

# Thailand Business Forecast Report Q3 2014

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## Abstracts

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### Core Views

The Thai military's assumption of power following failed talks between rival factions in the ongoing political crisis raises the prospect of an unelected government being installed. Such a move would risk a violent pro-government backlash, and we maintain our view that the path of least resistance is for escalating violent unrest. Thailand's economy is feeling the strain of the ongoing political turmoil, with real GDP growth contracting by 2.1% quarter-on-quarter (q-o-q) in Q114, and it is difficult to see a quick recovery given our view that there is no end in sight to the crisis. The manufacturing and construction sectors are coming under pressure, while outperformance on the external front looks like it's here to stay.

The military's new budget proposal should help the Thai economy recover from its current stagnation. Measures such as freeing up funds for infrastructure projects and making overdue payments to rice farmers should rebuild consumer and investor confidence, while the fiscal accounts are unlikely to deteriorate significantly. Inflationary pressures are likely to be muted over the coming months in spite of the negative real interest rate environment, as weak demand for credit amid high household debt and political uncertainty undermine money supply growth. We expect the Bank of Thailand to hold its benchmark repurchase rate at 2.00% for the remainder of 2014, before hiking by 50 basis points in 2015.

Thailand's export outlook has darkened considerably since the onset of the political crisis, and shipments may fall further before they recover in line with the collapse seen in imports. Efforts by the military junta to restore short-term economic confidence are likely to prevent an outright export contraction, however, which should support a strong

recovery in the trade and current account balances.

### **Major Forecast Changes**

We have revised our current account forecast for 2014 to 0.8% of GDP from -0.4% of GDP previously, which would mark the first surplus since 2011. This reflects our expectation for the domestic savings rate to rise while exports outperform domestic demand. We still expect exports to barely grow in 2014, with the increase in the surplus coming from falling imports.

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The Thai military's assumption of power following failed talks between rival factions in the ongoing political crisis raises the prospect of an unelected government being installed. Such a move would risk a violent pro-government backlash, and we maintain our view that the path of least resistance is for escalating violent unrest.

#### Long-Term Political Outlook

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

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Thailand's economy is feeling the strain of the ongoing political turmoil, with real GDP growth contracting by 2.1% q-o-q in Q114, and it is difficult to see a quick recovery given our view that there is no end in sight to the crisis. The manufacturing and construction sectors are coming under pressure, while outperformance on the external front looks like it's here to stay.

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