DBS Flash

Thailand: Elections a bigger watch factor than rate review

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- *Bank of Thailand is expected to pause on rates today*
- *We revise down our inflation forecasts*
- *The bigger focus will be the elections on March 24, where four key parties are in the fray*
- *Results will be out in early-May.*
- *Economic priorities of the contesting parties are broadly similar, with a strong emphasis on welfare schemes and improving purchasing power*
- *Potential outcomes range from a single party control of both the houses, to a fractured mandate*
- *Growth and market outlook hinges on political and policy certainty*
- *As a base case, we expect growth to benefit from the consumption and investment push in 2019 but face a challenging external sector*

Thailand elections on March 24 (Sunday), will be a bigger watch factor than today's Bank of Thailand (BOT) rate review.

Markets have priced in a pause on rates, with monetary policy to stick to an accommodative bias. BOT Minutes from February reinforced the authorities' preference to stay data-dependent and non-committal to further tightening after a one-off hike in December 2018. The latter was indented to build policy space and contain financial volatility as global liquidity conditions were tightening. The backdrop has since changed as the US Federal Reserve is expected to go-slow on its normalisation plans, as uncertainty is high over a potential US-China trade deal and cyclical headwinds hurt global demand.

We expect the unchanged policy stance to continue for the year, assuming inflation at 1.0% YoY- weaker end of the BOT target - and sub-4.0% growth this year. Factoring in a weak start to inflation (January-February at 0.5% YoY), we trim our forecast to 1.0% YoY for 2019 (vs 1.4% earlier) and 1.3% for next year vs 1.1% in 2018. Key risks to this profile are oil prices and baht movements.

The BOT will also review economic projections, after lowering the 2019 GDP growth forecast to 4% in December, vs 4.2% earlier, owing to weaker export assumptions. Authorities might also express concern over baht appreciation in 1Q19, as the currency stood out as the regional outperformer. This will, however, be less of a worry in the next quarter. The THB has already trimmed its year-to-date appreciation to price in a modest political risk premium, which along with a high degree of seasonality in 2Q19 (see here) could see the baht underperform over the next three months.

Key players in the upcoming elections

A bigger focus this week will be the upcoming elections. Thais will vote at the general elections on March 24, with official results likely by early-May. Amongst various parties in the fray, four are key:

a) *Palang Prachart*, whose Prime Ministerial candidate is current PM Prayut Chan-o-cha and head of National Council for Peace and Order (NCPO)

b) *Pheu Thai Party*, with three potential PM candidates including the former Agriculture and Transport Ministers

c) *Democrat party*, represented by ex-PM Abhijit Vejjajiva

d) *Future Forward*, led by businessman Thanathorn Juangroongruangkit

Thai Rak Thai party was dissolved on a court order earlier this month, as it was deemed to be in violation of the constitutional monarchy. We had discussed the election mechanism here, in light of recent changes to the electoral system and introduction of the new Constitution.

Opinion polls in the run-up put Palang Prachart and Pheu Thai parties in the lead. **Post-election scenarios range from a single party gaining control of both the houses, to a fractured mandate**: for instance, the Palang Prachart party-led coalition might win a majority and form the next government, which will see both lower and upper houses aligned under the same party. At the other end of the spectrum, one of the opposition parties might lead the tally, cobble up a coalition and form the next government led by a new Prime Minister. This could leave the parliament divided - Senate aligned with Palang Prachart, while the lower house is led by the new coalition.

Economic policy promises are largely along similar lines

During the campaigning period, most contesting parties have outlined similar economic priorities. These include a focus on improving growth in the provinces, lift Thailand's economic and trade competitiveness, bridge social inequality, and boost purchasing power through various state welfare schemes (subsidies, higher minimum wages, cash handouts etc.). For farmers, the emphasis is on price support rather than addressing lack of demand or structural changes. Some parties are also vying to make changes to the constitution undertaken by the NCPO.

Under our base case of political continuity under a military-aligned government, asset markets are likely to regain ground after the results, with the THB to recoup some of its recent losses. **Stability will lend itself to better growth prospects.** Pre-election promises carry a strong consumption bias, which might be rolled out soon after the government takes office. These measures mainly target low-income households and farmers, who have a relatively higher propensity to consume; positive for private consumption. These additional spending plans, however, should be wary of not toppling the fiscal cart. The government approved the FY2020 (October 2019 to September 2020) Budget, targeting a deficit of THB450bn i.e. 2.4% of GDP vs an assumed gap of 2.6% in FY2019. The fiscal and monetary framework allows for the deficit to stay within 20% of annual expenditure, setting the ceiling at THB710bn.

As seen in the past, private and public investment spending improve after elections as uncertainty lifts. This imply business-as-usual for infrastructure projects that are already underway, including Bang Pa In-Saraburi-Nakhon Ratchasuma motorway, Pattaya-Map Ta Phut, other intra city rail projects, air transport networks etc. While domestic engines fire away, external trade faces a challenging backdrop due to a subdued demand environment and cyclical downturn in key product categories (including electronics, auto etc.). Considering these dynamics, we maintain our 2019 GDP growth estimate at 3.8% YoY, from 4.1% last year. Any potential surprise outcomes at the polls and resultant uncertainty will raise downside risks to the growth outlook.

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