Economic growth decelerated in 2023 due to a government budget delay and external headwinds. A stronger recovery in tourism, higher public spending, and a rebound in merchandise exports should support growth in 2024 and 2025. Risks remain tilted to the downside because of heightened geopolitical tensions and climate change issues. The government’s digital wallet scheme could help on the upside. Developing a good ecosystem for a green transition is challenging over the medium-term but crucial for a successful outcome.

**Economic Performance**

In 2023, the Thai economy expanded by 1.9%, slowed down from 2.5% growth in 2022, dampened by a contraction of government spending and weak goods exports (Figure 2.30.1). Goods exports contracted by 2.8%. Lower exports of computer parts and accessories were due to the growing popularity of solid-state drives replacing hard disk drives. Other manufacturing exports such as air conditioners, metal and steel, and chemicals and petrochemical products declined due to subdued global demand. By contrast, agricultural exports expanded due to concerns over food security in several countries. In addition, Thailand’s rice exports benefited from India’s export ban.

Thanks to the continued recovery in tourism, services exports were the main contributor to overall exports in 2023. International tourists reached 28.2 million, significantly up from 11.1 million in 2022 (Figure 2.30.2). The top five sources were Malaysia followed by the People’s Republic of China (PRC), the Republic of Korea, India, and Russian Federation. Tourist arrivals from these economies returned to pre-pandemic levels, except from the PRC. However, those from the PRC returned slowly and were just 32% of the 2019 pre-pandemic level. Overall, the export value of goods and services expanded by 2.1%.

**Figure 2.30.1 Demand-Side Contributions to Growth**

The recovery in 2023 remained timid.

Private consumption recorded robust growth in 2023, expanding by 7.1% on the back of rising tourism-related activities. The labor market improved, especially in services. As a result, the unemployment rate declined from 1% at the end of 2022 to 0.8% in 2023. In addition, government measures to reduce household energy bills supported private consumption, particularly of non-durable goods. Private investment grew moderately, by 3.2%, primarily driven by the expansion in industrial plant construction and investment in services.

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This chapter was written by Chitchanok Annonjarn of the Thailand Resident Mission, ADB, Bangkok.
Tourism continued its strong recovery in 2023.

Figure 2.30.2 Monthly International Tourists

Million visitors

Source: CEIC Data Company.

Public consumption fell by 4.6% mainly due to the phasing out of COVID-related social transfers. Public investment, likewise, fell by 4.6% from a decline in the maintenance of roads and bridges, a delay in the 2024 fiscal budget (starting October 2023), and a lower disbursement in state-owned enterprises’ energy and utility projects. As a result, the fiscal deficit slightly narrowed from 3.5% in fiscal year (FY) 2022 (ending September 2022) to 3.4% in FY2023. Fiscal stability remained sound. At the end of FY2023, public debt stood at 62.4% of GDP, below the 70% ceiling (Figure 2.30.3).

Imports dropped by 2.2% in line with the fall in goods exports. Raw material and intermediate goods imports, particularly for electronic parts and integrated circuits, declined in line with lower production and exports of electronics, computers, peripheral equipment, and data storage devices. In contrast, imports of capital and consumer goods expanded, especially electric vehicle imports.

On the supply side, services contributed the most to growth. Several tourism-related industries continued to grow. Services output expanded by 4.3% led by accommodations and food service as well as transportation and storage, mostly due to the rising number of domestic and foreign tourists (Figure 2.30.4).

Meanwhile, agriculture output expanded by 1.9% due to favorable weather in the first half of 2023 but industry contracted. Major agricultural crops, namely paddy rice, palm oil, cassava, and pineapple, suffered in the latter half of 2023 due to

El Niño phenomenon. Agricultural products saw a high de-stocking because the drought lowered output, so production was less than sales. Manufacturing output contracted by 3.2% in line with the goods export contraction. Various industrial products, such as petrochemical and computer products, saw a substantial stock rundown because of weak export orders.

Headline inflation was 1.2% in 2023, mainly due to higher costs in producing fresh food and unfavorable weather conditions for some crops, while core inflation reached 1.3%. Headline inflation in 2023 declined sharply from 6.1% in 2022, due to government measures to ease the cost of living, such as electricity price cuts, cooking gas price caps, and reduced excise taxes on fuel. Monetary policy remained supportive of growth. The policy interest
rate by the end of 2023 was 2.5%, up from 1.5% at the beginning of the year as the economy continued to recover (Figure 2.30.5). On the monetary policy target, the Ministry of Finance and the Bank of Thailand (the central bank) mutually agreed to set the inflation target at 1.0%–3.0% for 2024. The Thai baht strengthened marginally against the US dollar in 2023 as the market expected the US Federal Reserve to end its rate-hike cycle.

Figure 2.30.5 Inflation and Policy Interest Rate
Inflation fell due to lower energy prices; the policy rate was raised as the economy recovered.

<table>
<thead>
<tr>
<th>Core inflation</th>
<th>Overall inflation</th>
<th>Policy interest rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>% year on year</td>
<td>% year on year</td>
<td>% year on year</td>
</tr>
<tr>
<td>0%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Jan 2021</td>
<td>Jul 2022</td>
<td>Jan 2023</td>
</tr>
</tbody>
</table>
Source: CEIC Data Company.

Economic Prospects
Economic growth should pick up in 2024 and 2025 primarily from strong domestic demand, underpinned by a continued recovery in tourism and a rebound in merchandise exports. Real GDP is projected to expand by 2.6% in 2024 and 3.0% in 2025 (Table 2.30.1; Figure 2.30.6).

Exports of goods and services are forecast to grow by 5.4% this year and 4.1% in 2025. A gradual upturn in goods exports is expected over the forecast period. Key goods exports such as food and beverages, agricultural products, automotive and parts, electronics, and electrical appliances should improve on the back of improving global trade volume and higher agricultural prices due to supply constraints following El Niño. Services exports are expected to continue to grow in 2024 and 2025. Imports are forecast to expand by 4.0% this year and 2.6% next year, driven mainly by imported capital goods and raw materials for increased investment and export production. Further recovery in tourism should return services exports close to pre-pandemic levels. International tourist arrivals are forecast to reach 34 million in 2024 and 38 million in 2025.

Private consumption should continue to benefit from recovering tourism activity, an improving labor market, and rising consumer confidence. Private consumption is expected to grow by 3.5% in 2024 and 3.4% in 2025, remaining the main contributor to economic growth. Short-term government measures such as the Easy-E-Receipt program—personal income tax deduction for spending up to B50,000 on eligible goods or services from 1 January to 15 February 2024—and measures to reduce electricity and fuel prices in the first half should also help boost private spending.

Private investment is projected to increase by 3.3% this year and 3.5% in 2025. Supporting investment will be growth in tourism and private consumption, government initiatives to boost investment in targeted industries (such as the electric vehicle industry [Phase II] in 2024–2027), and crowd-in effects from new infrastructure investment in late FY2024.

Table 2.30.1 Selected Economic Indicators, %
Moderate growth is expected in 2023–2024.

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>2.5</td>
<td>1.9</td>
<td>2.6</td>
<td>3.0</td>
</tr>
<tr>
<td>Inflation</td>
<td>6.1</td>
<td>1.2</td>
<td>1.0</td>
<td>1.5</td>
</tr>
</tbody>
</table>
GDP = gross domestic product.
Source: Asian Development Bank estimates.

Figure 2.30.6 Gross Domestic Product Growth
Private investment and exports will likely play a greater role in supporting economic growth.

Source: Asian Development Outlook database.
Investment in export-oriented sectors should gradually increase in the latter half of 2024 in line with the outlook for goods exports. In addition, foreign direct investment is expected to rise this year and next, as reflected by a 5-year high in applications for investment promotion in 2023. Significant contributions came from the PRC; Singapore; Japan; and Taipei, China in electric vehicles and smart electronics.

**Following the election in May 2023,** the FY2024 budget was delayed, and the government is now expected to begin disbursements in the second half of FY2024. The expenditure budget for FY2024 at B3.48 trillion shows spending rising by 9.3% and the budget deficit dropping to B693 billion, or 3.6% of GDP. Public consumption is forecast to increase by 1.5% in 2024 and 2.5% in 2025. Meanwhile, a few new infrastructure projects, including electric train extension, rail, expressway, and intercity motorway projects, are expected to start construction in 2024. On the revenue side, a new tax on foreign-source income has been in effect since the start of 2024. Any income earned overseas from employment, business, or property, regardless of when it enters Thailand, must be declared and taxed in the year the income is earned; this will help raise government revenue and narrow the budget deficit. Public investment is expected to grow by 1.0% in 2024 and 3.2% in 2025.

**El Niño will largely affect major crop cultivation.** The government has taken several measures to address the water shortage, focusing on reducing water use in agriculture, promoting cultivation of water-saving crops, and strengthening water storage capacity. It is also reallocating funds from investment projects that have not shown short-term returns to swiftly address the ongoing drought crisis. Rice, cassava, sugarcane, rubber, and palm oil are more sensitive to water shortages, so crop output is expected to decline this year. Agricultural output this year is projected to grow by just 2.0%, gradually rising to 2.2% next year. The industry outlook is forecast to improve in line with the export recovery. Thailand’s international and domestic tourism should remain strong in volume and receipts. Thus, services should grow by 4.8% in 2024 and 4.3% in 2025.

**Headline inflation is forecast to remain low as government measures to ease the cost of living will likely be extended, lowering energy prices.** Headline inflation is projected to rise to 1.0% this year and 1.5% next year. Nonetheless, strengthening domestic consumption and higher food prices due to lower agricultural output could exert upward pressure on core inflation (Figure 2.30.7).

![Figure 2.30.7 Inflation](image)

Inflation is forecast to remain low.

**Risks to the outlook are tilted to the downside.** The Thai economy faces rising uncertainties stemming from external factors, including climate change and geopolitical issues. Domestically, the digital wallet scheme—a B10,000 digital cash handout to Thai nationals aged 16 and older who earn less than B70,000 per month or have less than B500,000 in bank deposits—could be an upside to the outlook, as it provides a short-term boost for private consumption. However, the program will cost the government a massive B500 billion (2.6% of GDP).

**Policy Challenge—Developing the Ecosystem for a Green Transition**

**Thailand is at a crossroads in its climate strategy, urgently needing tangible action plans to revolutionize and green its economy.** A transition is already underway. Thailand is in the process of enacting its first Climate Change Act to regulate greenhouse gas emissions and enhance capacity for climate change adaptation in every sector. It revised the National Adaptation Plan, aiming to build adaptive capacity and enhance climate resilience in six priority sectors, including water resource management, agriculture and food security, tourism, public health, natural resources management, and human settlements and security.
Thailand is also implementing several emission reduction policies across the economy, such as tax incentives for renewable energy investments, the Environmentally Sustainable Transport System Plan, and a Waste Management Roadmap. On financing, the first phase of Thailand Taxonomy was launched last year as a crucial step toward a sustainable finance landscape. It provides guidance, frameworks, and standards for investors and stakeholders to define “green” projects and avoid “greenwashing.”

**New institutions are being created.** To improve climate change management, Thailand established a new department within the Ministry of Natural Resources and Environment to coordinate efforts to address climate change issues. In late 2023, Thailand launched the Thai Climate Initiative Fund (ThaiCI) as a financial mechanism to support climate change operations in reducing greenhouse gas emissions, adapting to climate change, and achieving the goal of Carbon Neutrality by 2050 and Net Zero by 2065.

**Carbon pricing is an essential mechanism for businesses to achieve carbon neutrality and net zero targets.** A carbon tax will come into force in the next few years. A voluntary carbon credits market already operates, but market size remains small (Figure 2.30.8). There is no stringent emission cap and carbon prices are relatively low under the emissions trading system. However, they fluctuate significantly as the various carbon standards are not yet fixed. The market is not determined by demand and supply, implying that prices under this system are ineffective in reducing greenhouse gases. The initial costs of some projects are high and have long repayment horizons, which create a significant financial burden for businesses that want to develop their own carbon credit projects. Also, carbon credits may not suit small and medium enterprises (SMEs), which are the majority of businesses in Thailand. Moreover, SMEs usually face constraints in accessing credit and financial products, making them vulnerable in the transition toward a green economy. Thus, scaling up the carbon pricing market and addressing SME financial issues is crucial for policymakers to pursue a strong and inclusive green transition.

**Strengthening capacity-building in green skills is also required to support new technologies and green initiatives.** As brown industries that emit high levels of greenhouse gases are set to decline, it could cause significant job losses, especially for low-skilled workers. According to a Thailand Development Research Institute study, at least 8 million low-skilled workers in brown industries will have to shift to green jobs that require higher professional skillsets. Also, Thailand lacks qualified workers for green jobs, such as environmental engineers and renewable energy technicians. Thus, the government should invest more in education and green skill training programs for a smooth transition.