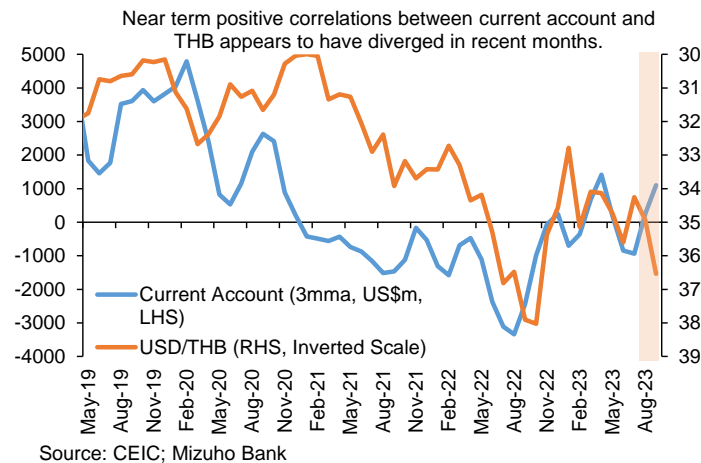


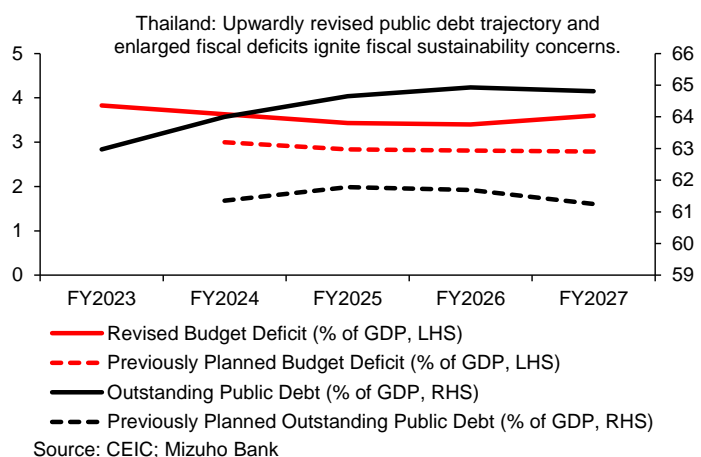
THB: Baht Bears and Tourism Bulls

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](#))

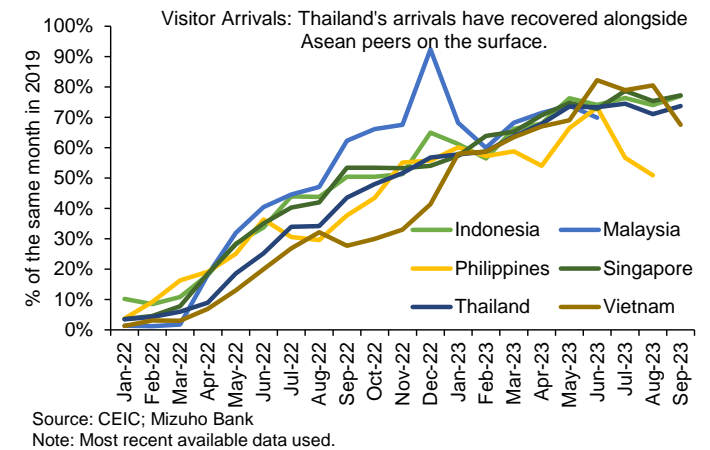


Thirdly, while the sight of a new government enabled THB strength in August, uncertainty of economic and fiscal policy directions re-ignited THB bears as the USD/THB soared above 37 in late September amid repeated emphasis of the government's digital wallet plans which has been largely seen posing **large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

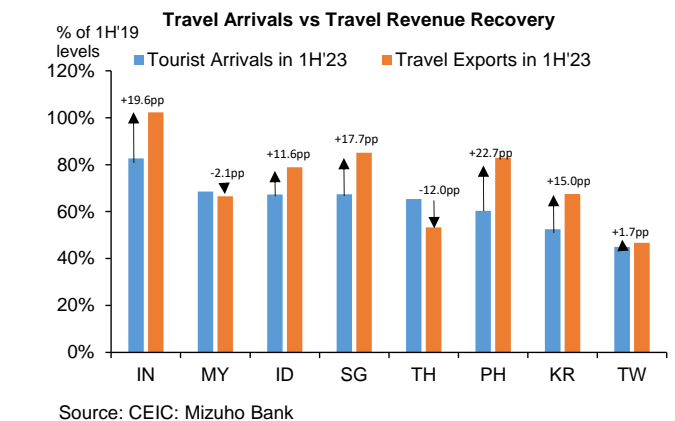


Examining Tourism Support

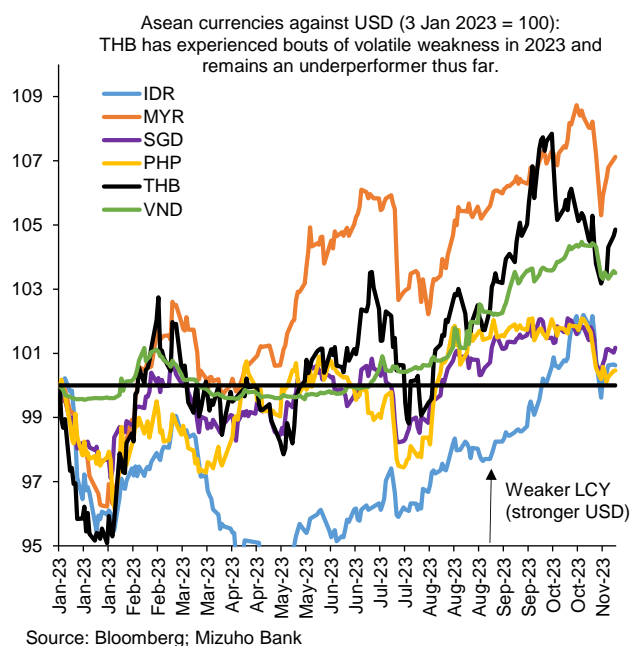
The question to first ask is of the support which tourism provides. It has to be acknowledged the **impact of tourism on Thailand's growth is undoubtedly the highest among regional peers as such even a similar pace of recovery ought to provide robust support**.



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 tourism. Mainland China and Hong Kong tourism 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 plan 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 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 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)

Important Information

This publication has been prepared by Mizuho Bank, Ltd. (“Mizuho”) and represents the views of the author. It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Disclaimer

Unless otherwise stated, all views or opinions herein are solely those of the author(s) as of the date of this publication and are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, and are subject to change without notice. This publication has been prepared by Mizuho solely from publicly available information. Information contained herein and the data underlying it have been obtained from, or based upon, sources believed by us to be reliable, but no assurance can be given that the information, data or any computations based thereon are accurate or complete. This publication provides general background information only. It is information in summary form and does not purport to be complete. This publication has been prepared for information purposes only and is not intended by Mizuho or its affiliates to constitute investment, legal, accounting, tax or other advice of any kind and all recipients of this publication are advised to contact independent advisors in order to evaluate the publication, including, without limitation, the suitability of any security, commodity, futures contract or instrument or related derivative (hereinafter, a “financial instrument”), product or strategy herein described. This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom’s Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Japanese, Singapore or any other applicable securities laws.

This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. Nothing contained herein is in any way intended by Mizuho or its affiliates to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. Neither the author, Mizuho nor any affiliate accepts any liability whatsoever with respect to the use of this publication or its contents or for any errors or omissions herein.

Mizuho and its affiliates, connected companies, employees or clients may take the other side of any order by you, enter into transactions contrary to any recommendations contained herein or have positions or make markets or act as principal or agent in transactions in any securities mentioned herein or derivative transactions relating thereto or perform or seek financial or advisory services for the issuers of those securities or financial instruments.

All of the information contained in this publication is subject to further modification without prior notice and any and all opinions, forecasts, projections or forward-looking statements contained herein shall not be relied upon as facts nor relied upon as any indication of future results. Opinions stated in this publication are subject to change without notice. Future results may materially vary from such opinions, forecasts, projections or forward-looking statements. The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This is a strictly privileged and confidential publication. This publication contains information addressed only to a specific individual and is not intended for distribution to, or use by, any person other than the named addressee or any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Save with Mizuho’s prior written consent, you may not disclose, divulge, reproduce or furnish any information contained herein to any other party. Please notify the sender immediately if you have mistakenly received this publication.

Singapore: Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

Japan: Mizuho is authorised and regulated by the Financial Services Agency of Japan.

United Kingdom / European Economic Area: In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK’s regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc (“MHI”). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

United States: This publication is not a “research report” as defined in Commodity Futures Trading Commission (“CFTC”) Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. (“MSUSA”) is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

© 2014 Mizuho Bank Ltd