

Thailand Business Forecast Report Q1 2015

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Abstracts

Core Views

While Thailand's military leaders have taken tentative steps to restore civilian rule, a return to a well-functioning democracy is far from assured. The political divide will remain unresolved, and the potential for renewed instability will continue to undermine the country's long-term economic growth potential.

Still soft domestic demand and weakness in external performance continue to keep the Thai economy sluggish. Consequently, we are downgrading our 2014 real GDP growth forecast to 0.7%, from 1.6% previously. That said, we expect growth to rebound to 4.1% in 2015 on the back of ongoing efforts by the junta to revive the economy amid renewed political stability.

We forecast Thailand's budget deficit to narrow from an estimated 2.6% of GDP in 2014 to 2.0% in 2015, as we expect an economic rebound to shore up fiscal revenue, while the removal of the rice subsidy scheme and the fall in oil prices should keep expenditure in check. That said, should the junta pursue populist measures, this will pose downside risk to our forecast.

An economic recovery and interest rate normalisation in the US that will likely occur in H215 would spur the BoT to raise its benchmark interest rates by 25 basis points (bps) to 2.25% in 2015. While a stronger US dollar will weigh on the Thai baht, a likely economic rebound in Thailand in 2015 and continued strong foreign direct investment (FDI) inflows will provide support for the unit. On balance, we hold a neutral outlook for the Thai baht, and are forecasting the currency to average THB32.75/USD in 2015 and end 2015 at about THB33.00/USD.

Major Forecast Changes



We have downgraded our 2014 growth forecast to 0.7% from 1.6% previously. We have pared back our expectations for a total of 50 basis points (bps) interest rate hike in 2015 owing to global deflationary forces at play, and are now calling for just one 25 bps worth of hike. We forecast the Thai baht to average THB32.75/USD (from THB31.75/ USD previously) in 2015 and end 2015 at about THB 33.00/USD (from THB31.00 previously).



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Thailand's political situation will remain highly volatile, and it is difficult to envision political stability over the next few years. Following the military coup in May 2014, the roadmap to a return to civilian government remains unclear.

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Still soft domestic demand and weakness in external performance continue to keep the Thai economy sluggish. Consequently, we are downgrading our 2014 real GDP growth forecast to 0.7%, from 1.6% previously. That said, we expect growth to rebound to 4.1% in 2015 on the back of ongoing efforts by the junta to revive the economy amid renewed political stability.

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We expect the Bank of Thailand (BoT) to keep its benchmark interest rate unchanged at 2.00% for the remainder of 2014 and into H115 to facilitate an economic rebound. A likely growth recovery and potential interest rate normalisation in the US in 2015 would spur the BoT to normalise its benchmark interest rate. We forecast the BoT to raise rates by 25 basis points (bps) to 2.25 % in 2015.

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While a stronger US dollar will weigh on the Thai baht, a likely economic rebound in Thailand in 2015 and continued strong foreign direct investment (FDI) inflows will provide support for the unit. On balance, we hold a neutral outlook for the Thai baht, and are forecasting the currency to average THB32.75/USD in 2015 and end 2015 at about THB33.00/USD.

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