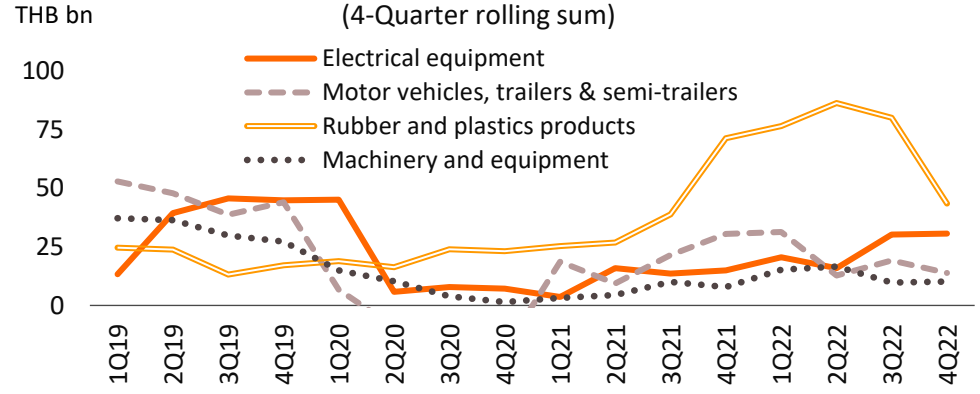
FDI into Thailand by sector (1)



Total FDI into Thailand



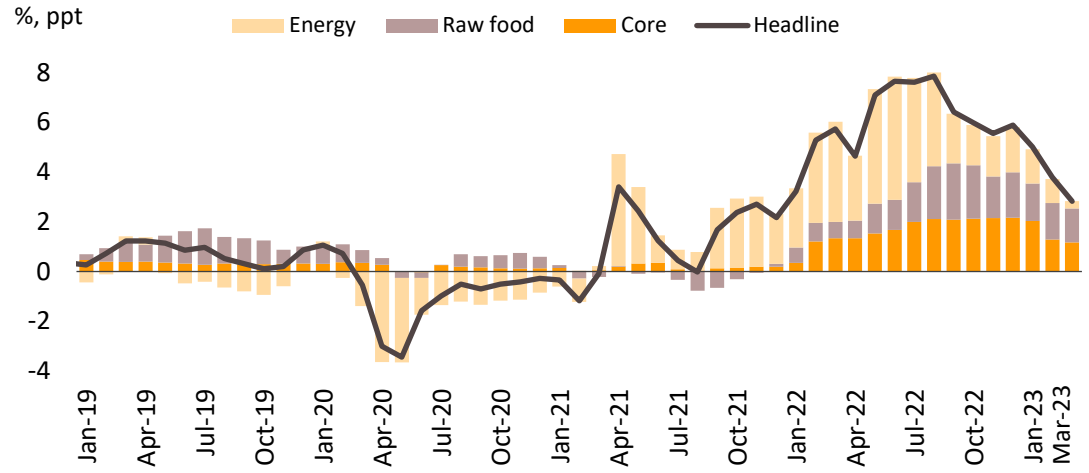
FDI into Thailand by sector (2)



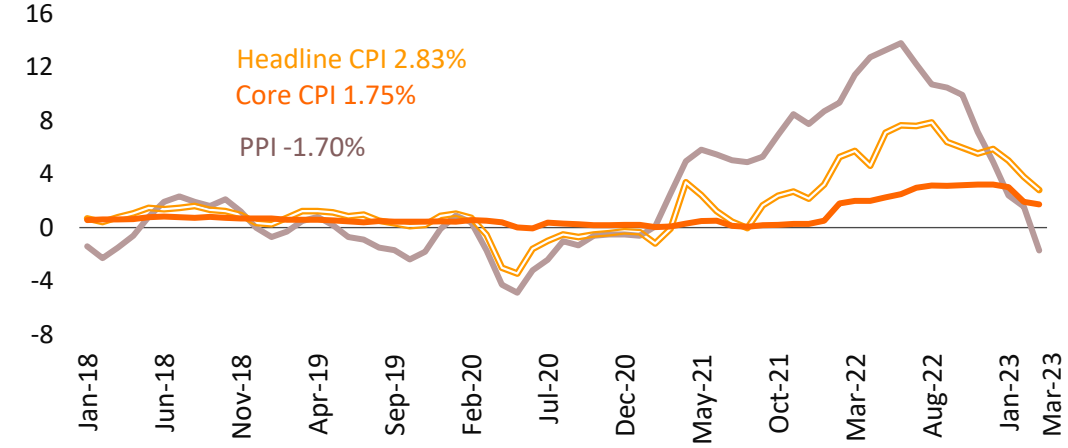
Source: BOT, Krungsri Research

Inflation slowed to a 15-month low of 2.8% in March, returned to the BOT's target range of 1-3% quicker than expected

Contributors to inflation



Producer Price Index (PPI), Consumer Price Index (CPI), and Core CPI



Source: MOC, Krungsri Research

Consumer Price Index: Major categories

Consumer Price Index (% YoY)*	Weight	2021 J F M A M J J A S O N D	2022 J F M A M J J A S O N D	2023 J F M	
Headline CPI	**100.00%**				**2.8**
Food & beverages	41.40%				5.2
Apparel & footwears	2.07%				0.3
Housing & furnishing	22.29%				3.2
Medical & personal care	5.41%				2.0
Transportation & communication	23.30%				-0.7
Recreation & education	4.20%				1.5
Tobacco & alcoholic beverages	1.33%				0.7
Raw food	20.87%				6,7
Energy	14.31%				2.4
Core CPI	**64.82%**				1.7

** Red > 0%, Green < 0% / Darker colors indicate stronger momentum*

Krungsri Research's view

- **In March, headline inflation eased for the third straight month to 2.83% YoY** (vs Consensus and Krungsri Research's forecasts of 3.25%) from 3.79% in February and 5.02% in January. This is attributed to (i) a mild rise in domestic fuel prices following higher global oil prices; (ii) a drop in diesel price by THB0.50 per liter in March; and (iii) lower prices for fresh food (MoM basis). Core inflation (excluding raw food and energy prices) fell to 1.75% in March from 1.93% in February. For 1Q23, headline and core inflation averaged 3.88% and 2.24%, respectively.
- The Ministry of Commerce (MOC) forecasts headline inflation would rise MoM in April led by general election activity but it would not exceed 3%. The MOC added inflation would be below 2.5% in 2Q23 and would average 1.0-1.5% in 2H23. This would take 2023 inflation forecast to 2.2% (1.7%-2.7%), down from the previous forecast of 2.5% (2-3%). ***Krungsri Research is keeping 2023 inflation forecast at 2.5% as global crude prices might see upward pressure after OPEC agreed to cut oil production by 1.16 mn barrels/day during May-December this year.***

BOT has normalized *monetary policy* on concerns about demand-pull inflation

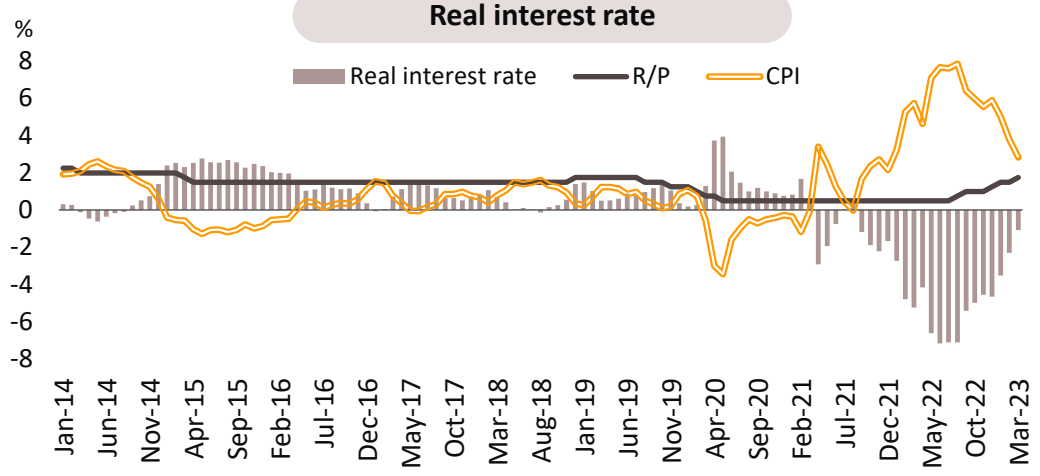
At the March meeting, the BOT revised down 2023 GDP growth outlook to 3.6% from 3.7% previously, to reflect slower-than-anticipated 4Q22 GDP growth and a weaker export outlook. However, it raised forecast for foreign tourist arrivals to 28 million from 22 million. It trimmed 2023 headline and core inflation to 2.9% and 2.4% from 3.0% and 2.5%, respectively. The BOT said "core inflation remains elevated with upside risks from higher cost pass-through and demand pressures". **We expect the BOT to keep policy rate at 1.75% at the MPC meeting on May 31 given easing upward pressure on interest rates. First,** inflationary pressure had softened in March with headline inflation slipping back to the official target range 3-4 months earlier than the BOT's expectation. Core inflation, currently at 1.75%, would be below the BOT's forecast of 2.4% for the whole of 2023. The 1.7% YoY drop in the Producer Price Index in March suggests cost-push inflationary pressure is easing. **Second,** Thai exports would remain weak following a slowdown in the world's major economies. **Lastly,** Thailand's GDP growth would be below 3% YoY in 1H23, slower than the long-term average of 3.7%. However, if the MPC focuses on bringing real interest rate back to positive territory, based on the BOT's optimistic view on growth and concerns over sticky inflation, it might hike rate by 25bp to 2% at the next meeting.

BOT Economic Forecast

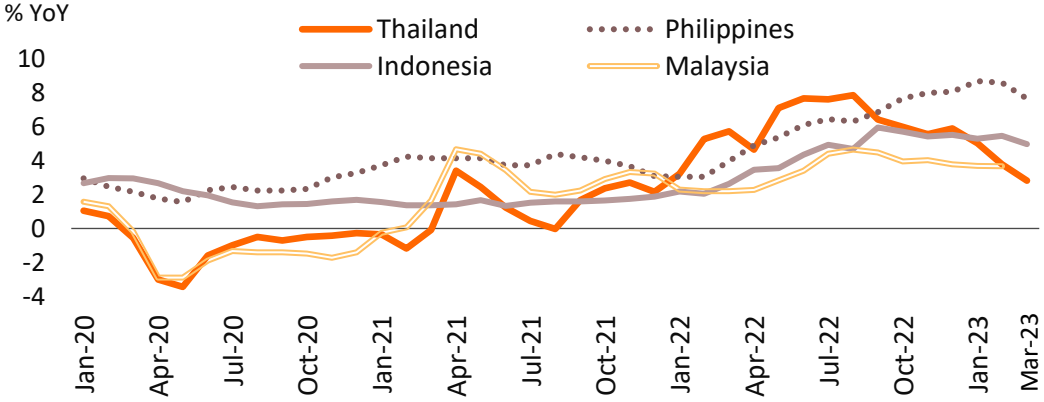
Key indicators		2023F		2024F	
		Previous	Latest	Previous	Latest
GDP growth	YoY (%)	3.7	3.6 ▼	3.9	3.8 ▼
Private Consumption Expenditure	YoY (%)	3.4	4.0 ▲	3.2	3.1 ▼
Government Consumption Expenditure	YoY (%)	-1.4	-2.2 ▼	0.8	1.1 ▲
Private Investment	YoY (%)	3.4	2.1 ▼	4.0	4.8 ▲
Public Investment	YoY (%)	1.8	3.7 ▲	7.0	7.8 ▲
Nominal Exports in USD (f.o.b.)	YoY (%)	1.0	-0.7 ▼	2.6	4.3 ▲
Nominal Imports in USD (f.o.b.)	YoY (%)	0.4	1.2 ▲	3.3	4.2 ▲
Current Account Balance	USD, bn	3.8	4.0 ▲	12.2	12.5 ▲
Tourist Arrivals	persons, mn	22	28 ▲	31.5	35.0 ▲
Headline Inflation	YoY (%)	3.0	2.9 ▼	2.1	2.4 ▲
Core Inflation	YoY (%)	2.5	2.4 ▼	2.0	2.0 =
Dubai crude price - period average	USD/bbl	95	86 ▼	90	90 =

Source: BOT,MOC, CEIC, Krungsri Research

Real interest rate



ASEAN Inflation trends



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