Economics

Thailand chartbook: Gradual recovery faces rising external threats

Economics/Growth/Inflation/Monetary

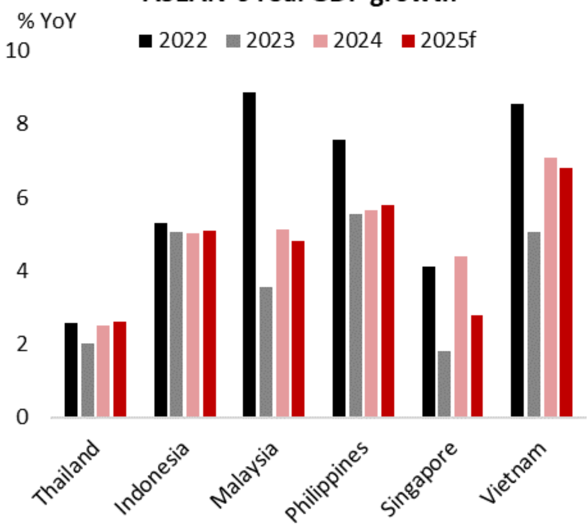
Group Research | February 18, 2025

Chua Han Teng, CFA
Economist

Please direct distribution queries to
Violet Lee +65 68785281 violetleeyh@dbs.com

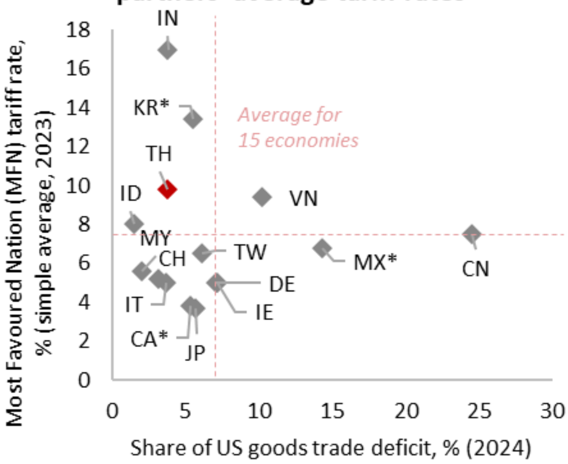
- *Thai real GDP growth rebounded to 2.5% in 2024 from 2.0% in 2023. 4Q24 growth rose to 3.2% YoY but disappointed expectations.*
- *Near-term growth will be supported by rising tourism, rebounding consumer confidence, and resilient public spending and exports.*
- *Full-year 2025 growth faces considerable downside risks from escalating US tariff threats.*
- *Thai exports are vulnerable to the US's reciprocal tariffs, given high tariff differential with the US and Thailand's position as the US's 11th largest goods trade deficit partner.*
- ***Forecast implications:** We lower our 2025 real GDP growth and headline inflation forecasts to 2.6% and 1.2%, respectively (from 3.0% and 1.5%).*
- *We factor in 25bps policy interest rate cut to 2.00% in 1H25, with risks of further reductions.*

ASEAN-6 real GDP growth



Source: CEIC, DBS

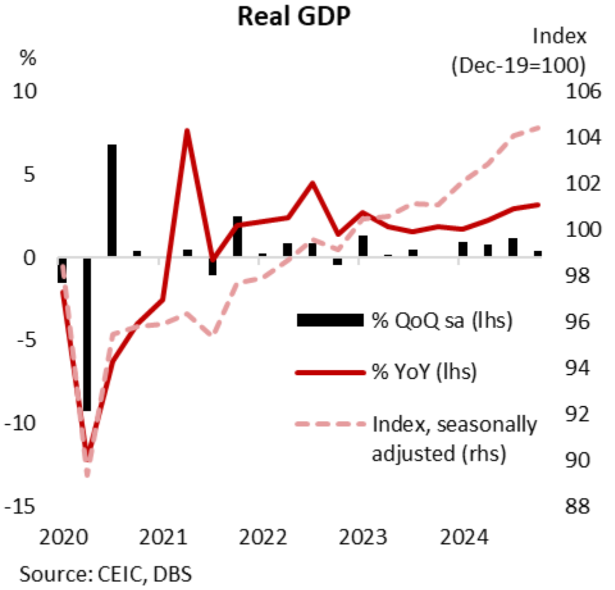
US's top 15 goods trade deficit partners, and partners' average tariff rates



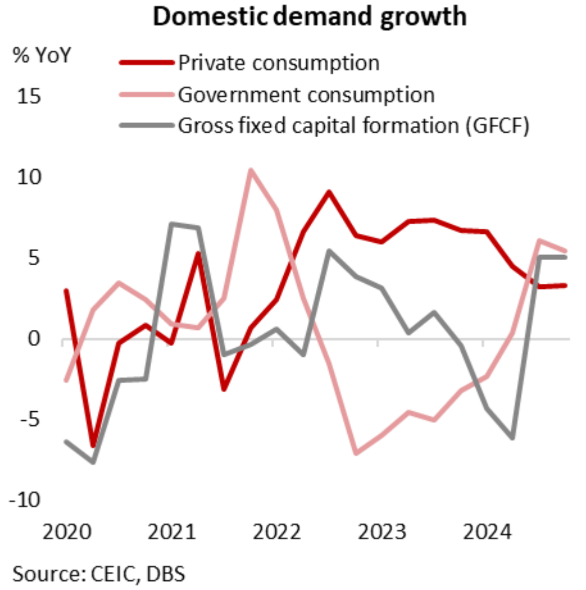
Source: CEIC, WTO, DBS. *: The US has free trade agreements with these economies.

Real GDP growth

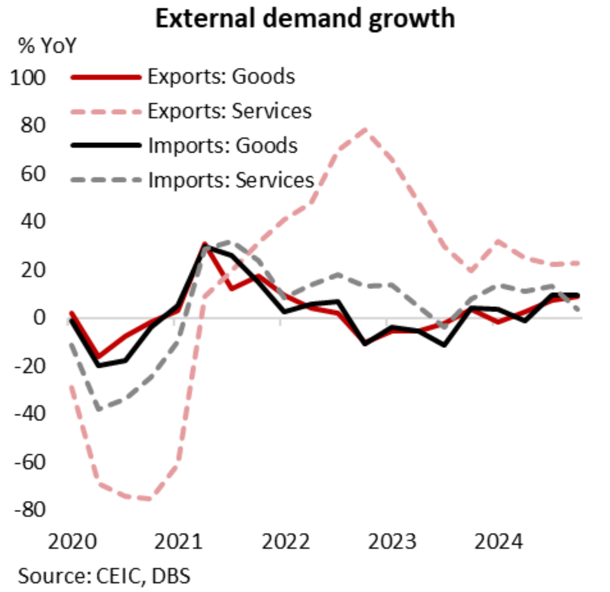
Economic growth rebounded to 2.5% in 2024, from 2023's 2.0% but below 2022's 2.6%. 4Q24 growth rose to 3.2% YoY, but disappointed expectations. We lower our 2025 growth forecast to 2.6%, with downside risks mounting.



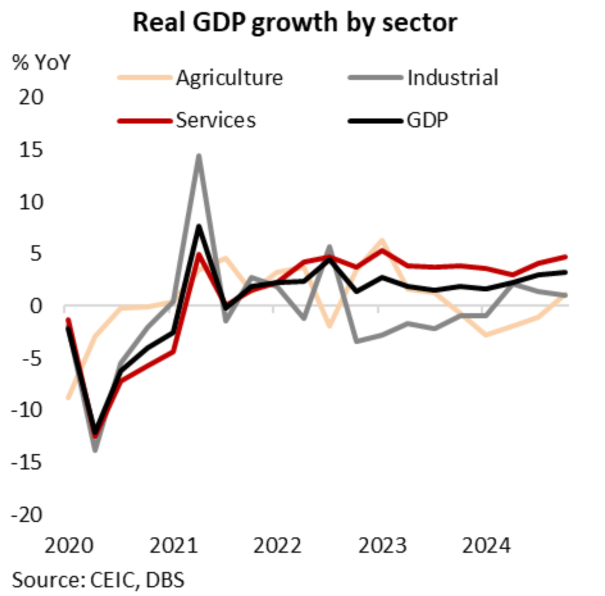
Domestic demand growth in 4Q24 remained supported by strong government consumption and public investment. Despite the digital wallet handouts, private consumption growth in 4Q24 was close to 3Q24's expansion.



Services exports sustained robust growth in 4Q24, amid the return of tourists. Goods exports expanded at their fastest since 1Q22 amid resilient near-term external demand, but face risks from escalating US tariff threats.

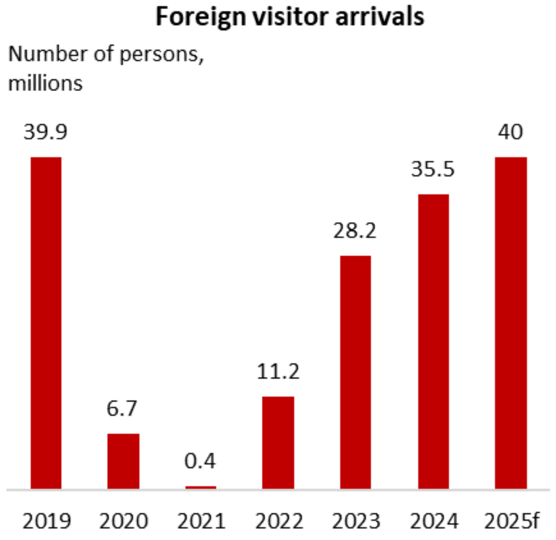


The economic growth pick-up in 4Q24 continued to be driven by the services sector, which expanded for the 15th consecutive quarter. The industrial sector expanded for the third consecutive quarter but at a slower rate.



Tourism and Private consumption

Tourism will remain a key growth engine in 2025. We expect foreign visitor arrivals to return to the pre-pandemic 2019 levels in 2019, after a recovery to 89% in 2024.

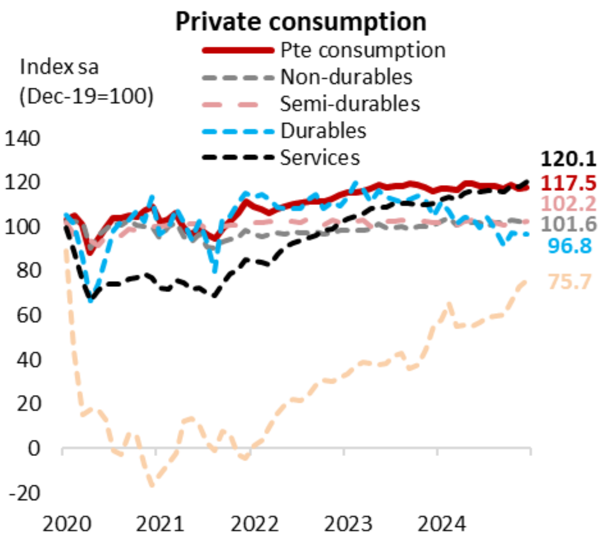


Source: CEIC, DBS

While China returned to 1st place as Thailand top tourism source in 2024, its recovery lagged other top countries. Chinese tourists will recover further, but could be challenged by consumer headwinds and safety concerns.

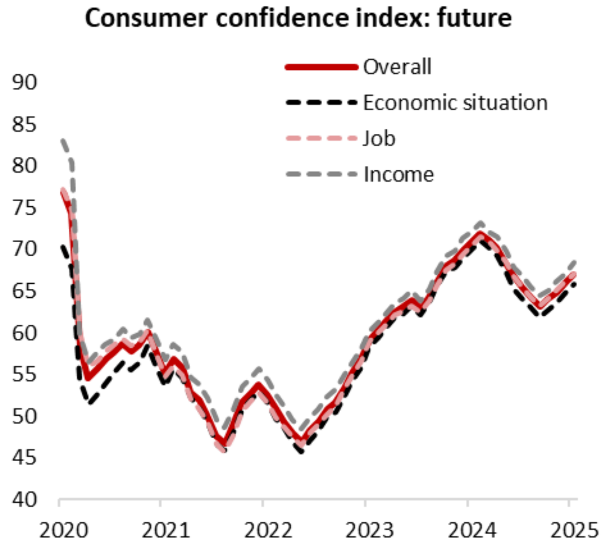
Source: CEIC, DBS

Private consumption continues to be supported by services strength, while spending on durable goods, notably autos, remains weak. The government's digital wallet scheme will support spending, with phase two rolled out in January.



Source: CEIC, DBS
Note: dotted lines refer to sub-indices

Consumer confidence rose for the fourth consecutive month and hit an eight-month high in January 2025. Government stimulus should continue to provide support, and cushion the deceleration in private consumption.

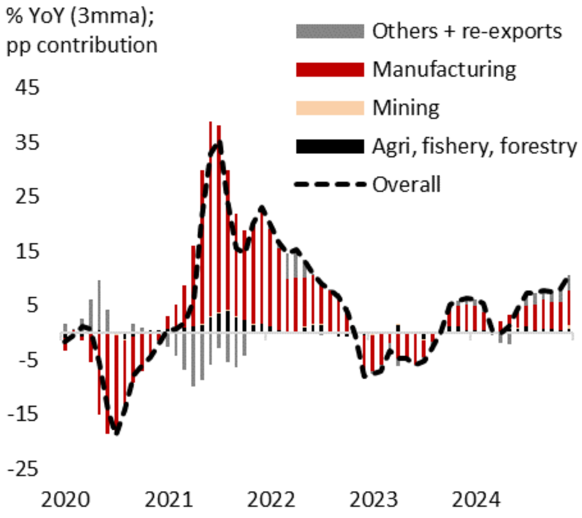


Source: CEIC, DBS. Note: dotted lines refer to sub-indices

Goods exports

The strong performance of Thai exports in 2024 was supported by manufacturing shipments, notably, electronics, amid the global tech upcycle. Still resilient external demand should support Thai exports at least in early 2025.

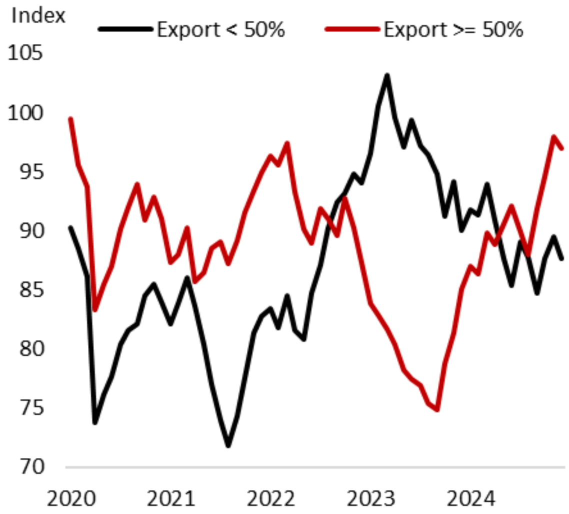
Customs exports



Source: CEIC, DBS

Business sentiment among export-oriented manufacturers remains sanguine in the near-term, despite increased geopolitical uncertainties. Domestic-oriented factories face headwinds from weak local autos sales.

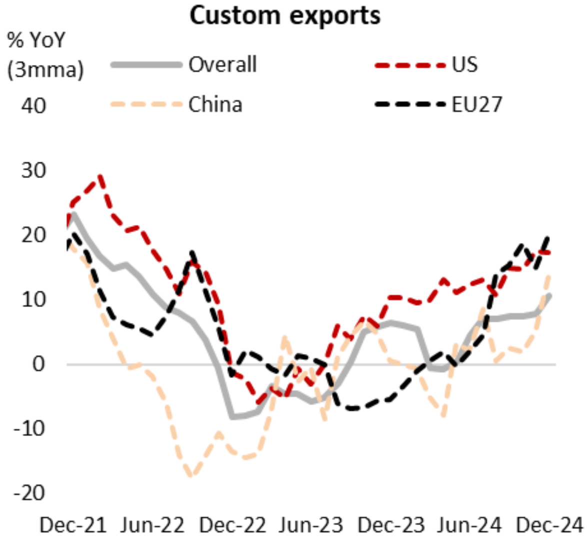
Industries sentiment by export share



Source: CEIC, DBS

The recovery in Thai exports in 2024 has been supported by key destination markets, such as the US, Europe, and China. However, beyond the near-term, Thai exports faces downside risks from escalating US tariff threats.

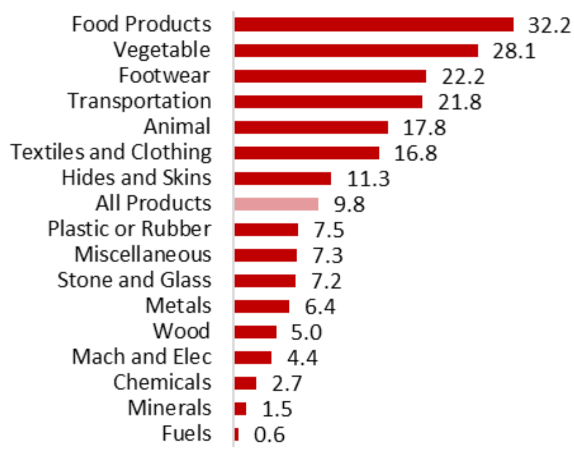
Custom exports



Source: CEIC, DBS

Thai exports are directly vulnerable to the US's reciprocal tariffs, given their high tariff differential with the US across a broad range of products.

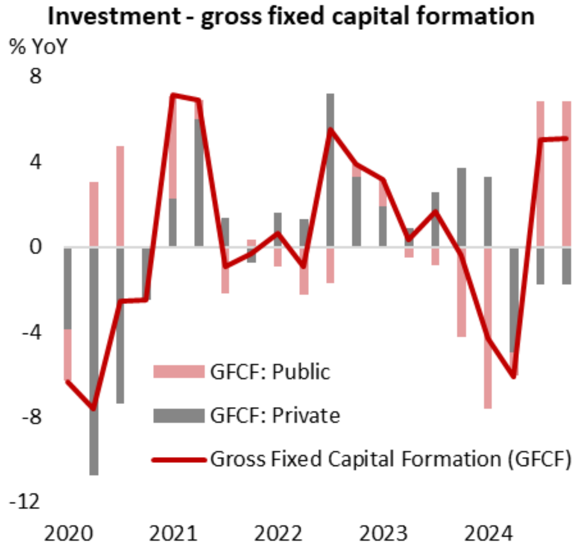
Thailand's Most Favoured Nation (MFN) tariff rates on US imports, % (simple average, 2022)



Source: WITS, DBS

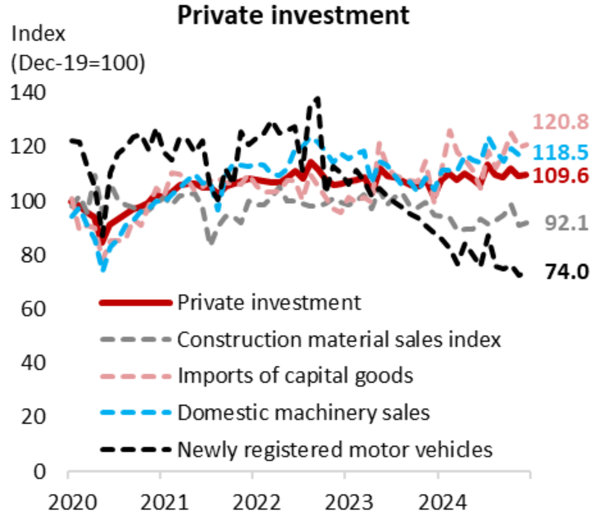
Investment

Overall gross fixed capital formation grew by around 5% YoY for the second consecutive quarter in 4Q24. This was mainly driven by public investments, while private investments contracted.



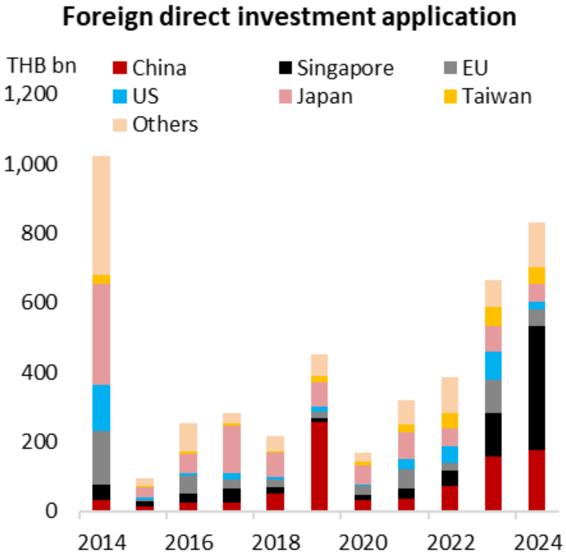
Source: CEIC, DBS

Private investment activity was uneven in 4Q24. Growth in capital goods imports and domestic machinery sales continued to outperform contracting autos. Thailand should benefit from increased foreign investment pledges.



Source: CEIC, DBS
Note: dotted lines refer to sub-indices

Foreign direct investment (FDI) applications reached a decade-high in 2024. Thailand should continue to benefit from the China+1 trend, amid supply chain diversification. Chinese investor interest remains robust.



Source: CEIC, DBS

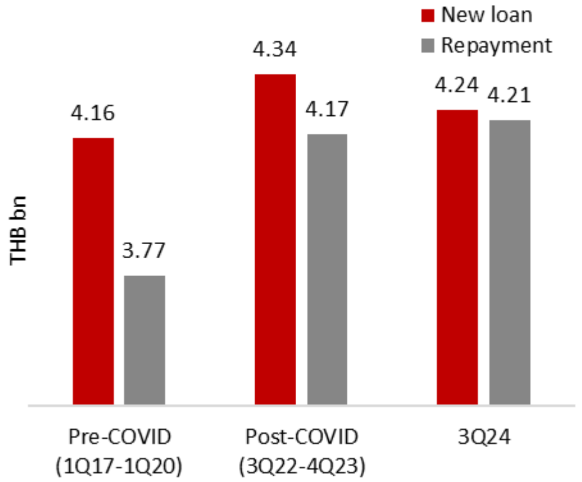
FDI interest in the Eastern Economic corridor is focussed on emerging growth areas such as smart electronics and digital technologies, and to some extent, electric vehicles.

Source: CEIC, DBS

Credit

Debt repayment has increased in the post-pandemic period and in 2024, compared with pre-COVID. New loans are pressured amid heightened credit risks.

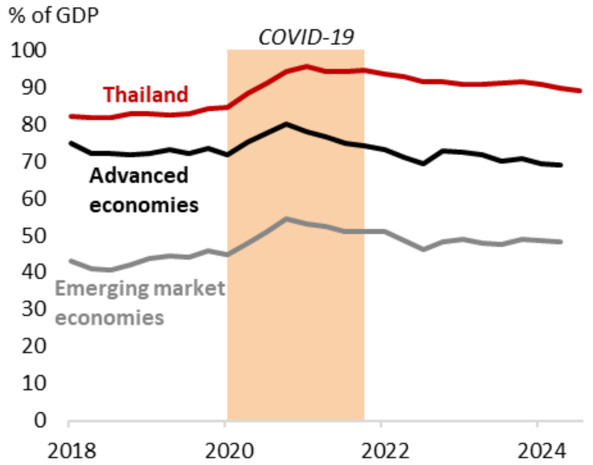
Amount of new loan and repayment of Thai commercial banking system



Source: BOT Monetary Policy Report, DBS

Thailand's household debt to GDP is falling gradually as credit disbursement to consumers cools, but remains high compared to advanced economies and other emerging market economies.

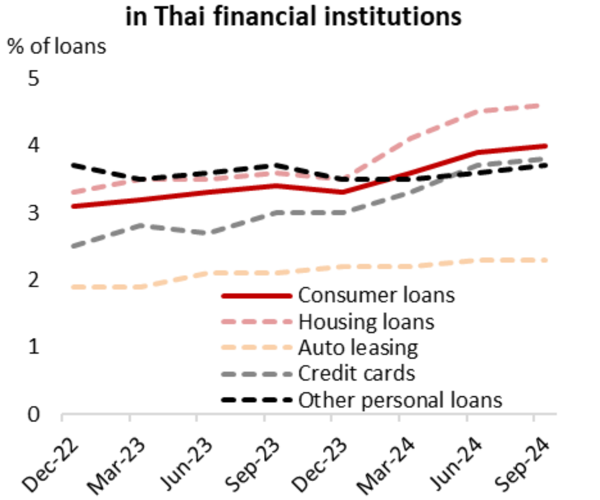
Household debt to GDP



Source: BOT, CEIC, DBS
Note: BOT enhanced the coverage of its household debt statistics in June 2023.

The credit quality of consumer loans continues to deteriorate. Mortgages have the highest non-performing loan (NPL) ratio among all retail categories.

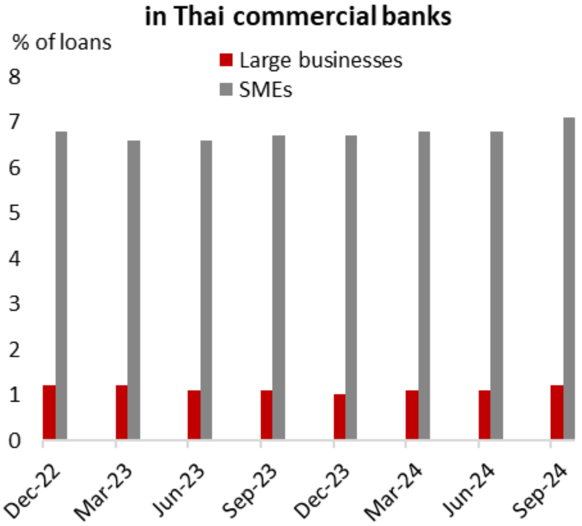
Non-performing loans of consumer loans in Thai financial institutions



Source: BOT Monetary Policy Report, DBS
Note: dotted lines refer to categories within consumer loans

Small and medium-sized enterprises (SMEs) are the most stressed, with significantly higher NPL ratio. The Bank of Thailand (BOT) will closely monitor the potential negative impact on the economy from the credit weakness.

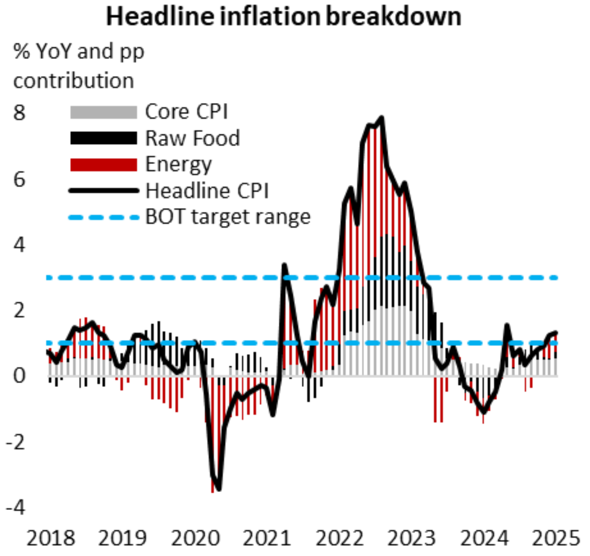
Non-performing loans of business loans in Thai commercial banks



Source: BOT Monetary Policy Report, DBS

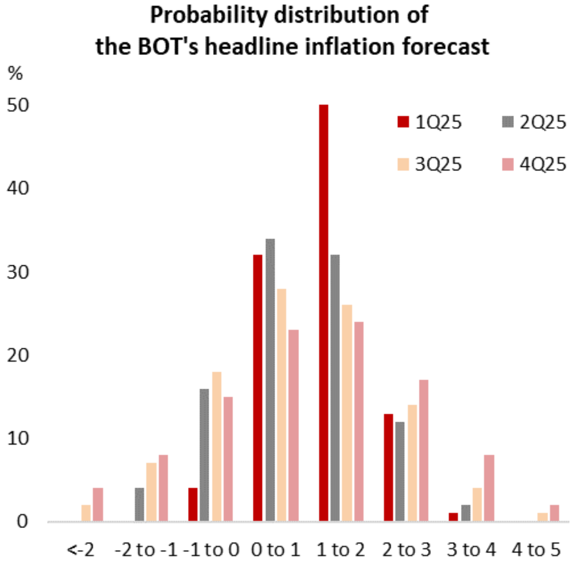
Inflation and Monetary policy

Headline inflation has risen into the central bank's 1-3% target since December 2024, but remains contained. Energy inflation is positive and manageable, similar to raw food and core items.



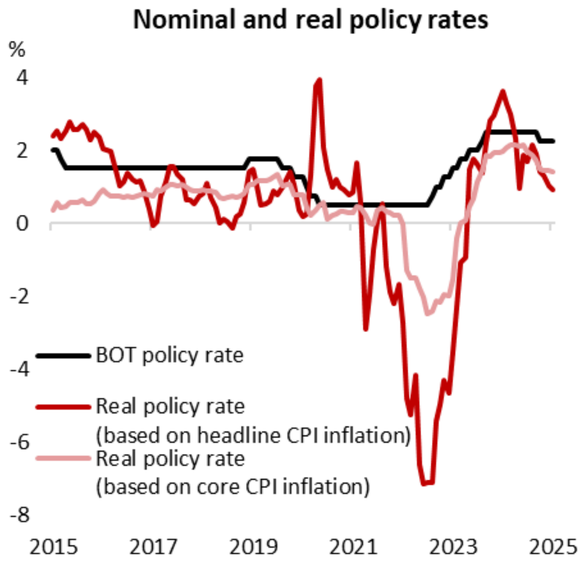
Source: CEIC, DBS

The BOT sees a higher risk of Thailand's headline inflation falling below its 1-3% target after 1Q25. We have lowered our 2025 headline inflation forecast to 1.2%, but risks are tilted to the downside amid growth uncertainties.



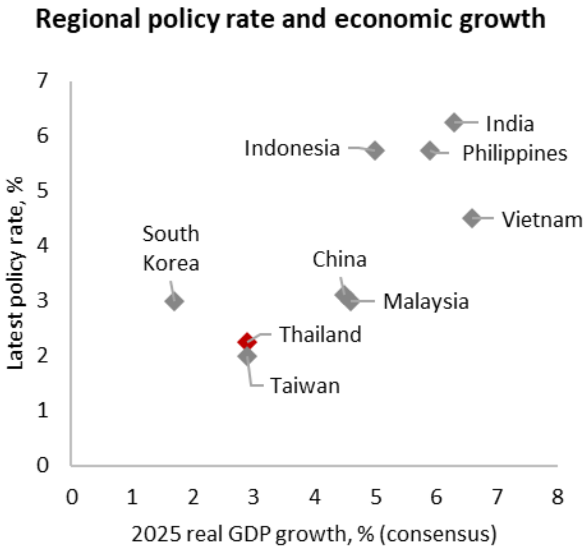
Source: BOT Monetary Policy Report, DBS

The real policy rate has eased further from its peak, but remains above the 10-year average. Policymakers aim to balance economic growth and financial stability. We see downside risks to the policy rate, given growth uncertainties.



Source: CEIC, DBS

However, Thailand has one of the lowest policy interest rates in the region, which partly reflects its lagging growth outlook. The BOT therefore has lesser monetary policy space to cushion the economy in a downturn.



Source: CEIC, Consensus economics, DBS

Group Research

Economics & Strategy

Taimur BAIG, Ph.D.
Chief Economist
Global
taimurbaig@dbs.com

Wei Liang CHANG
FX & Credit Strategist
Global
weiliangchang@dbs.com

Tracy Li Jun LIM
Credit Analyst
USD Credit
tracylimt@dbs.com

Amanda SEAH
Credit Analyst
SGD Credit
amandaseah@dbs.com

Nathan CHOW
Senior Economist
China/HK SAR
nathanchow@dbs.com

Eugene LEOW
Senior Rates Strategist
G3 & Asia
eugeneleow@dbs.com

Daisy SHARMA
Analyst
Data Analytics
daisy@dbs.com

Han Teng CHUA, CFA
Economist
Asean
hantengchua@dbs.com

Teng Chong LIM
Credit Analyst
SGD Credit
tengchonglim@dbs.com

Joel SIEW, CFA
Credit Analyst
SGD Credit
joelsiew@dbs.com

Mo JI, Ph.D.
Chief Economist
China/HK SAR
mojim@dbs.com

Tieying MA, CFA
Senior Economist
Japan, South Korea, Taiwan
matieying@dbs.com

Mervyn TEO
Credit Strategist
USD Credit
mervynteo@dbs.com

Byron LAM
Economist
China/HK SAR
byronlamfc@dbs.com

Radhika RAO
Senior Economist
Eurozone, India, Indonesia
radhikarao@dbs.com

Samuel TSE
Economist/Strategist
China/HK SAR
samueltse@dbs.com

Violet LEE
Associate
Publications
violetleeyh@dbs.com

Philip WEE
Senior FX Strategist
Global
philipwee@dbs.com

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)