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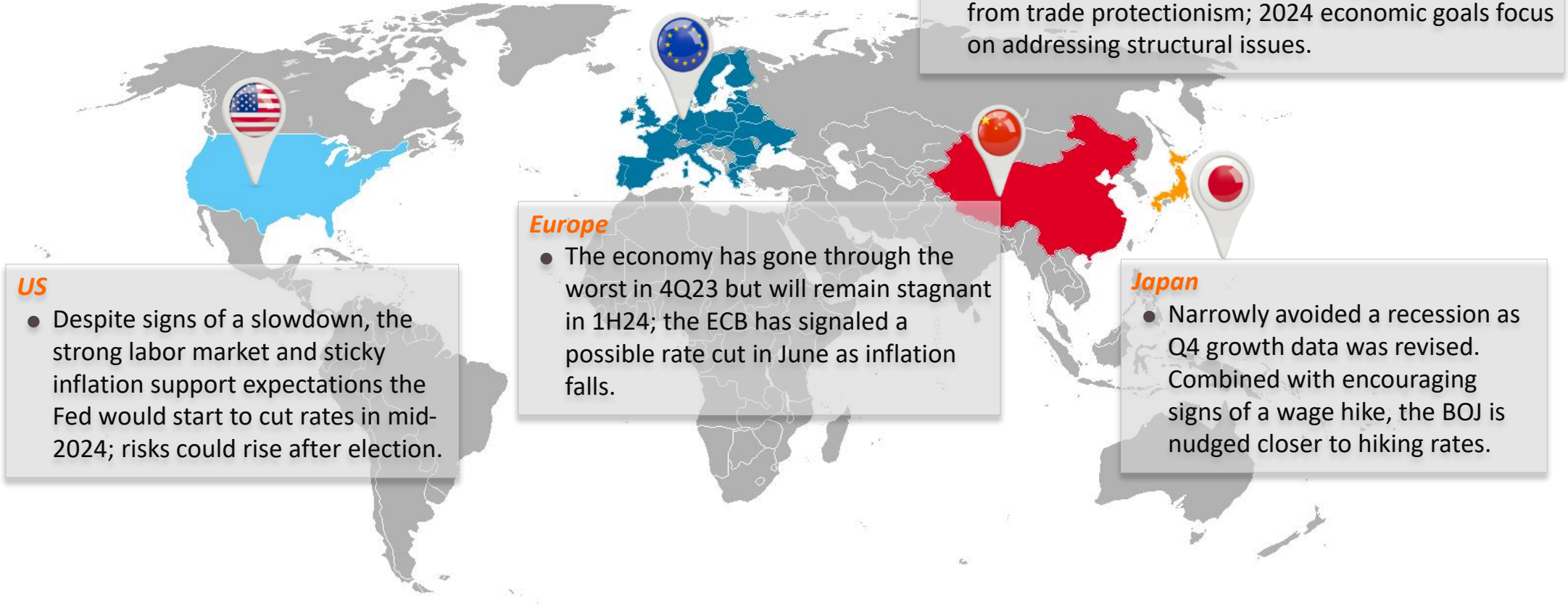
MONTHLY ECONOMIC BULLETIN

March 2024



Krungsri Research

Global: Slowing growth and only mild uptick in sentiment



China

- Economic activity has been improving amid easing deflation, but the economy is facing greater threats from trade protectionism; 2024 economic goals focus on addressing structural issues.

Europe

- The economy has gone through the worst in 4Q23 but will remain stagnant in 1H24; the ECB has signaled a possible rate cut in June as inflation falls.

US

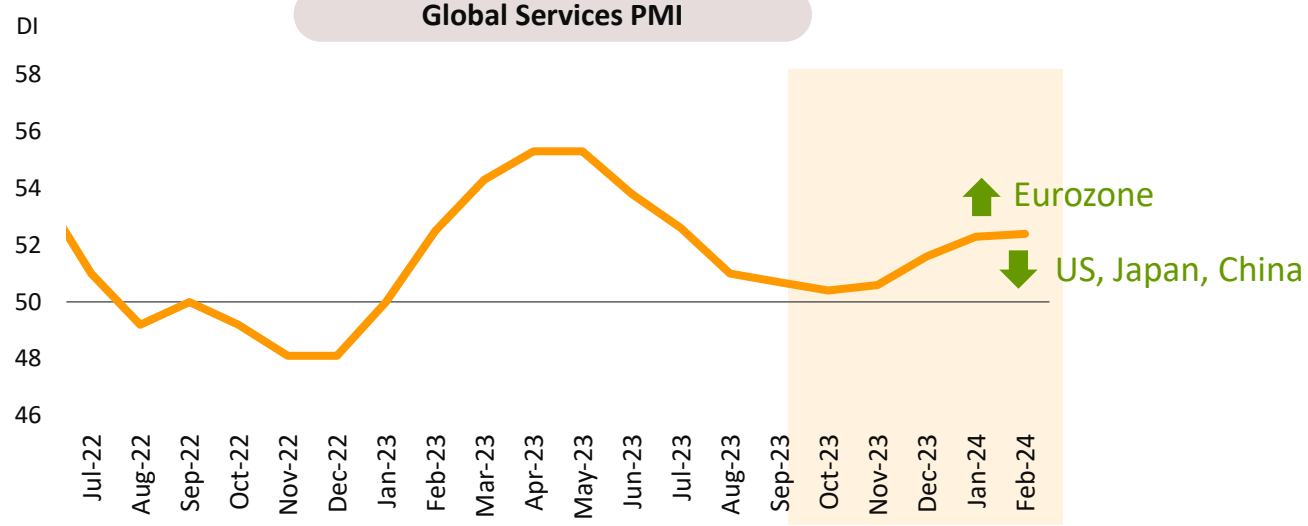
- Despite signs of a slowdown, the strong labor market and sticky inflation support expectations the Fed would start to cut rates in mid-2024; risks could rise after election.

Japan

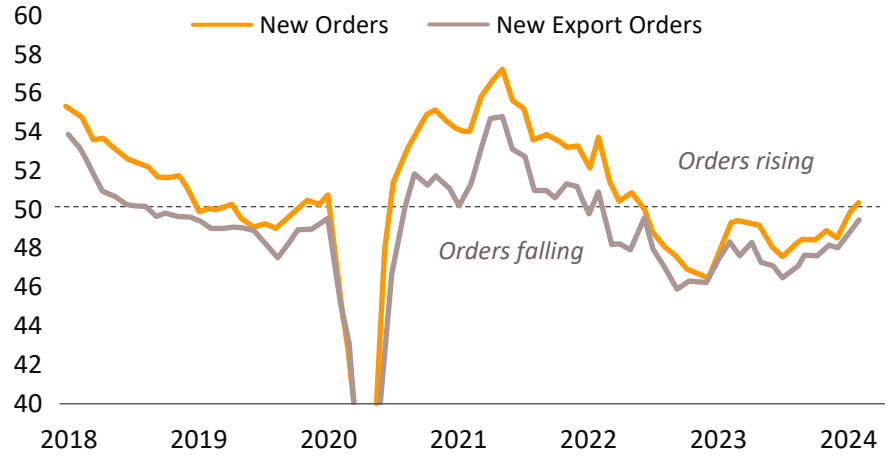
- Narrowly avoided a recession as Q4 growth data was revised. Combined with encouraging signs of a wage hike, the BOJ is nudged closer to hiking rates.

Global PMI rose to an 8-month high, rebound in manufacturing activity led by EMs, new orders expanded for the first time since June 2022, Red Sea tension has limited impact

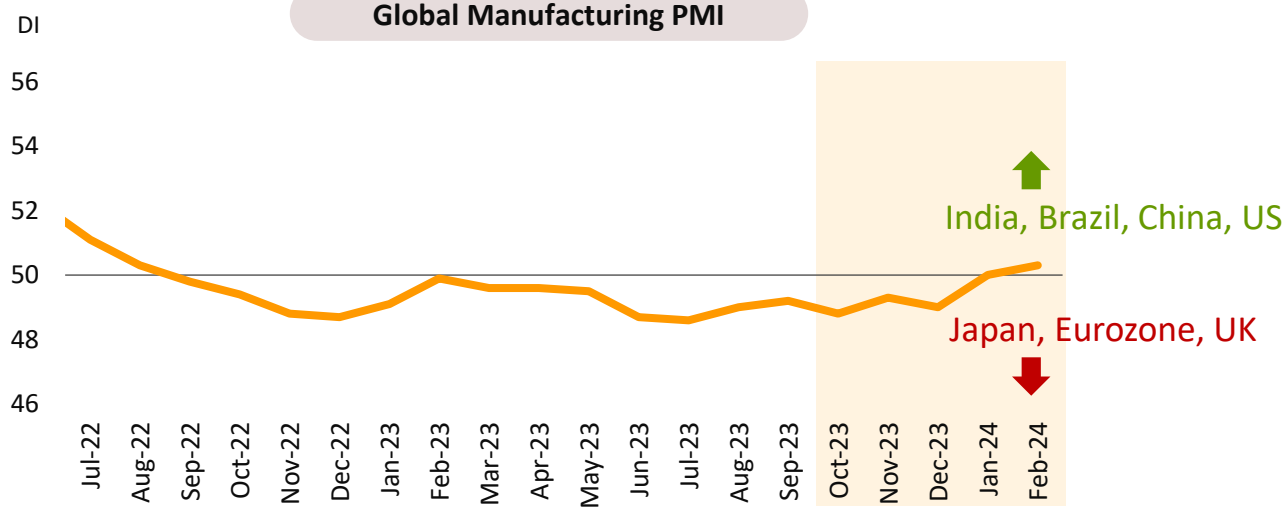
Global Services PMI



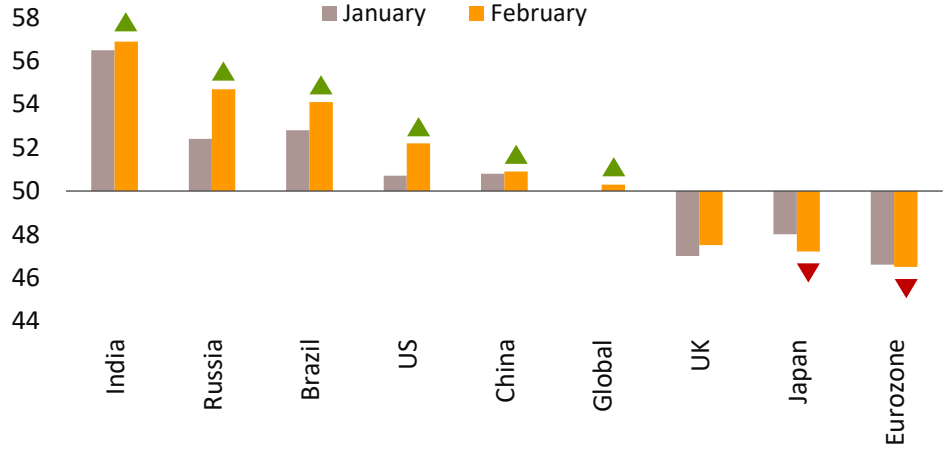
Global Manufacturing PMI: New Orders



Global Manufacturing PMI



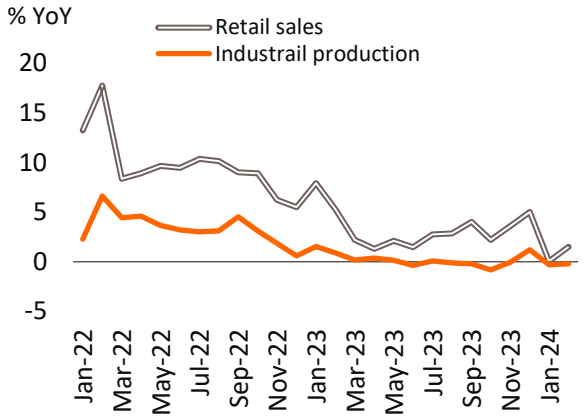
Major Countries' Manufacturing PMI



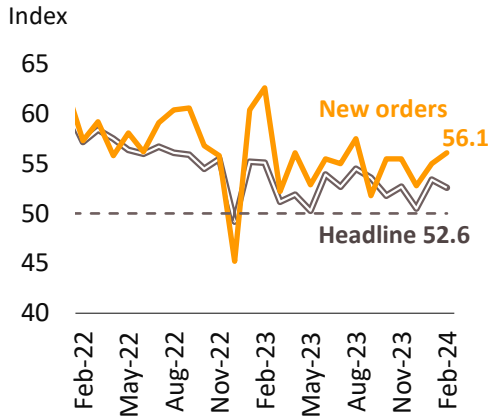
Source: S&P global, Capital Economics, Bloomberg, Krungsri Research

US: Despite signs of slowdown, the strong labor market and sticky inflation support expectations the Fed would start to cut rates in mid-2024; risks could rise after election

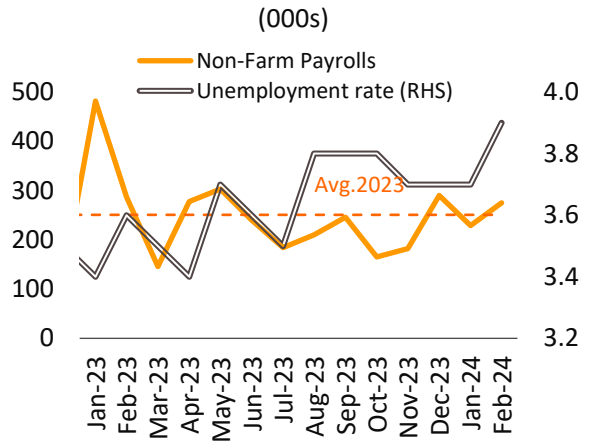
Retail sales and Industrial Production



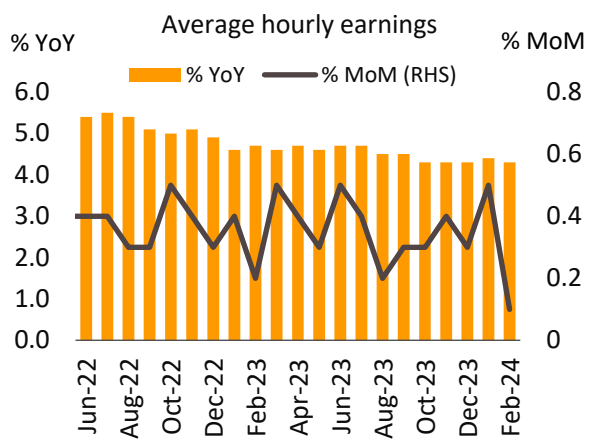
ISM Services PMI



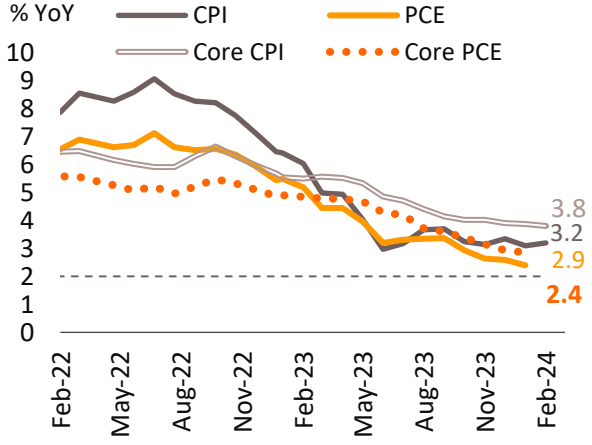
Change in Non-Farm Payrolls



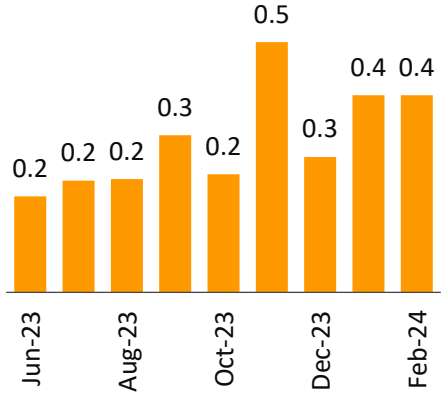
Wage Growth: %YoY and %MoM



CPI, Core CPI, PCE, and Core PCE



Core CPI (% MoM)



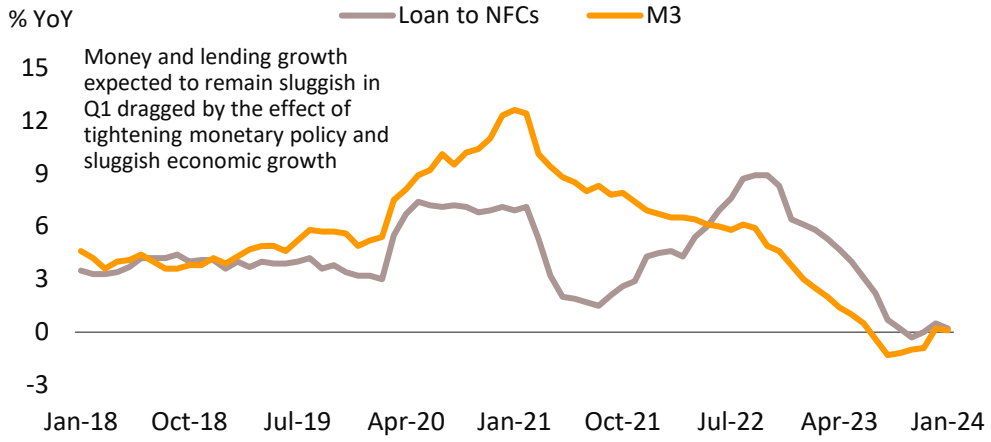
Source: ISM, BLS, New York Fed, Capital Economics, CEIC, Bloomberg,, Krungsri Research

Krungsri Research's view

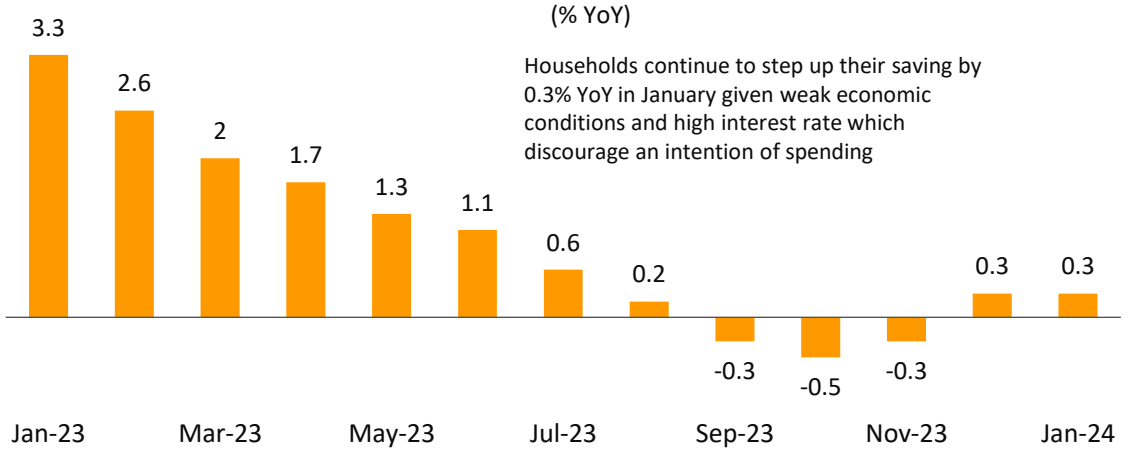
- **US economy showed signs of slowing down as unemployment rate rose to a 2-year high and inflation has eased. However, economic conditions remain healthy. We expect the Fed to start to cut benchmark rates in the middle of this year, premised on the following:**
  - **Data-dependent approach:** Fed Chair Powell said rate cuts were appropriate "at some point this year". He added the Fed still wants "greater confidence" that inflation would drop to and be sustainable at 2% before they would feel comfortable ease policy.
  - **Strength of economic growth: (i) Further expansion in services sector** with New Orders Index rising to a 6-month high in February; **(ii) rebound in retail sales (+1.5% YoY in Feb vs +0.04% in Jan)**; **(iii) Labor market remains tight** with a 275k increase in non-farm payrolls in February, vs monthly average of +251k in 2023.
  - **Stickiness of inflation:** Headline inflation rose slightly to 3.2% YoY in February from 3.1% in January. Core inflation, which excludes energy and food prices, remained high at 3.8% YoY vs 3.9% in January. **Average hourly wage growth slowed from 4.3% YoY to 4.2% but is still above the 3.0-3.5%** range that most policymakers view as consistent with the Fed's 2% inflation target. **In addition,** Median inflation expectations remain unchanged at 3.0% on a 1-year horizon but **increased to 2.7% from 2.4% on a 3-year horizon** and to 2.9% from 2.5% on a 5-year horizon.
- **There are concerns over the result of the presidential election in November. Donald Trump's plans for a universal 10% tariff on all imports and tariffs of up to 60% on imports from China would not only increase trade tensions worldwide. It is estimated to reduce US GDP by up to 1.5% and could cause inflation to rise again and pressure policy rates.**

Eurozone: Economy has gone through the worst in 4Q23 but will stagnate in 1H24; ECB has signaled June rate cut as inflation falls

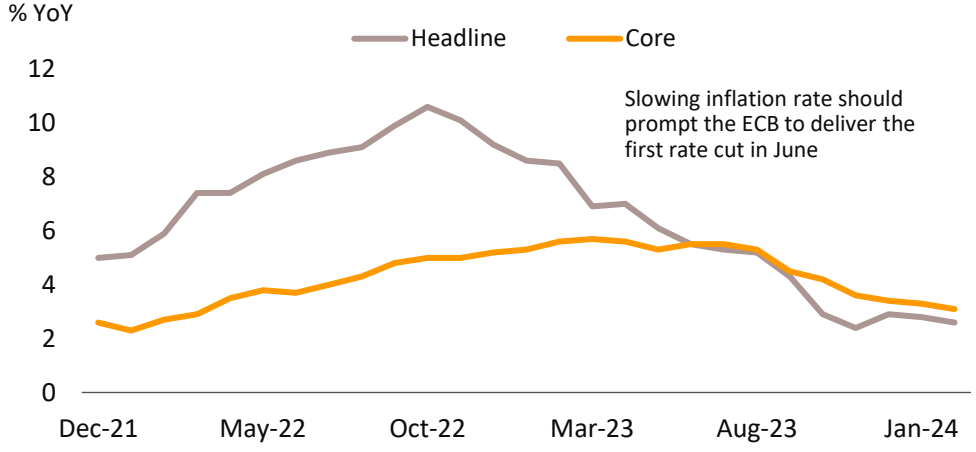
Loan to NFCs and M3 growth (monthly)



Household M3 Deposits (monthly)



CPI Index (monthly)



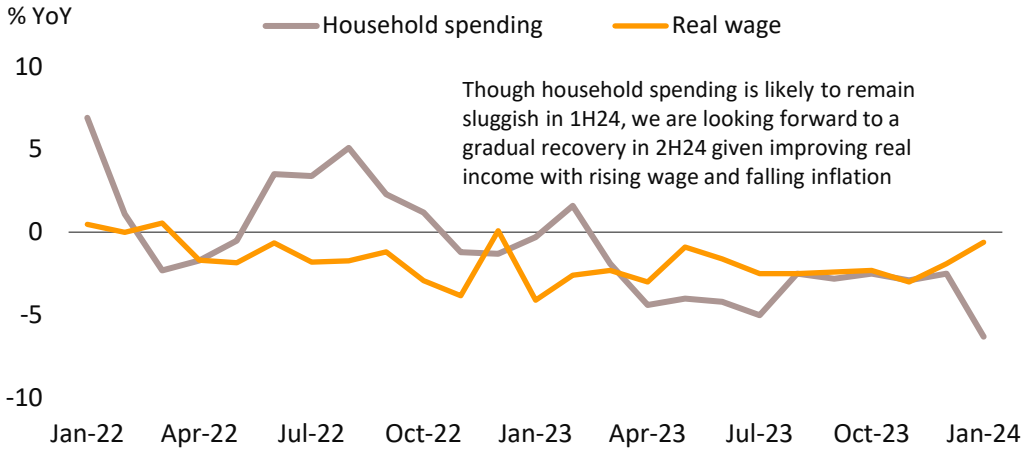
Source: ECB, CEIC, BLS, investing.com, Eurostat, Bloomberg, Krungsri Research

Krungsri Research's view

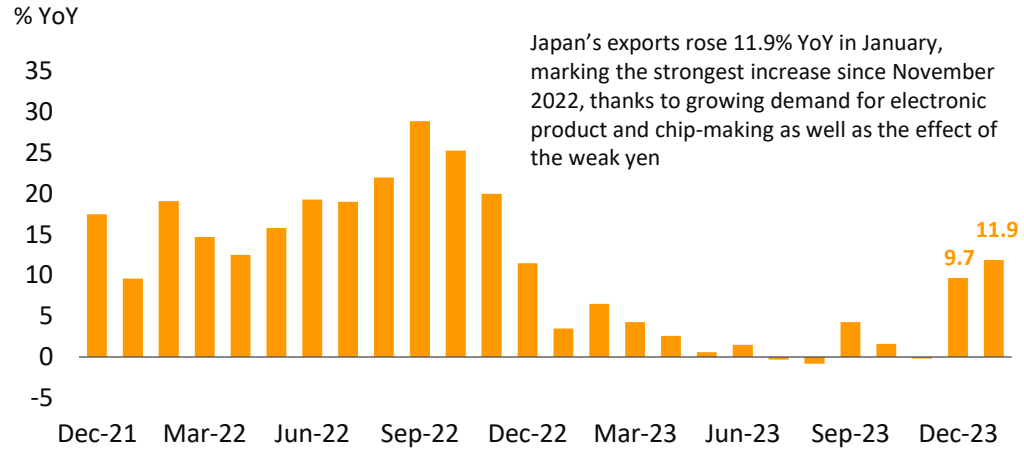
- **Latest data point to a slightly better environment** with improving business sentiment, higher factory orders, still-tight labor market, and no severe energy crisis. These would reduce risk of a recession in Eurozone in 2024. **However, the economy will remain stagnant in 1H24 given:** (i) still-sluggish economic conditions and high borrowing rates dragging private consumption; (ii) continued weak demand for credit from both households and NFCs* as a result of tighter monetary policy; and (iii) unwinding of fiscal stimulus (fiscal deficit at 2.4% in 2024F vs 2.7% in 2023) as governments scale back the majority of measures to address the energy crisis.
- **Unlikely to see a strong recovery in private consumption in the near-term despite still-high wage growth and sharp drop in inflation**, as households continue to save more under weak economic conditions and high interest rates are pressuring households which are servicing debt. **Nevertheless, the Eurozone economy has passed through the worst in 4Q23 and would see a gradual recovery in 2H24, given**: (i) cooling inflationary pressure; (ii) easing supply chain disruptions; and (iii) the low base effect last year.
- At its March meeting, the European Central Bank (ECB) voted to leave policy rate at 4%. The bank also cut 2024 GDP growth and inflation forecasts from 0.8% to 0.6% and 2.7% to 2.3%, respectively. **Bringing all of this together, a stagnant Eurozone economy with inflation slowing towards the 2% target, we expect the ECB to deliver the first rate cut in June,** when there should be more visible signs of moderating wage growth and cooling underlying inflation.

Japan: Narrowly avoids recession as Q4 growth was revised; combined with encouraging sign of wage hike, the BOJ is nudged closer to hiking rate

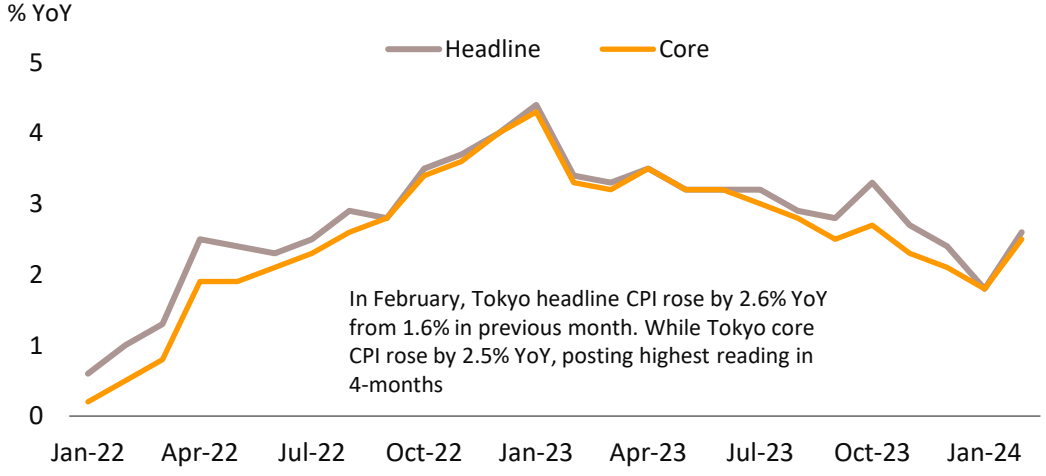
Household Spending and Real Wage Growth (monthly)



Export growth (monthly)



Tokyo CPI (monthly)



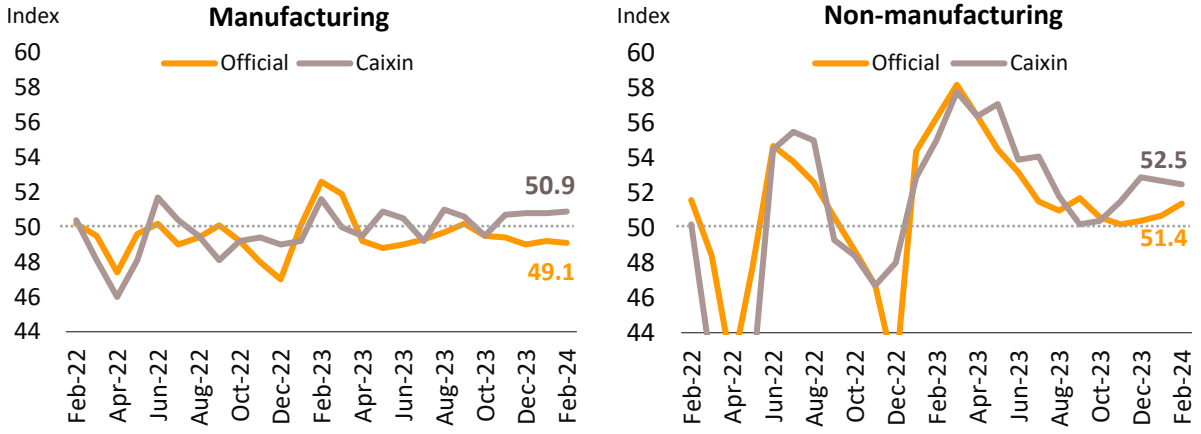
Source: ECB, CEIC, BLS, investing.com, Eurostat, Bloomberg, Krungsri Research

Krungsri Research's view

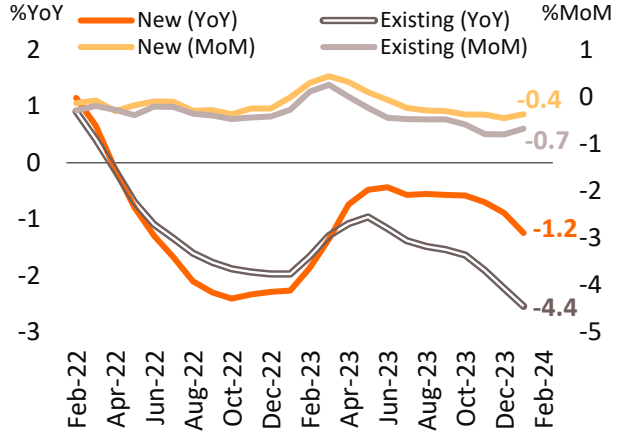
- **Supported by robust spending by businesses, Japan's economy grew by 0.4% YoY and 0.1% QoQ in 4Q23,** reversing from 0.4% and 0.1% contractions in initial readings. That helped Japan to avoid a recession. However, private consumption remained weak as high inflation is pressuring household spending power in real terms.
  - 4Q23 capital spending was revised higher to 2% growth. However, private consumption was revised down to a larger drop of -0.3%.
- Though latest economic data - exports and capital spending - showed some improvement in 4Q23, **Japan's economy remained sluggish because of weak household purchasing, which points to subdued economic growth in 1H24.** However, we are looking forward to modest growth in the latter half of this year backed by a recovery in exports (rising demand for electronic products and chip-making), and an improvement in real income and consumption following the 2024 Shunto (spring wage negotiations). That is set to deliver a 5.85% pay hike, much larger than the 5% request reported last year, and up from 4.49% at the 2023 Shunto.
  - In January, exports from Japan rose by 11.9% YoY following 9.7% growth in the previous month, marking the strongest increase since November 2022.
  - In February, Tokyo Headline CPI rose 2.6% YoY from 1.6% in the previous month. Tokyo Core CPI rose by 2.5% YoY, the highest reading in 4 months.
- Given signs of improving real income and a more favorable economic environment (with a recovery in exports and tourism) this year, they bring inflation towards target rate of 2.0% in a sustainable manner. **Krungsri Research expects the BOJ to normalize its policy by ending negative interest rate in the near term.**

China: Economy has improved slightly amid easing deflation, but faces greater threats from trade protectionism; 2024 economic goals focus on addressing structural issues

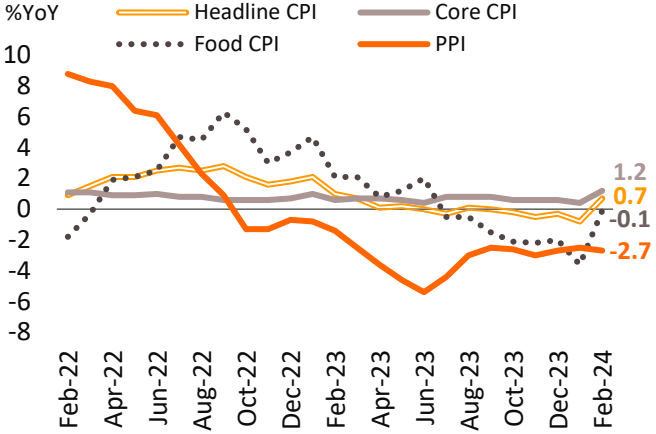
Purchasing Managers' Index (PMI)



Residential Home Price Index



Consumer and Producer Price Index



14th National Congress Economic Target (2nd session)

Indicator	2023 Target	2023 Actual	2024 Target	Implications
GDP growth (% YoY)	≈5%	5.2%	≈5%	• Growth target is as expected, and other targets are largely unchanged from last year. • Growing focus on "new quality productive forces" (e.g., EV, hydrogen power, space flight, and quantum technology), more legal reforms in business, and a review of parental leave policy, indicate a shift away from short-term large-scale fiscal acceleration (only announced CNY1trn in special sovereign bonds so far) and towards greater emphasis on targeted structural reforms over the medium-to-long term. • However, with chronic structural issues (e.g., property slump, shrinking population, high local government debt, technology war, and geopolitical tensions) and modest fiscal measures, it is becoming more challenging to achieve the growth target.
CPI (% YoY)	≈3%	0.2%	≈3%	
Special local government bonds (trillion yuan)	3.8	3.96	3.9	
Fiscal deficit (% of GDP)	3%*	3.87%	3%	
New urban job creation (mn)	≈12	12.44	>12	
Unemployment (%)	≈5.5%	5.2%	≈5.5%	

Source: National Bureau of Statistics, CEIC, Bloomberg, Nikkei Asia, Reuters, Capital Economics and Krungsri Research
Note: * later increased to 3.8% for the issuance of additional CNY 1trn bonds.

Krungsri Research's view

- **Some economic engines are gathering steam, while others struggle to gain momentum:** (i) The services sector continues to grow despite weak consumer confidence. Manufacturing activities remain relatively stable. (ii) Net FDI (foreign direct investment) inflows fell to the lowest since 1993, at only USD 33bn, partly due to weak demand, tighter national security laws, and rising geopolitical tensions. (iii) Exports increased 7.1% YoY in the January-February period, with a trade surplus of USD125.2bn. Moreover, exports of the "new three" industries (EV, solar cells, and lithium batteries) had surged 30% YoY to USD 147.3bn in 2023. (iv) The housing market remains weak, with homes prices continuing to fall in February and sales by the top 100 developers tumbling 60% YoY in February. **Looking ahead, the services sector and government spending would be the major drives of economic growth, estimated at +4.6% this year.**
- **Deflationary pressure start to ease.** In February, Headline Inflation rose 0.7% after hitting its lowest since 2009 in January, thanks to a surge in demand during Chinese New Year. Deflation could continue to ease in 2H24 as the pork oversupply situation improves and domestic demand gradually recovers. Meanwhile, the Producer Price Index (PPI) dropped for the 17th consecutive month in February, partly attributed to the long holidays. We still expect PPI to improve in 2Q24, driven by infrastructure construction.
- **The threat of US trade protectionism is growing.** Recently, the US attempted to prevent Dutch-owned ASML from servicing Chinese chip equipment, urged Japan to stop exporting chip production chemicals to China, and is talking to Germany and South Korea to pressure China. Moreover, Donald Trump's proposal of up to 60% tariffs on all imports from China could reduce the share of imports from China from 14% in 2023 to near-zero by 2030. That could lead to a 0.7% reduction in GDP. **With across-the-board tariff impositions, it is increasingly challenging to mitigate the impact by rerouting and relocating this time.**

Thailand: Hoping for stronger public spending; exports seem to be struggling despite improving external demand

- Thailand struggled to seize the opportunity to increase goods exports along with improving global manufacturing activity.
- Tourism sector experienced promising growth with rising visitor numbers and tourist receipts
- Government spending, especially public investment, could turn around in early Q2, slightly sooner than expected.
- Private investment could improve following a rebound in public investment from Q2 onwards but will remain fragile due to structural problems in the manufacturing production sector.
- Private consumption registered slower growth although it benefited from stronger services activity and tourism sector, and the tax refund program.
- El Niño to transition to Neutral in mid-2024 but drought conditions since 2023 could still hurt this year's harvest and reduce 2024 GDP by over THB50bn
- Most household loans are non-productive. NCB warns household debt is still rising, bad debts a growing concern.
- Still-low core inflation, close to pre-pandemic level, could prompt the MPC to consider its first rate cut in mid-2024.

Krungsri Research Forecasts for 2024

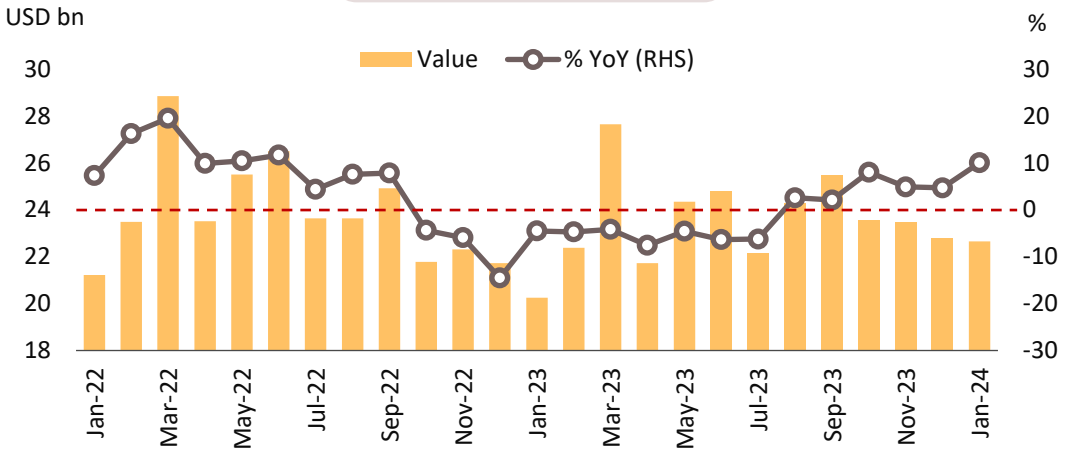
Krungsri Research Forecast		2022	2023	2024F** Latest
GDP growth	YoY (%)	2.5	1.9	2.7
Private Consumption Expenditure	YoY (%)	6.2	7.1	3.1
Government Consumption Expenditure	YoY (%)	0.1	-4.6	1.5
Private Investment	YoY (%)	4.7	3.2	3.3
Public Investment	YoY (%)	-3.9	-4.6	2.4
Nominal Exports in USD (f.o.b.)*	YoY (%)	5.4	-1.7	2.5
Nominal Imports in USD (f.o.b.)*	YoY (%)	14.0	-3.1	4.2
Current Account Balance	USD, bn	-15.7	6.6	7.8
Tourist Arrivals	Mn, persons	11.1	28.2	35.6
Headline Inflation	YoY (%)	6.1	1.2	1.1
Dubai crude price - period average	USD/bbl	96	82	87

** 2024 projection excluding Digital Wallet Scheme

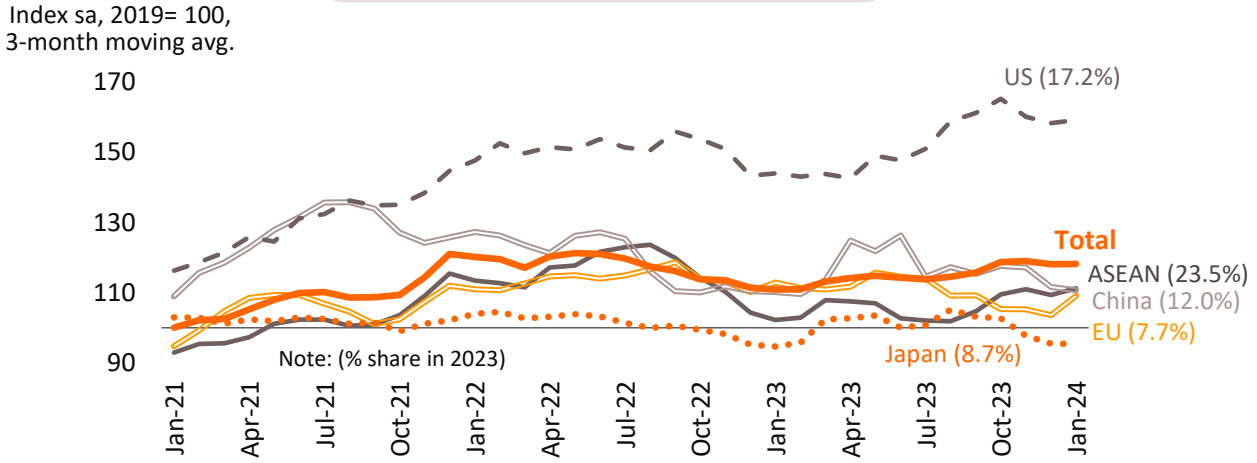
Note: * Based on BOT data
Source: NESDC, BOT, MOC, MOTS, Bloomberg, Krungsri Research

Exports improved year-on-year in January, but export value was still below 2023 average amid persistent challenges in the global economy

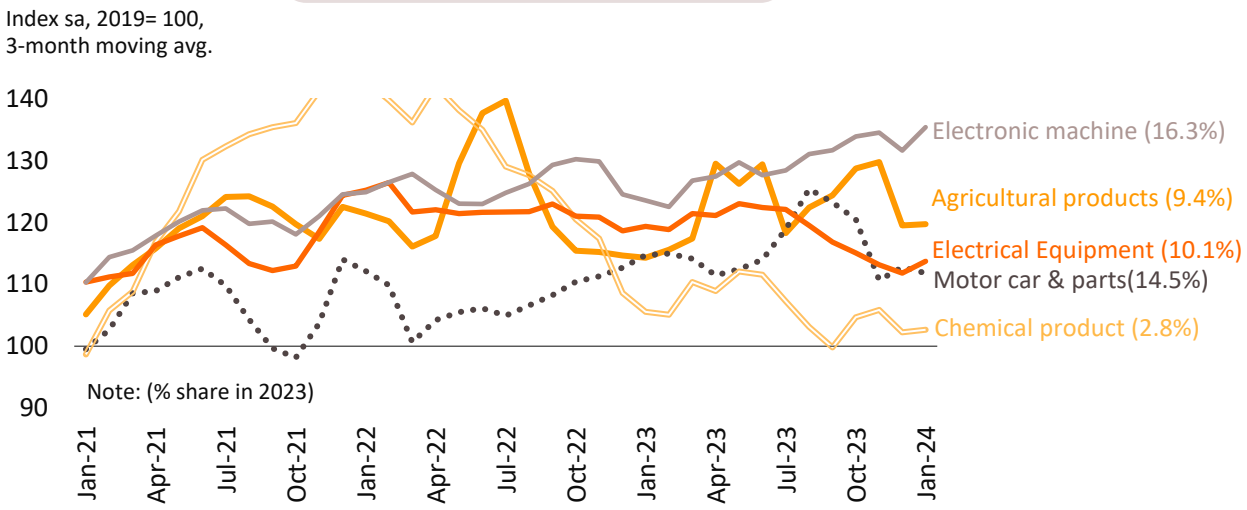
Total Thai Exports



Thai Exports by Major Destination



Thai Exports by Major Product



Source: MOC, CEIC, Krungsri Research

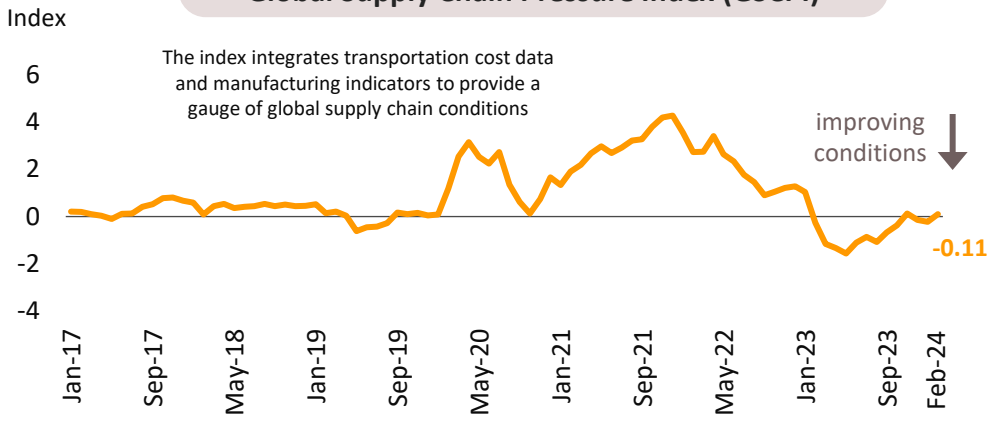
Krungsri Research's view

- **In January, merchandise export value improved for the sixth straight month, by 10.0% YoY to USD22.6 bn, albeit still below 2023 monthly average of USD23.7 bn.** Excluding oil, gold and weapons, exports rose 9.2% led by iron, steel & related products (+106%), rice (+45.9%), computers & computer equipment (+32.2%), fresh, chilled, frozen & dried fruit (+30.1%), rubber (+5.5%), and processed & canned seafood (+5.2%). The top export destinations were the US (+13.7%), China (+2.1%), the EU (+4.5%), Japan (+1.0%), ASEAN-5 (+18.1%), and CLMV group (+16.6%).
- Stronger exports at the start of 2024 mirror the situation across ASEAN region, where export industries benefiting from improving global trade, although growth was partly driven by the low base set in 2023 (Chinese New Year was in January). **We expect Thai exports to recover in 2024 but remain slow at +2.5%**. This would be supported by anticipated stable global economic growth (close to last year's 3.1%), positive impact of easing inflation on purchasing power, and specific factors such as the cyclical recovery in sales of electronic products, El Niño impact on global agricultural prices, and increasing regionalization. Nevertheless, the expansion in Thai exports will not be broad-based and there are lingering risks arising from geopolitical tensions.

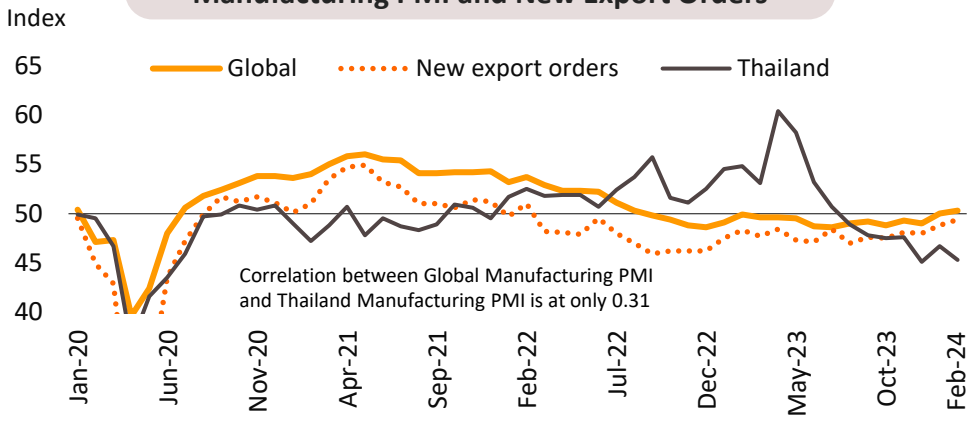
Despite improving global manufacturing activity, there are limited opportunities for Thai exports given structural headwinds and weak domestic industrial sector

Exports from Asian countries, including Thailand, have been recovering as demand for electronic products improve and supply disruptions ease. However, there is a structural problem in Thailand - a persistently weak manufacturing sector, which was reflected in February Thai Manufacturing PMI which remained in contraction territory (below-50) for the seventh consecutive month. That contrasts with the ASEAN Manufacturing PMI which was above-50 for the second consecutive month. This has raised concerns that Thai exports might be losing competitiveness and is struggling to keep up with evolving global demand patterns, suggesting exports could remain subdued ahead.

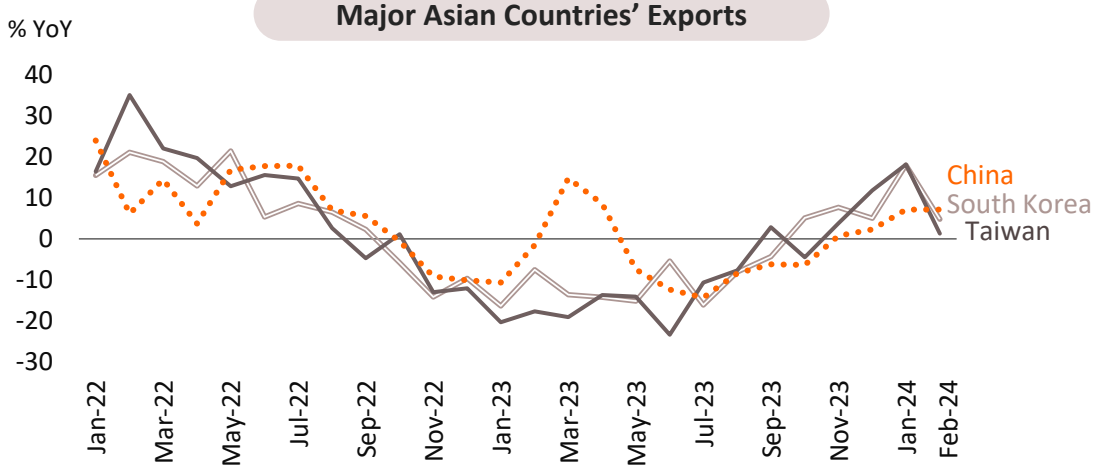
Global Supply Chain Pressure Index (GSCPI)



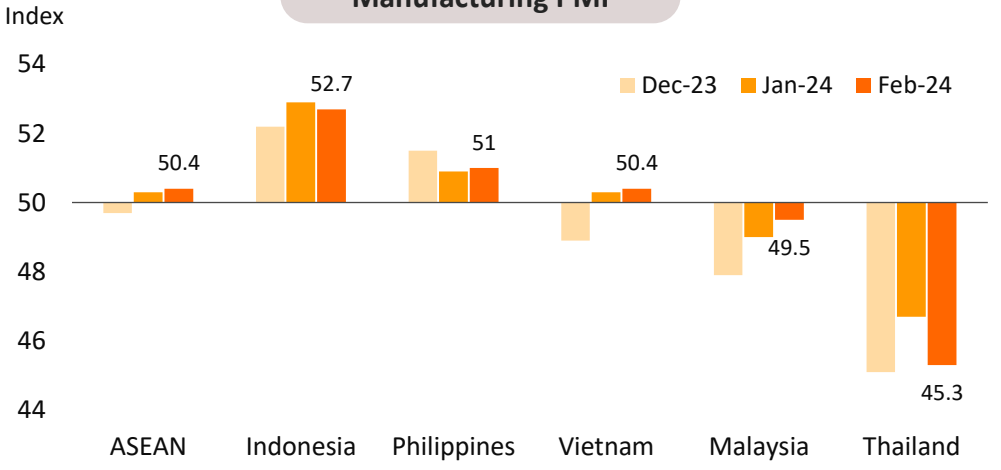
Manufacturing PMI and New Export Orders



Major Asian Countries' Exports



Manufacturing PMI

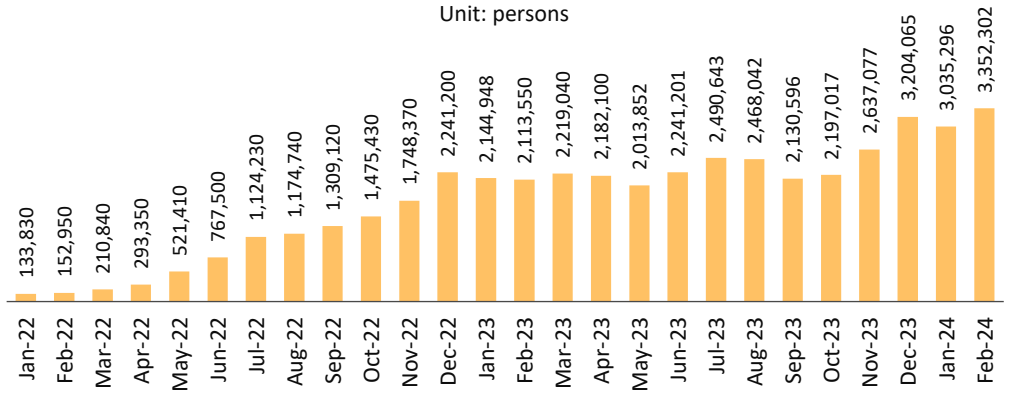


Source: S&P global, MOC, Bloomberg, CEIC, Krungsri Research

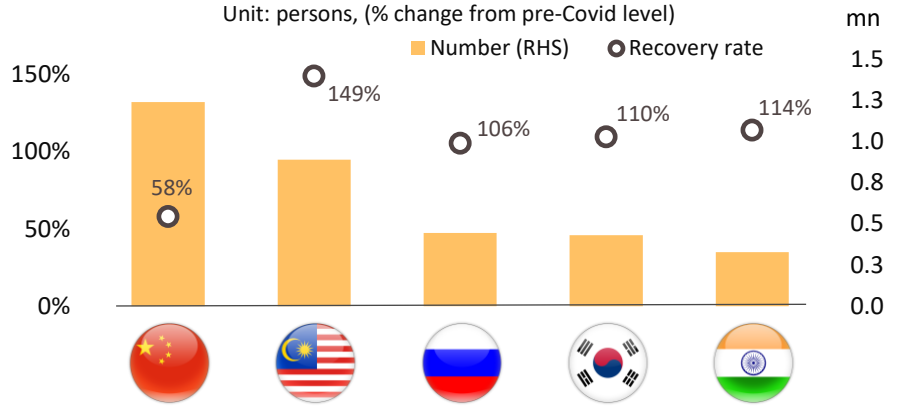
Tourism sector: Foreign tourist arrivals hit post-reopening high in February; tourist receipts have also improved

In February, Thailand welcomed 3.35 million foreign tourists, exceeding 3 million for the third consecutive month and the highest since reopening. **In the first two months of this year, tourist arrivals reached 6.39 million (87% of pre-Covid level) and generated THB310 bn receipts (88% of pre-Covid level vs 63% in 2023),** led by Chinese tourists, which made up the largest group but was still only 58% of pre-Covid level. Meanwhile, tourists from Malaysia, Russia, South Korea, and India surged to 106-149% of pre-pandemic levels. Recently, the tourism sector has shown positive signs with improving tourist receipts, permanent visa-free program between Thailand and China effective March 1, and extension of the visa-free program to August this year for Kazakhstan tourists which are potentially high-spenders. These measures will attract more tourists to Thailand; we estimate total arrivals would reach 35.6 million this year.

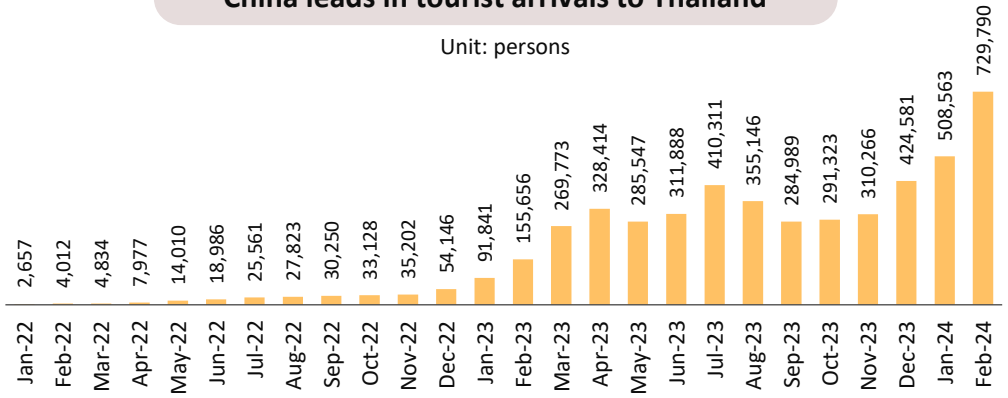
Foreign tourist arrivals exceeded 3 million for the 3rd consecutive month



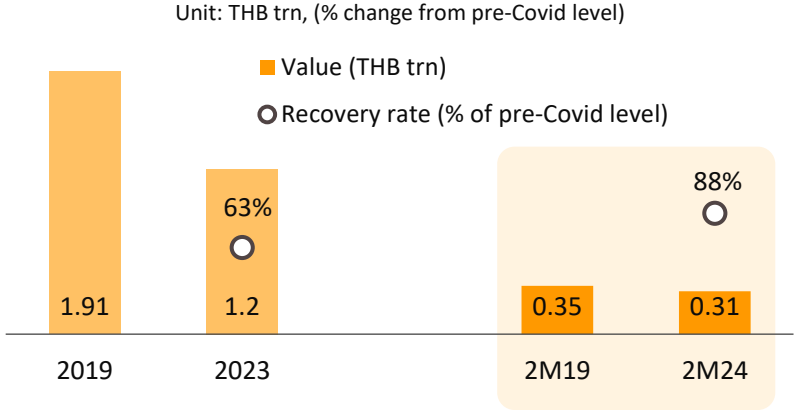
Top 5 tourist arrivals by country in 2M24 (Jan-Feb)



China leads in tourist arrivals to Thailand



Receipt from foreign tourist arrivals

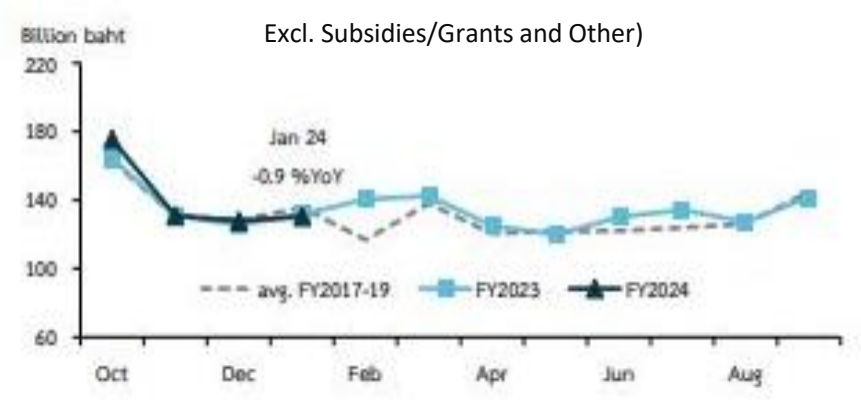


Source: MOTS, CEIC, Krungsri Research

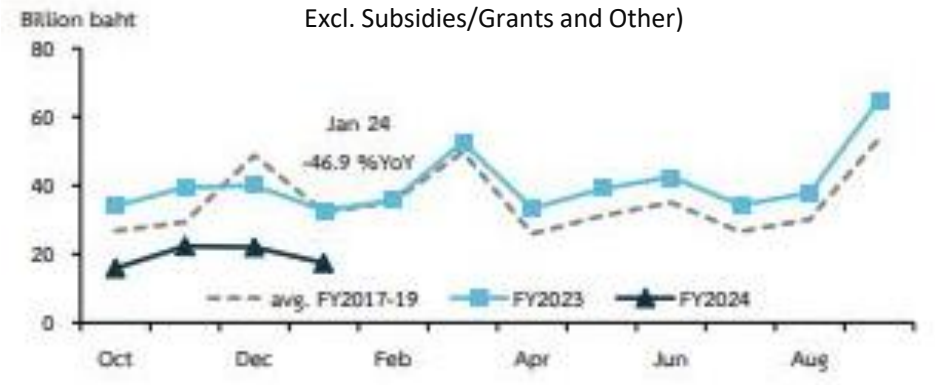
Public spending: Thai government has expedited draft of FY2024 Budget Act to facilitate disbursements in early Q2

In January, public spending contracted compared to the year-ago period due to smaller capital expenditures by the central government following delays in approving FY2024 Budget Bill, and from lower current expenditures (smaller disbursements to education agencies). Investments by state-owned enterprises expanded, driven by disbursements for transportation and energy projects. Recently, the cabinet approved a timeline for the approving of FY2024 Budget Act to expedite enforcement and disbursements in early of April, two weeks sooner than previously planned.

Central Government Current Expenditure



Central Government Capital Expenditure



State-owned Enterprises Capital Expenditure



Timeline for FY2024 Budget Bill

Process	Previous Plan	Latest
The second & third readings from the House of Representatives	3-4 April	20-22 March
The senate	9-10 April	25-26 March
Published in the Royal Gazette	17 April	3-10 April

Source: The Cabinet, BOT, FPO, Krungsri Research

Public infrastructure spending to support the economy in 2H24

The delayed preparation the FY2024 budget bill has led to investments in government construction projects being delayed in 2024. They include the country's transportation and logistics systems and development of trade linkages with neighboring countries. The projects include high-speed railway and Phase 1 and 2 of the dual-track line, improvements to the national highway system, and development of regional airports to improve integration across the transportation network. Work on a total of 31 projects with a total value of THB 390bn is due to commence in 2024, followed by another 57 projects worth THB 260bn in 2025*.

Major Infrastructure Projects between 2023 to 2027**

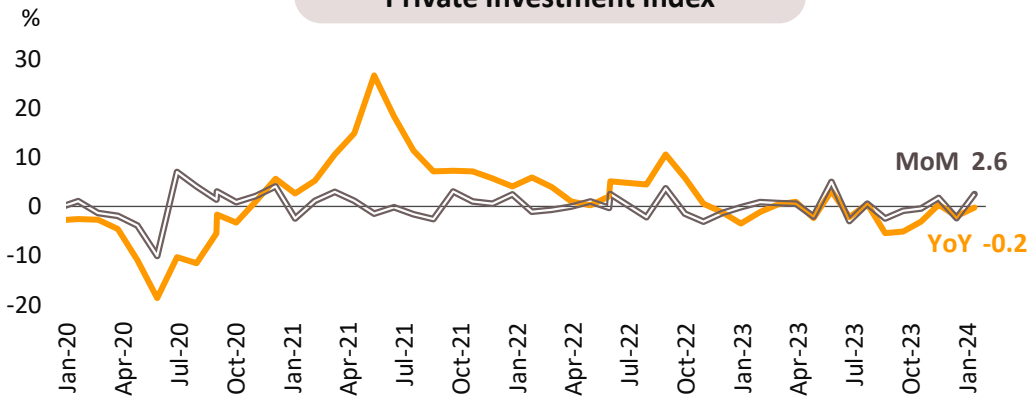
Project	Construction Period	Budget (THB, million)						Progress
		2023	2024	2025	2026	2027	Total	
1) Dual-track railway, phase 1								
- Lopburi - Pak Nam Pho	2018-2024	8,025	286				8,311	In progress
- Mab Kabao - Jira Junction	2018-2026	2,830	225				3,055	In progress
- Nokhon Pathom - Hua Hin	2018-2024	1,785					1,785	In progress
- Hua Hin - Prachuap Khiri Khan	2018-2024		560				560	In progress
- Prachuap Khiri Khan - Chumphon	2018-2024	1,715					1,715	In progress
2) Dual-track railway, phase 2								
- Khon Kaen - Nong Khai	**2023-2027**	**3**	**5,012**	**11,195**	**11,749**	**1,790**	**29,749**	**Due to commence in April 2024**
- Pak Nam Pko - Den Chai	2023-2027	6,064	5,879	14,181	21,756	13,792	61,672	Not yet started
- Den Chai - Chiang Mai	2023-2027	6	7,180	8,055	17,826	17,837	50,904	Not yet started
- Jira Junction - Ubon Ratchathani	**2023-2027**	**3,749**	**4,745**	**14,093**	**12,939**	**1,998**	**37,524**	**Due to commence in September 2024**
- Chumphon - Suratthani	2023-2027	6	3,466	6,371	9,917	4,527	24,287	Not yet started
- Suratthani - Hat Yai - Song Khla	2023-2027	6	6,920	9,975	19,552	16,768	53,221	Not yet started
- Hat Yai - Padang Besar	2023-2028	5	895	2,165	2,908	685	6,658	Not yet started
3) High-speed railway								
- Thre aiport link, phase 1 (Don Muang - Suvarnabhumi - U-Tapao)	2022-2028	424	413				837	In progress
- Regional rail-link, Bangkok - Nong Khai (Phase 1, Bangkok - Nakhon Ratchasima)	2018-2026	21,955	23,820	75,170	37,795		158,740	In progress
4) Laem Chabang Port, phase 3 (Under The Port Authority of Thailand)	2023-2027	10,174	6,678	4,198	4,325		25,375	In progress
5) National highway network	2023-2027	7,586	23,609	43,746	47,441	42,811	165,193	In progress
6) Enhancing airport capacity to integrate transportation network	2023-2029	3,563	5,622	2,646	2,491	2,256	16,578	In progress

Note: * Bangkokbiznews, January 31, 2024; ** Action Plan on Thailand Logistics Development 2023-2027; Ministry of Transport
Source: Office of Transport and Traffic Policy and Planning, as of March 2023, Matichon (2 January 2024), compiled by Krungsri Research

Private investment could improve from Q2 onwards due to crowding-in effect but will remain fragile due to structural problems in the manufacturing production sector

Private investment shrank -0.2% YoY in January, but after adjusting for seasonality, it improved 2.6 % MOM led by stronger investment in machinery & equipment following higher imports of capital goods and higher investment in construction. Support for the recovery of private investment in the next period include (i) a potential rebound in public investment which will create crowding-in effect from Q2 onwards; (ii) investments in the services sector which will benefit from recovering tourism activity; and (iii) investment incentives for targeted industries. **However, industrial production and capacity utilization rates are low and have yet to returned to pre-pandemic levels. That could reflect structural problems in Thailand's manufacturing production sector.**

Private Investment Index

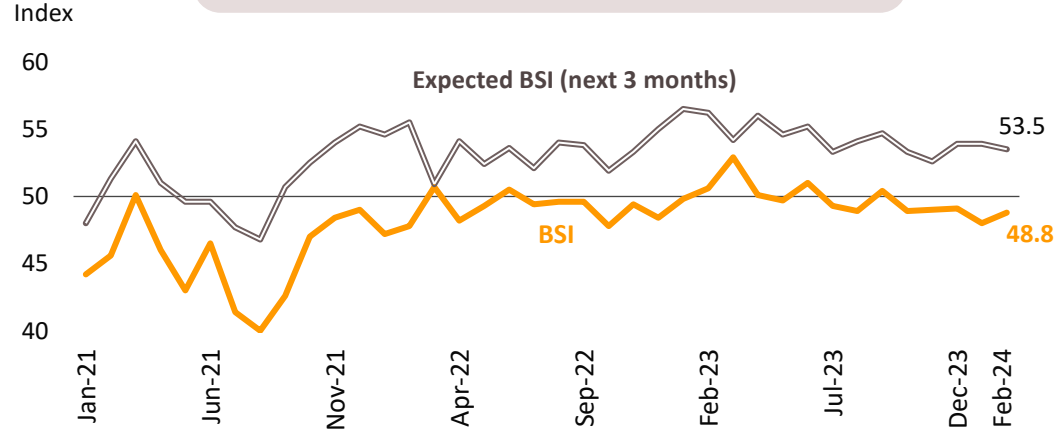


Private Investment by category

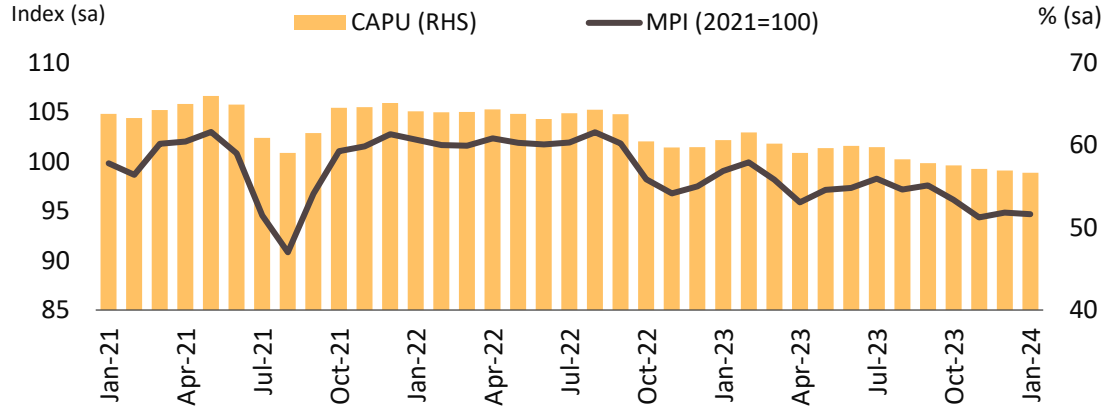
%YoY*	2021												2022												2023												2024
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J
Private investment																																					-0.2
Construction area permitted																																					9.0
Construction material sales																																					-2.5
Imports of capital goods																																					7.7
Machinery sales																																					-3.9
Newly registered vehicles																																					-19.3

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

Business Sentiment Index remains weak



Manufacturing Production Index and Capacity Utilization Rate

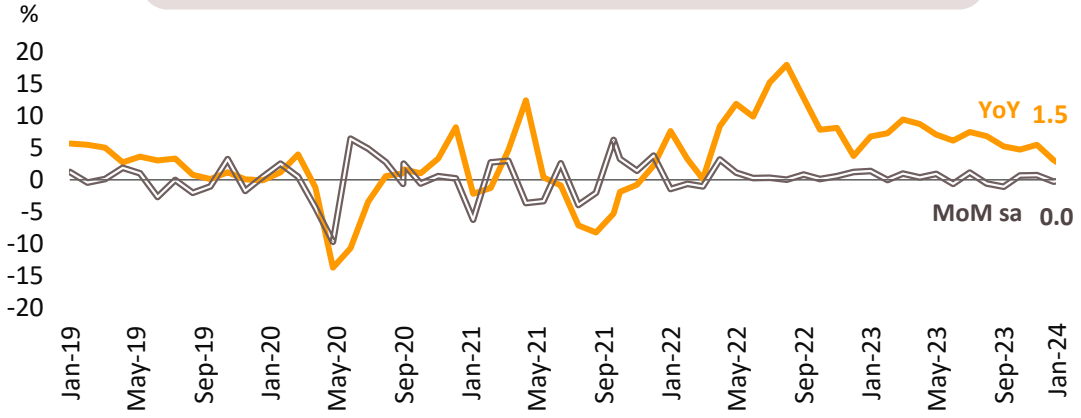


Source: BOT, OIE, CEIC, Krungsri Research

Private consumption marked slower growth despite benefiting from recovering services and activities as well as the tax refund program

In January, private consumption grew 1.5% YoY. After adjusting for seasonal factors, it was stable compared to the previous month. **The rise in spending across nearly all product categories was driven by a jump in foreign tourist receipts in the month; if we exclude that, private consumption by local residents was stable compared to the previous month.** There was some support for household purchasing power, specifically improving consumer confidence. The (CCI) Consumer Confidence Index rose to a 48-month high of 63.8 in February. But, there could be several headwinds in the next period, including (i) payback effect when the Easy E-Receipt program expires in mid-February, (ii) high household debt, and (iii) drought impact on farm income.

Private consumption rose slightly from previous month

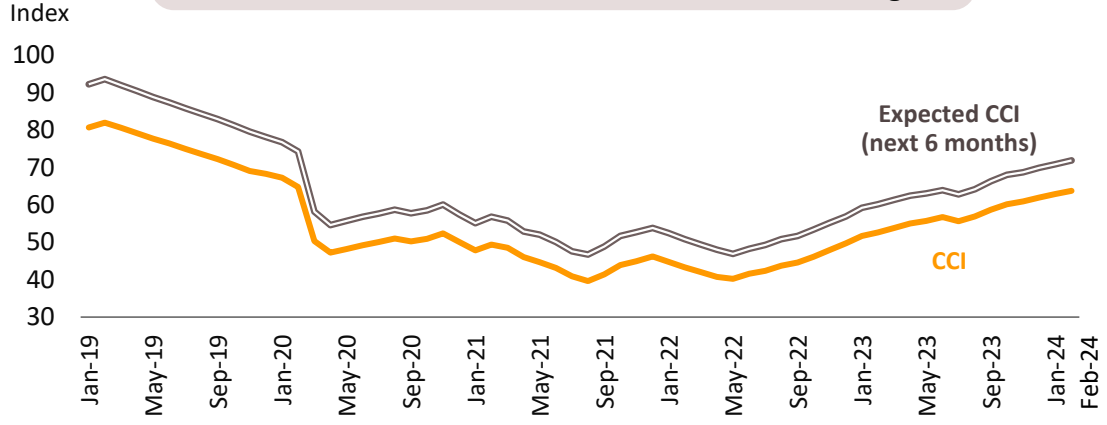


Private consumption by category

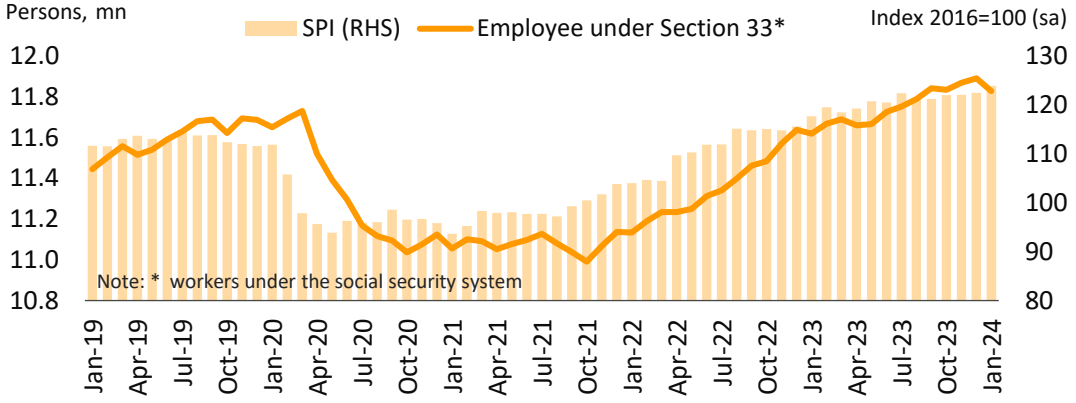
%YoY*	2021												2022												2023												2024
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J
Private consumption																																					1.5
Non-durables																																					3.7
Semi-durables																																					0.2
Durables																																					-2.4
Services																																					8.0
Non-residents expenditure																																					64.2

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

Consumer Confidence Index reached a 48-month high



Service Production Index and Employment

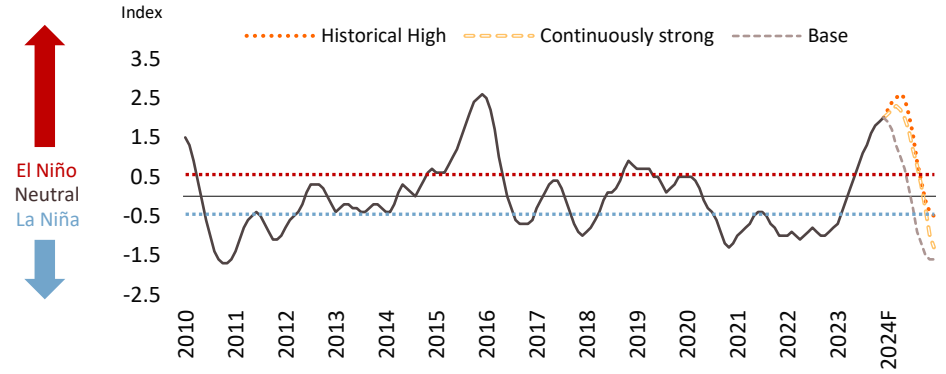


Source: BOT, University of the Thai Chamber of Commerce (UTCC), Social Security Office (SSO), CEIC, Krungsri Research

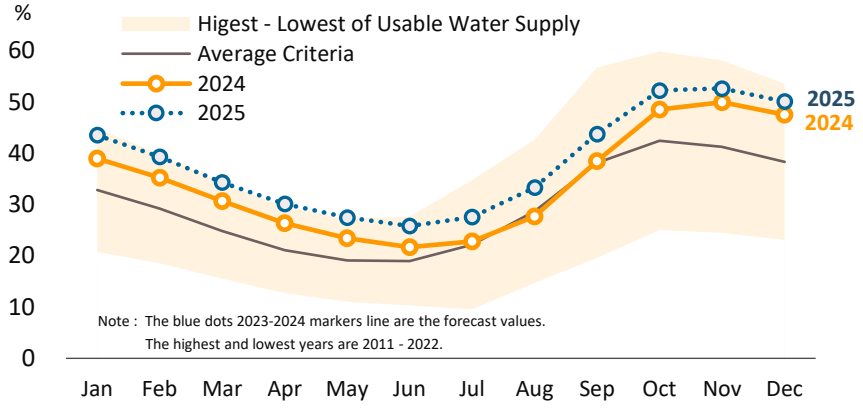
El Niño to transition to Neutral in mid-2024 but drought conditions since 2023 could still hurt this year's harvest and reduce 2024 GDP by over THB50bn

El Niño has been affecting the climate in Thailand but the full effects will manifest in 2024 as the country experiences higher temperatures. The delayed onset of seasonal rains would cause below-average precipitation across the country. In 2023, the effects were most visible on crops that are sensitive to water shortage, such as off-season rice and cassava. In 2024, the effects will spread to other major crops, including sugarcane, corn, fruits, and forestry goods. In some cases, the effects could be worse for downstream industries than upstream suppliers. In our baseline case, drought-related losses are expected to reach THB 51.3 bn or 029% of GDP; it could reach THB 85-119 bn or 0.47-0.66% of GDP if the drought is more severe than expected in 2024.

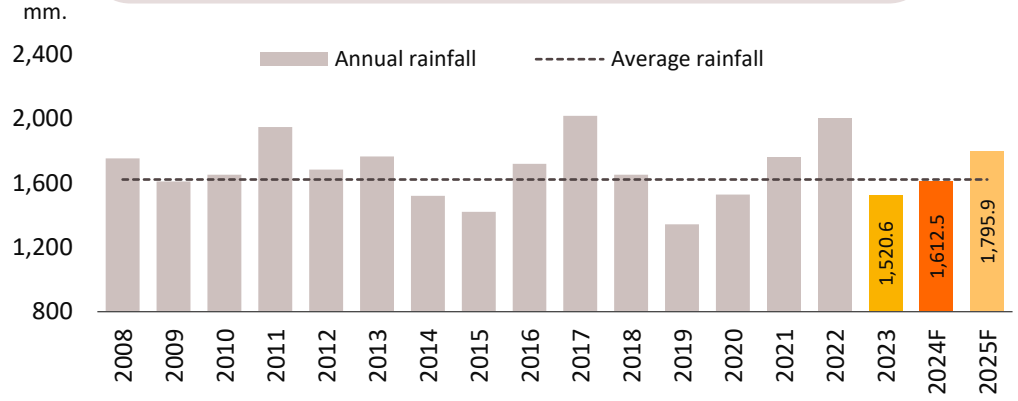
Oceanic indices suggest El Niño had peaked in Dec'23 and weather conditions would transition to neutral in mid-2024



% of usable water supply of Thailand



Annual rainfall in Thailand is expected to drop below historical average in 2024 and rise in 2025



Projection of drought-induced economic losses

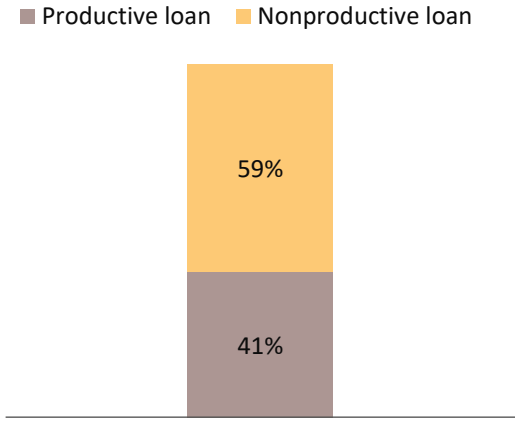
In 2024, Scenario of Drought Risk	Base Case (Expected case)	Worse Case (Stronger El Niño than expected)	Worst Case (Historical high)
Probability	50%	30%	20%
Rice	21.6	36.6	51.6
Sugarcane	18.2	33.6	48.9
Cassava	7.1	8.4	9.7
Oil Palm	2.7	3.0	3.2
Rubber	1.7	3.5	5.2
Economic loss (Billion Baht)	51.3	85.1	118.6
As percent of GDP	0.29%	0.47%	0.66%

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

Most household loans non-productive; NCB warns *household debt* is still rising, bad debts a growing concern

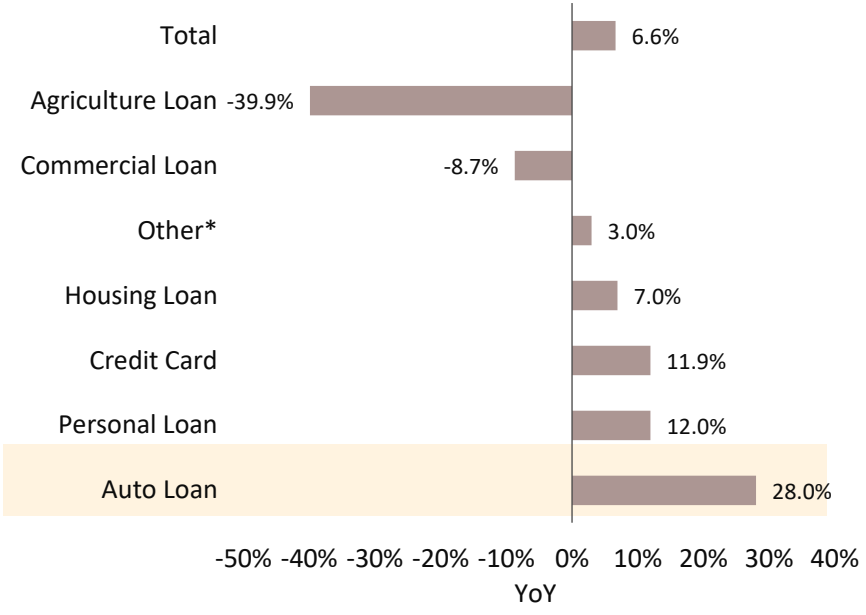
At the end of 2023, loans outstanding in the NCB consumer database rose to THB13,683 billion from THB 13,200 billion in 3Q23, and rose by 3.7% YoY. **Share of non-productive loans was high at 59% of total loans in 4Q23**. Compared to the previous year, total NPLs surged 6.6% driven by auto loans (+28%), personal loans (+12%), and credit card loans (+11.9%). Meanwhile**, there are rising concerns over the strong jump in housing and personal loans categorized as Special Mentions (SM*),** by 31.1% YoY and 24.1%, respectively, in December. This could turn into NPLs in the future, which will worsen the household debt problem and make it more challenging to address. **If Thai GDP growth cannot return to the potential rate of above 3%, the ratio of household debt to GDP could remain close to 90% this year and the BOT would take longer to bring debt level back to its target of 80% of GDP. This suggests Thailand needs to take urgent action in a large scale to address its debt problem.**

Proportion of Productive and Non-productive Household Loans

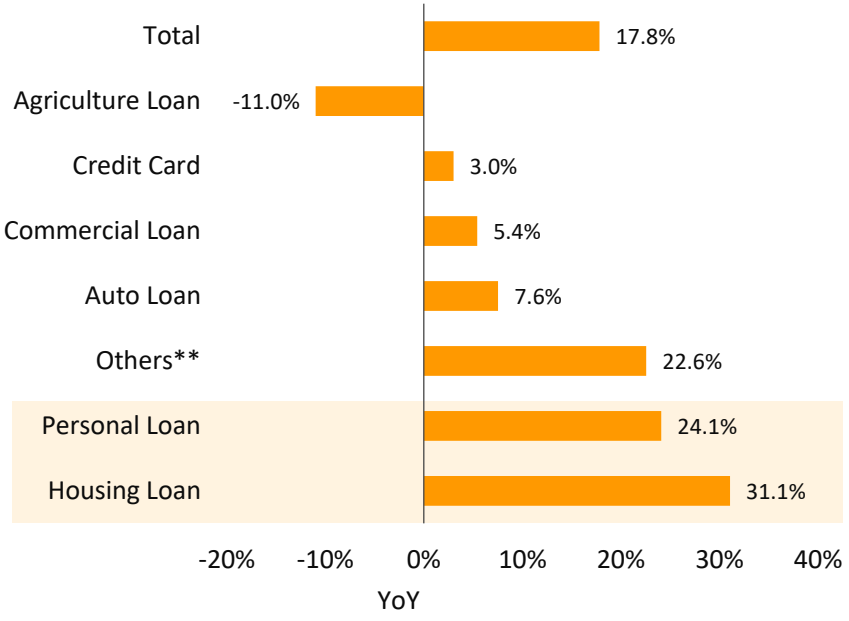


***Productive loan**: Housing loan (36.5%), Commercial loan (4.9%)*
***Nonproductive loan**: Auto loan (19.1%), Personal loan (19%), Agriculture loan (6.1%), Credit cards (4.3%), OD (2.4%), Other (7.7%)*

NPL growth by portfolio (Dec 2023)



SM* growth by portfolio (Dec 2023)

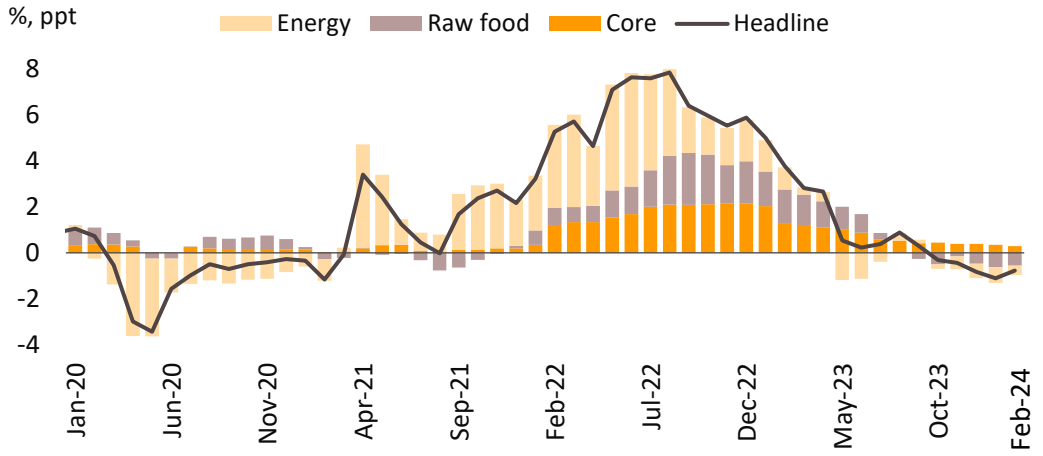


Note (*) Special mentions: Debt is overdue for more than 30 days but less than 90 days
(**): Factoring, Hire purchase loans in Agriculture, Bill discount-CBD, CooP Loan, Nano finance, Loan Guarantee, etc.

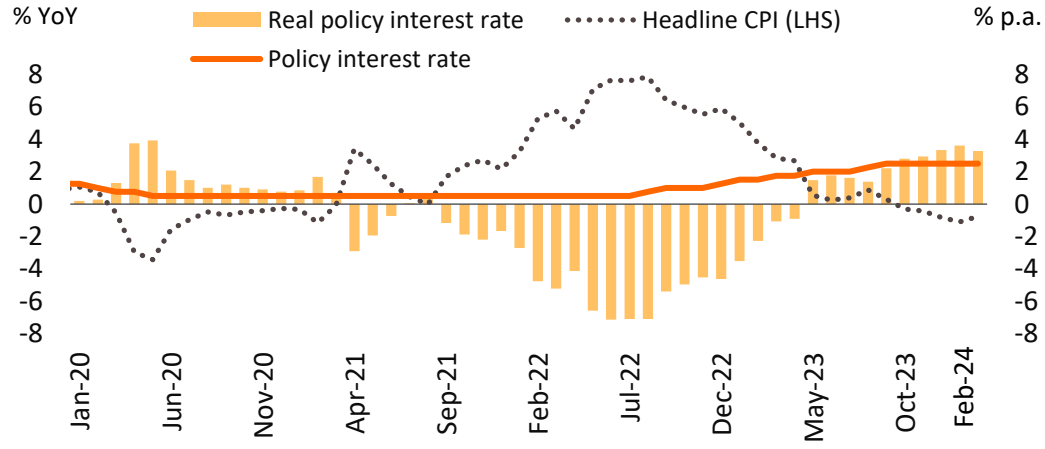
Source: NCB, NESDC, Krungsri Research

Still-low *core inflation*, close to pre-pandemic level, could prompt the MPC to consider its first *interest rate cut* in mid-2024

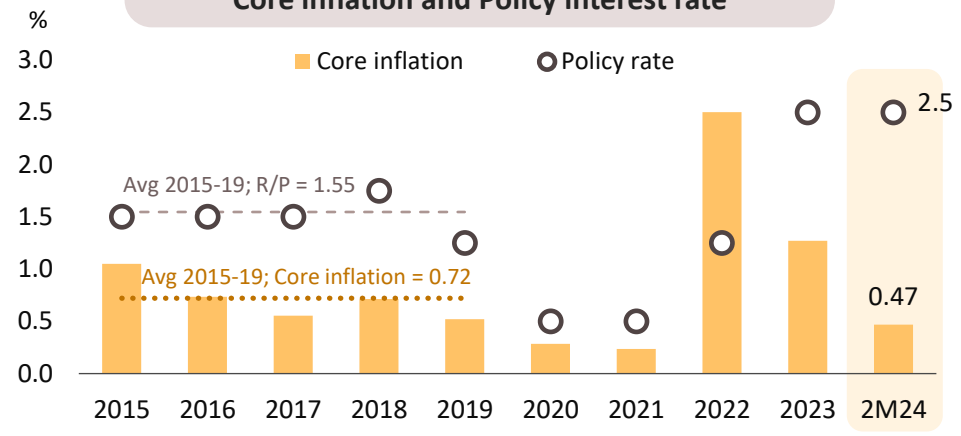
Contributors to inflation



Real policy interest rate



Core inflation and Policy interest rate



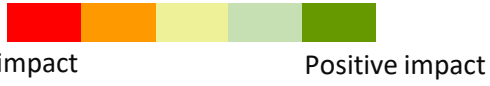
Source: MOC, BOT, Krungsri Research

Krungsri Research's view

- **Headline inflation stood at -0.77% YoY in February against a 35-month low of -1.11% in January.** The latest index data was influenced by larger supply which led to lower prices for fresh meat and vegetables, and government policies on diesel price and electricity bills. Core inflation, which excludes raw food and energy costs, also cooled from 0.52% to 0.43%. For the first two months of this year, headline and core inflation marked -0.94% and 0.47%, respectively.
- **Headline inflation will remain negative throughout Q1,** the trend spilling over from the final quarter of 2023. Falling prices are partly attributable to government control over diesel price and electricity bills. However, it could turn positive in Q2, premised on (i) easing high-base effect, (ii) expiry of THB 30 cap on diesel price on 19 April, and (iii) higher commodity prices because of the drought impact and ongoing geopolitical tensions. Prices might also be affected by the second hike in minimum wage this year. The Ministry of Labour is considering several options, but the hike is likely to be dependent on area and occupation and is scheduled to take effect in Q2.
- **We expect the BOT to consider easing monetary policy this year.** Thailand's economy is expected to register stronger growth this year than last year, but the pace will remain slow. Core inflation is expected to remain close to its pre-Covid level this year; in 2015-2019, it averaged 0.72%, compared to a 0.47% average in the first two months of this year. During pre-covid period (2015-2019), policy rate averaged 1.55% compared to 2.50% currently. Coupled with potentially weak 1Q24 GDP data, to be released in May, **we expect the MPC to make its first rate cut in mid-2024.**

2Q24: Higher public spending and recovering tourism activity would support growth but upside could be capped by drought, higher debt levels, and external risks

Major factors - Impact on the Thai economy	1Q24	2Q24
Public spending and infrastructure investment		
Recovering tourism activity and rising employment		
Policy supports such as Easy-E-Receipt and subsidies for energy costs		
Minimum wage hikes		
Impact of drought (El Niño)		
Signs of potential interest-rate cuts in major countries in 2H24		
Geopolitical tensions & defragmentation of globalization		
Domestic structural headwinds (high debt levels, demography, competitiveness)		



Source: Krungsri Research

KRUNGSRI RESEARCH

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