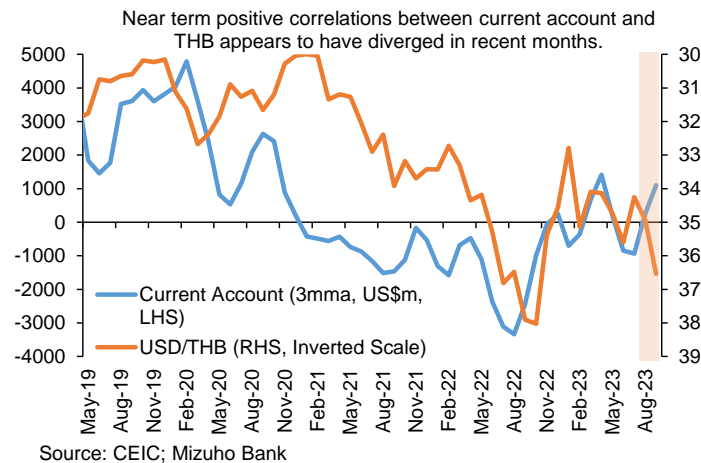


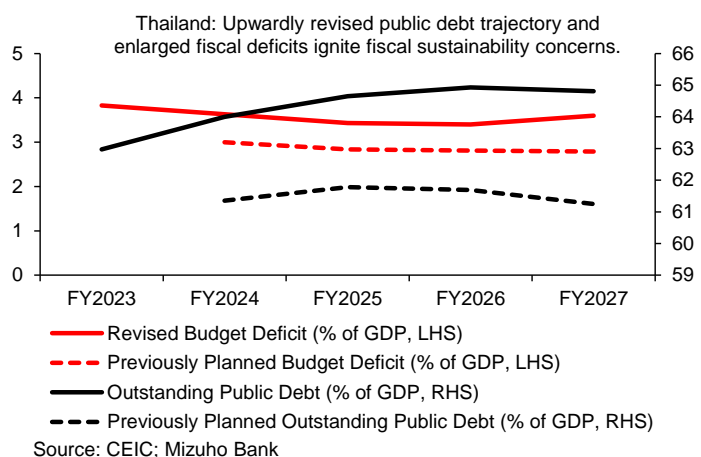
THB: Baht Bears and Tourism Bulls

Volatile Episodes of Stress

To be sure, **the THB has endured episodes of volatility thus far in 2023**. First, pent-up optimism from China's reopening saw the THB strengthened as the USD/THB dropped to 34 levels. Second, the optimism faded into May's General Elections. Prolonged political uncertainty saw further THB weakening. (See [Mizuho Flash: THB: The Political Uncertainty Premium, 19 July 2023](#))

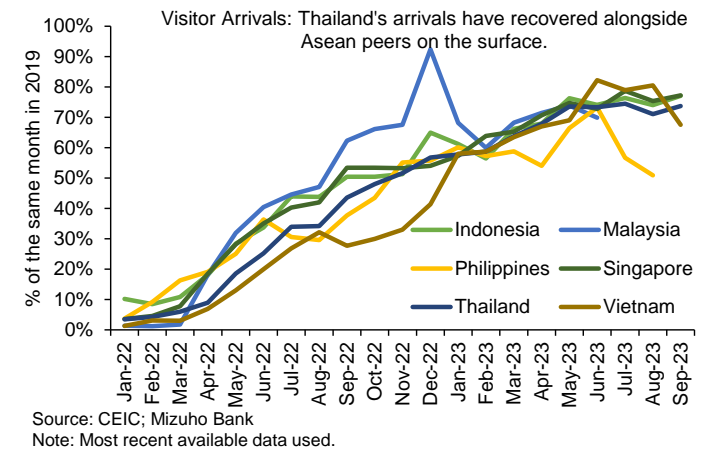


Thirdly, while the sight of a new government enabled THB strength in August, uncertainty of economic and fiscal policy directions re-ignited THB bears as the USD/THB soared above 37 in late September amid repeated emphasis of the government's digital wallet plans which has been largely seen posing **large fiscal risks**. (See [Mizuho Flash: Thailand: Fiscal Setback](#))

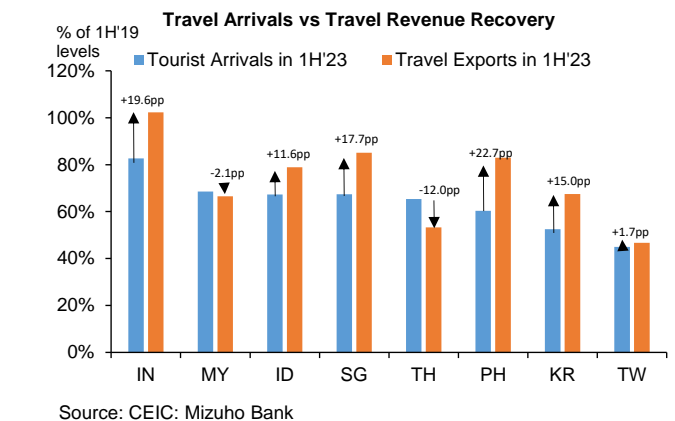


Examining Tourism Support

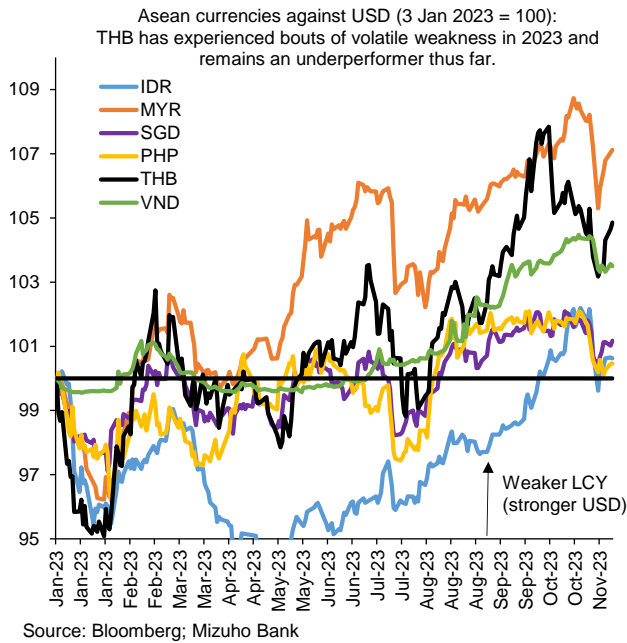
The question to first ask is of the support which tourism provides. It has to be acknowledged the **impact of tourism on Thailand's growth is undoubtedly the highest among regional peers as such even a similar pace of recovery ought to provide robust support**.



That said, **these headline arrivals overestimated tourism receipts as export revenues recovery have fallen short** (See [Chart below](#)) on account of substantial absence of higher spending Chinese tourists. Mainland China and Hong Kong tourists had the highest spending in Thailand on a per capita per day basis in 2019.



As such, **scope for non-linear THB catchup and relative outperformance persist**. However, it is important to account for the **much more subdued purchasing power of the Chinese consumer post pandemic**.



Policy Concessions?

Amid heated debates of the government’s digital wallet plans, **initial outlays of 560 billion baht has been lowered to 500 billion baht** as income criteria of earning no more than 70k baht a month and having less than 500k baht in bank accounts was added to the original requirement of only being above the age of 16 to receive the 10k baht handout. The commencement of the digital wallet has also been pushed back to Q2 from Q1 2024. **While a tighter criterion is prudent**, fiscal risks have not abated given the proposed need for **an additional 500bn borrowing bill which is just shy of 3% of GDP** which will then lift the public debt to GDP ratio which stood at 62.1% in September 2023. For comparison, the 2 **Emergency Decrees** during the pandemic amounted to 1.5 trillion baht.

Aside from legal challenges which await the passing of this borrowing bill, the **Bank of Thailand with Governor Sethaput who was invited to be in the committee, abstained from the decision making process** of these plans citing insufficient reasoning is a worrying sign. **Abstaining in this case should certainly not be taken as a concession.**

Given that the current proposed version of the digital wallet plans cannot be used to repay household debt, the **need for personal discipline to channel the funds to necessities will imply that absolute levels of debt reduction are likely to fall short of the funds injected.** While a private consumption boost will materialize, the **overall GDP impact will be dampened via import leakage** as spending is likely to be skewed towards goods rather than services.

BoT and THB: Tough Spot

On top of the legalities of the borrowing bill, **the near term need to issue more debt will raise questions on the prevailing demand for government debt.** While the debt management office has **astutely iterated their awareness to spread out borrowing**, the plans and incentives to **delay shops and vendors from cashing out may temper the growth multipliers if the revenues are not allowed channels for further circulation.** In fact, given the prevalence of imported consumption, the **tendency and need to cash out may be hard to prevent.**

Furthermore, the **inflationary impact is unlikely to be negligible** even if one is to assume a substantially negative output gap which helps to absorb some of the increase in demand. Even if one could put forth the case for subdued price increases as global imported manufactured goods prices remain low, then the **ensuing muted domestic growth multiplier must inevitably be grudgingly accepted.** Consequently, the **THB will also be subjected pressures from real rate erosion.**

The inflationary impact will in turn nudge the BoT to tackle inflationary pressures and consider hiking policy rates. Nonetheless, the **BoT will be in a tough spot to actualize a rate hike** as higher debt servicing cost accentuates financial stability risks.

Credit Ratings: Dimmer outlook should not be ruled out						
	S&P		Moody's		Fitch	
	Ratings	Outlook	Ratings	Outlook	Ratings	Outlook
Thailand	BBB+	Stable	Baa1	Stable	BBB+	Stable

Furthermore, signs of fiscal position worsening may put Thailand’s credit ratings at risk and exacerbate a vicious feedback loop. A **lowering of credit outlook would be the natural first step** in a reminder of the precarious situation even if the 70% debt ceiling is not breached especially if **fiscal consolidation in regional peers become more apparent in 2024.** That said, current ratings maintain significant buffers to stay within Investment Grade.

All in, **THB bears remains backed by a wall of fiscal/debt issuance concerns which hold back the tide of tourism bulls in the near term.**

FX Forecasts	Dec 23	Mar 24	Jun 24	Sep 24	Dec 24	Mar 25
USD/THB	34.5 - 37.5 (35.7)	35.0 - 37.5 (36.0)	35.8 - 38.0 (36.5)	34.1 - 36.9 (35.5)	34.0 - 36.8 (35.0)	33.6 - 36.0 (34.6)

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