

# Thailand: Elections a bigger watch factor than rate review

DBS Group Research

March 20, 2019

**Radhika Rao**  
Economist



Please direct distribution queries to  
Violet Lee +65 68785281 [violetleeyh@db.com](mailto:violetleeyh@db.com)

- *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.

## Group Research

### Economics & Strategy

**Taimur Baig, Ph.D.**

Chief Economist - G3 &amp; Asia

+65 6878-9548 [taimurbaig@dbs.com](mailto:taimurbaig@dbs.com)**Nathan Chow**

Strategist - China &amp; Hong Kong

+852 3668-5693 [nathanchow@dbs.com](mailto:nathanchow@dbs.com)**Masyita Crystallin, Ph.D.**

Economist – Indonesia &amp; Philippines

+62 21 2988-4003 [masyita@dbs.com](mailto:masyita@dbs.com)**Joanne Goh**

Regional equity strategist

+65 6878-5233 [joannegohsc@dbs.com](mailto:joannegohsc@dbs.com)**Neel Gopalakrishnan**

Credit Strategist

+65 6878-2072 [neelg@dbs.com](mailto:neelg@dbs.com)**Eugene Leow**

Rates Strategist - G3 &amp; Asia

+65 6878-2842 [eugeneleow@dbs.com](mailto:eugeneleow@dbs.com)**Chris Leung**

Economist - China &amp; Hong Kong

+852 3668-5694 [chrisleung@dbs.com](mailto:chrisleung@dbs.com)**Ma Tieying**

Economist - Japan, South Korea, &amp; Taiwan

+65 6878-2408 [matieying@dbs.com](mailto:matieying@dbs.com)**Radhika Rao**

Economist – Eurozone, India &amp; Thailand

+65 6878-5282 [radhikarao@dbs.com](mailto:radhikarao@dbs.com)**Irvin Seah**

Economist - Singapore, Malaysia, &amp; Vietnam

+65 6878-6727 [irvinseah@dbs.com](mailto:irvinseah@dbs.com)**Duncan Tan**

FX &amp; Rates Strategist - ASEAN

+65 6878-2140 [duncantan@dbs.com](mailto:duncantan@dbs.com)**Samuel Tse**

Economist - China &amp; Hong Kong

+852 3668-5694 [samueltse@dbs.com](mailto:samueltse@dbs.com)**Philip Wee**

FX Strategist - G3 &amp; Asia

+65 6878-4033 [philipwee@dbs.com](mailto:philipwee@dbs.com)

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).

**Disclaimer:**

The information herein is published by DBS Bank Ltd and PT Bank DBS Indonesia (collectively, the "DBS Group"). It is based on information obtained from sources believed to be reliable, but the Group does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation & the particular needs of any specific addressee. The information herein is published for the information of addressees only & is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Group, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Group or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Group & its associates, their directors, officers and/or employees may have positions or other interests in, & may effect transactions in securities mentioned herein & may also perform or seek to perform broking, investment banking & other banking or financial services for these companies. The information herein is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Sources for all charts & tables are CEIC & Bloomberg unless otherwise specified.

DBS Bank Ltd., 12 Marina Blvd, Marina Bay Financial Center Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E. PT Bank DBS Indonesia, DBS Bank Tower, 33rd floor, Ciputra World 1, Jalan Prof. Dr. Satrio Kav 3-5, Jakarta, 12940, Indonesia. Tel: 62-21-2988-4000. Company Registration No. 09.03.1.64.96422.