

Thailand Chartbook: Middle East shock tests economy

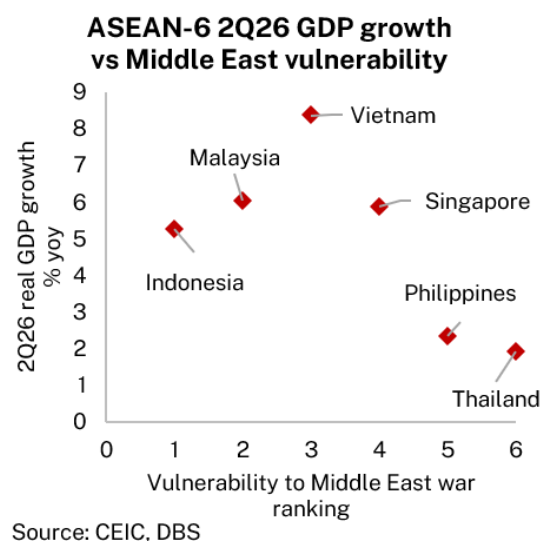
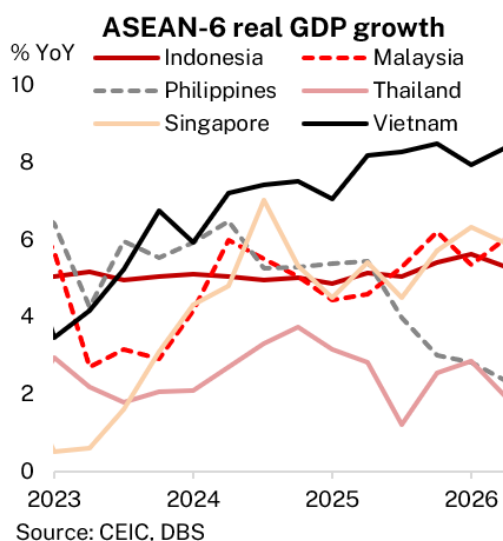
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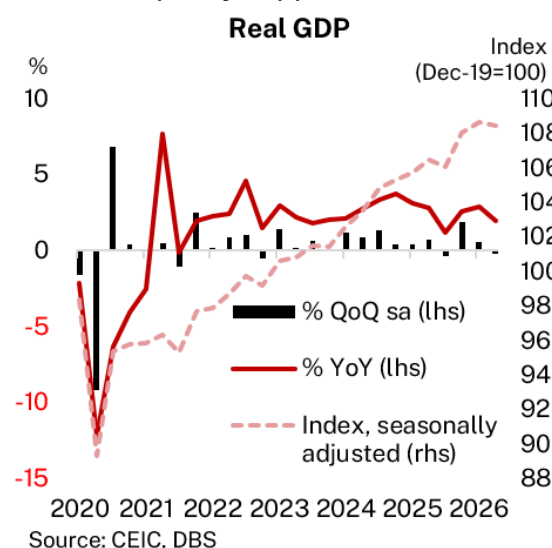
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- Thai real GDP growth slowed to 1.9% yoy in 2Q26 from 2.8% yoy in 1Q26 due to headwinds from the Middle East shock.
- Private consumption would receive a temporary boost from government stimulus, after easing to its weakest pace since end-2021.
- Foreign tourism is soft despite July's rebound, with a sustained recovery dependent on the year-end seasonal demand.
- Goods exports and private investment continue to stand out as bright spots.
- External buffers are strong despite downward pressures.
- We continue to expect the BOT to keep its policy rate stable at 1.00% through the remainder of 2026.
- **Forecast implications:** We raise our 2026 GDP growth forecast to 2.1% (from 1.6%), and revise our 2026 headline inflation forecast to 1.7% (from 2.5%). These reflect the less severe-than-expected impact of the Middle East conflict and policy support amid ongoing challenges.

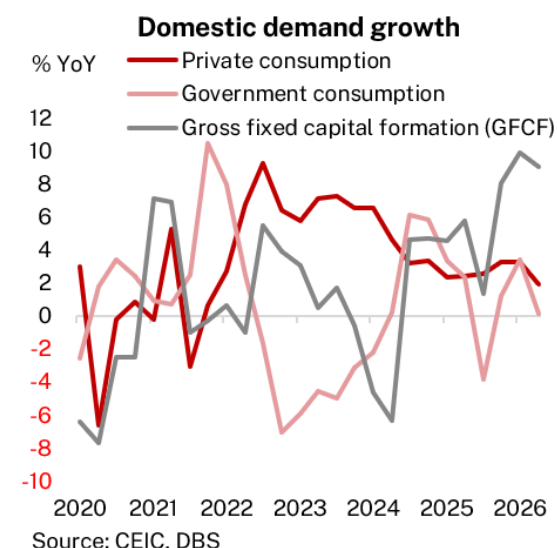


REAL GDP GROWTH

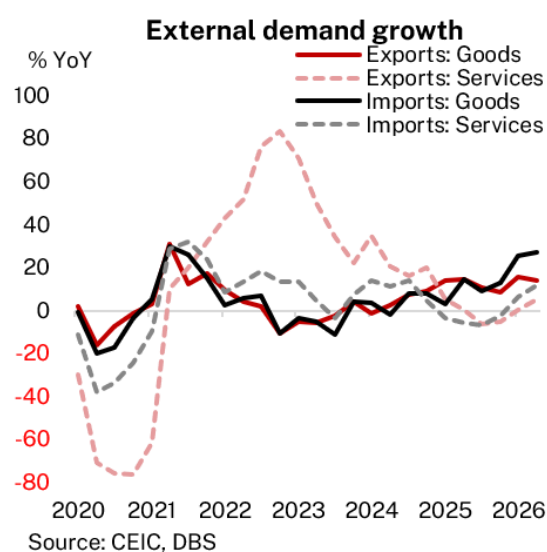
GDP growth slowed to 1.9% yoy in 2Q26 from a strong 2.8% yoy in 1Q, bringing 1H26 growth to 2.4% yoy. We raise our 2026 growth forecast to 2.1%, due to a less severe-than-expected Middle East shock and policy support.



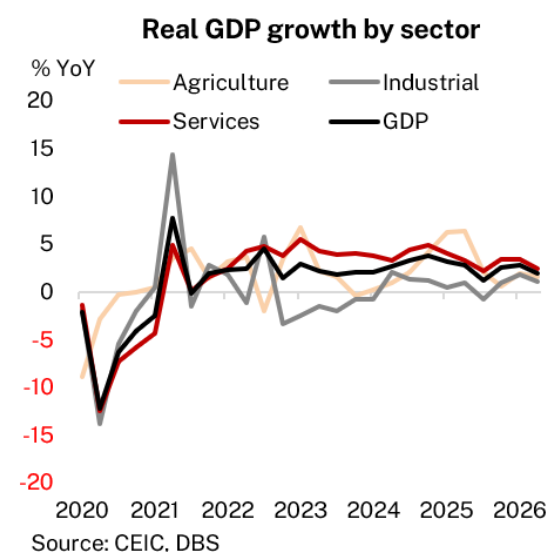
Overall economic weakness in 2Q26 was driven by slower private and government consumption growth, despite strong investment expansion. Private consumption growth eased to its lowest rate since the end of 2021.



Goods exports remained strong in 2Q26, supported by electronics shipments, but net trade contributed negatively to GDP due to robust imports, a trend that could persist in the near term.

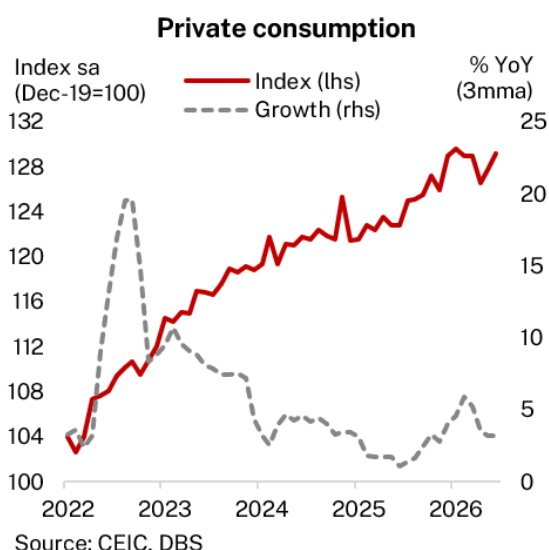


Growth momentum moderated across the agriculture, industrial, and services sectors in 2Q26. The slowdown in services was the most pronounced, reflecting weaker tourism-related and wholesale & retail trade activities.

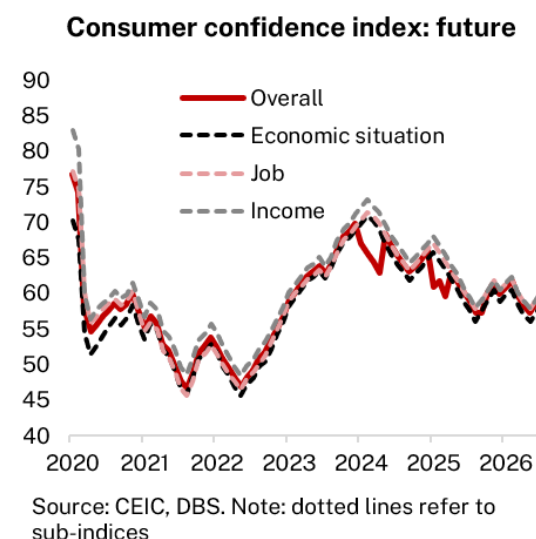


PRIVATE CONSUMPTION AND TOURISM

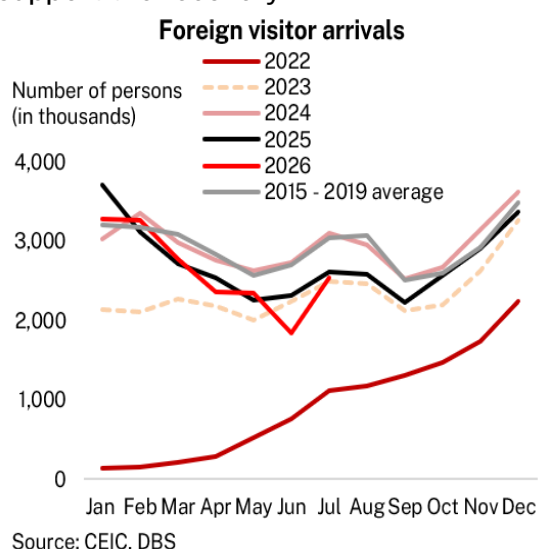
Private consumption, while facing challenges from the high cost of living and weaker consumer confidence stemming from the conflict in the Middle East, could be supported by government stimulus introduced from June 2026.



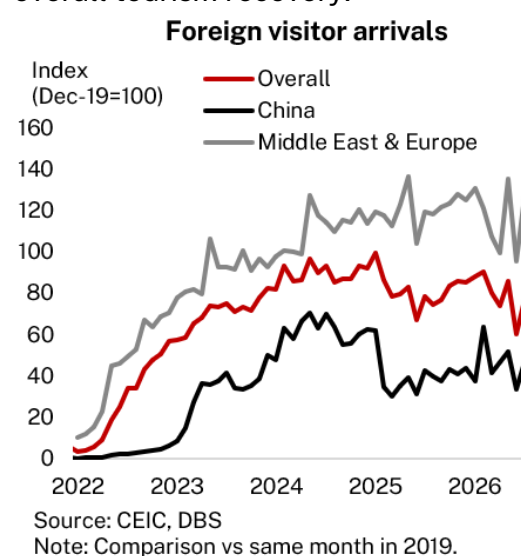
Consumer confidence has reached a cyclical trough in June 2026, supported by the government's THB175bn co-payment scheme, after declining since March, due to higher energy prices and uncertainty from the Middle East.



Foreign tourism trended lower in 1H26 due to higher jet fuel prices and softer demand. While visitor arrivals rebounded in July, sustained momentum into the year-end peak season will be key to support the recovery.

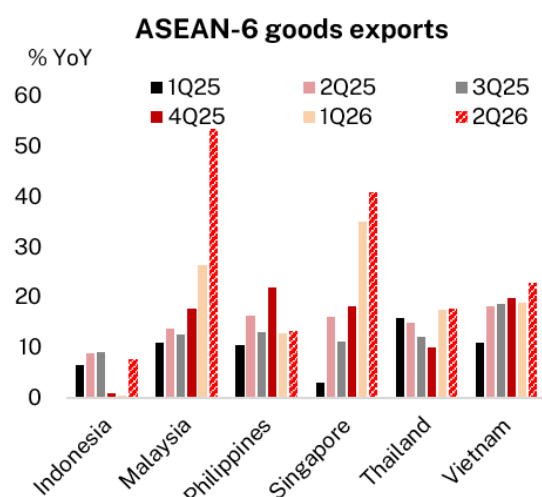


Despite geopolitical disruptions, long-haul arrivals from the Middle East and Europe remained resilient and have rebounded. However, visitors from China continued to be weak, holding back the overall tourism recovery.



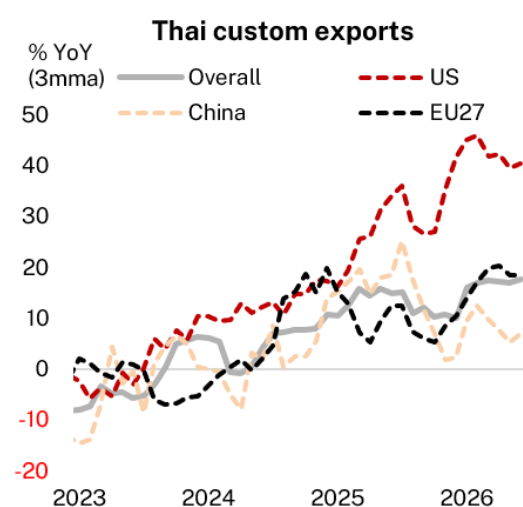
GOODS EXPORTS

Thailand's goods exports remain in solid shape and are providing strong support to the economy in 2026, although growth has been slower than in some regional peers, reflecting the extent of exposures to artificial intelligence (AI) demand.



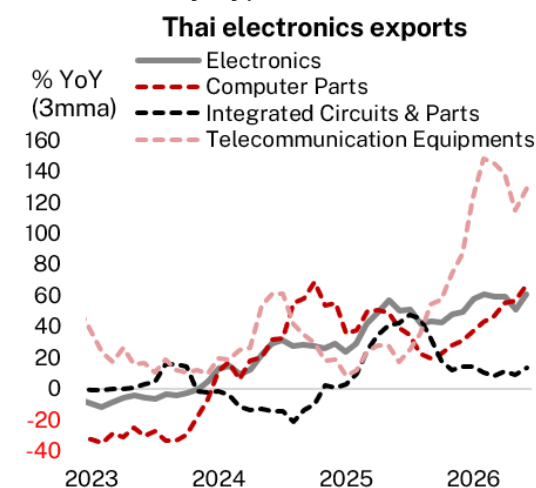
Source: CEIC, DBS. Note: % YoY in USD terms.

Thailand's strong exports performance has been notably supported by shipments to the US, despite America's increased protectionist stance.



Source: CEIC, DBS

Global AI tailwinds have lifted electronics exports across the region. Thai telecommunications equipment exports have been a key beneficiary, and will continue to benefit from strong investment by hyperscalers.

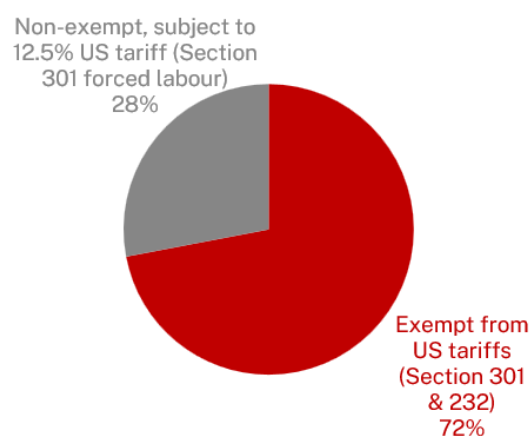


Source: CEIC, DBS

Note: dotted lines are selected sub-components

The direct impact of US tariffs on Thai goods exports to the US has been manageable thanks to significant exemptions. ~28% of Thai exports to the US will be subject to 12.5% US tariffs related to forced labour violations.

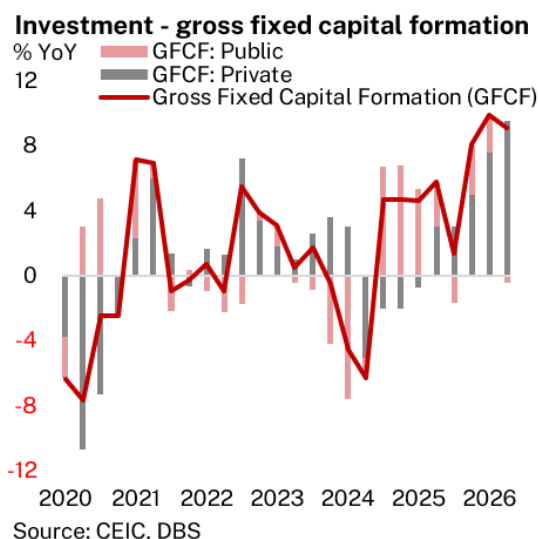
Thai exports to the US by tariff status



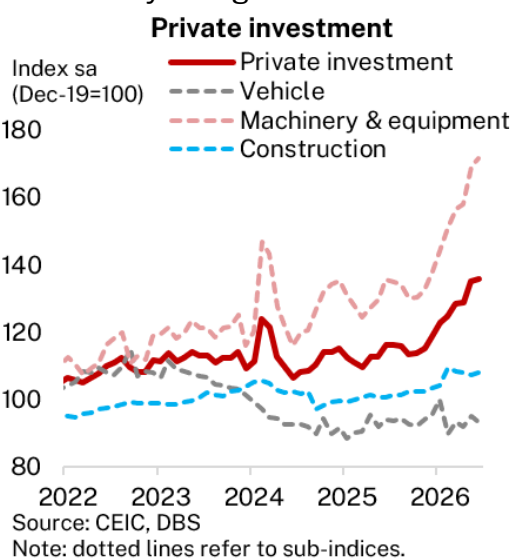
Source: Nation Thailand, DBS

INVESTMENT

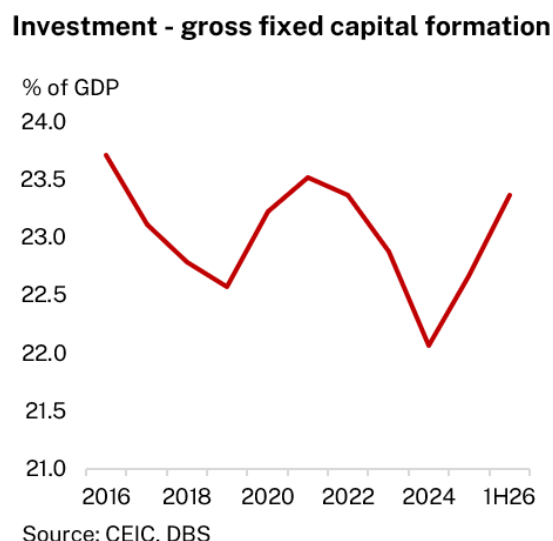
Thailand's investment upcycle remained intact in 2Q26, with growth sustaining strong momentum at close to its highest rate since 1Q15. Private investment continued to be the primary driver.



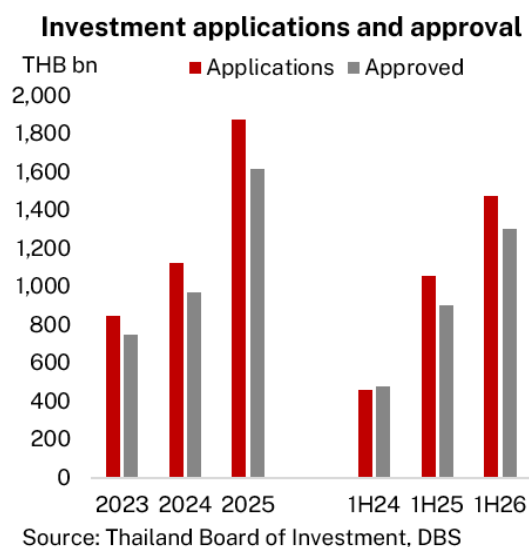
Private investment in 2026 has been driven by strong momentum in machinery and equipment spending, reflecting the realisation of investment applications and approvals, particularly those led by foreign investors.



The private investment upswing has lifted total investment as a share of GDP to its highest rate since 2022. The government aims to sustain the uptrend, although it remains to be seen if the 30% of GDP ambition can be achieved.

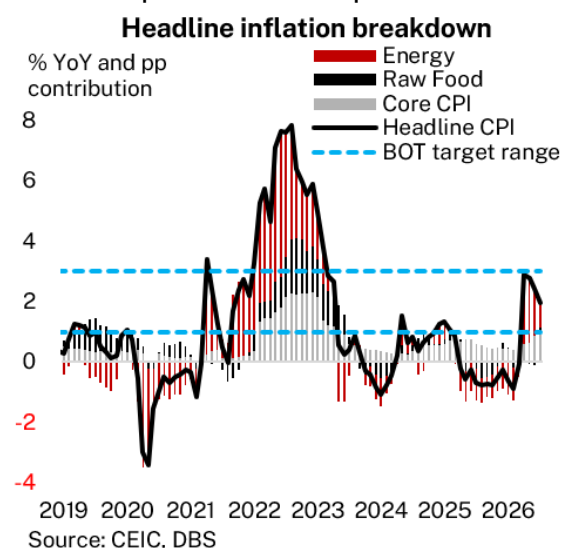


Investment applications and approvals accelerated in 1H26, pointing to a robust investment execution pipeline. These were supported by large digital infrastructure projects.

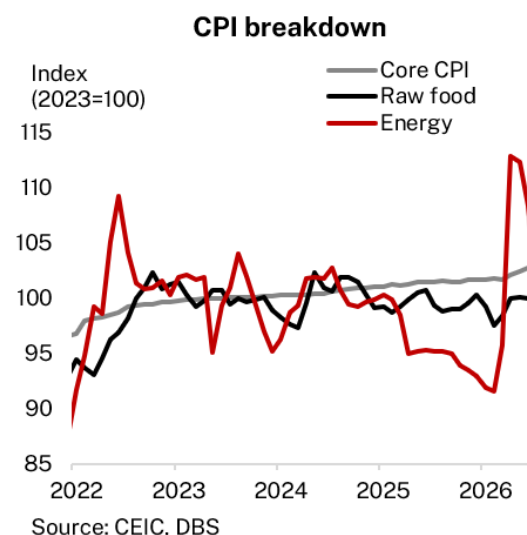


INFLATION AND MONETARY POLICY

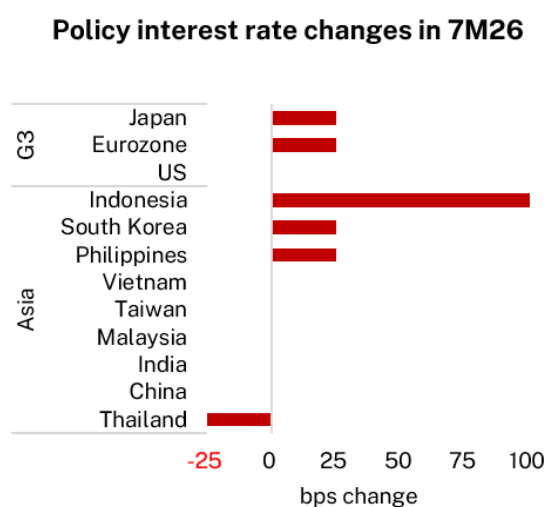
Headline inflation remains within the central bank's 1-3% target range despite the jump in April 2026, and has moderated since then. We revise our 2026 forecast to 1.7%, given the less severe impact than anticipated.



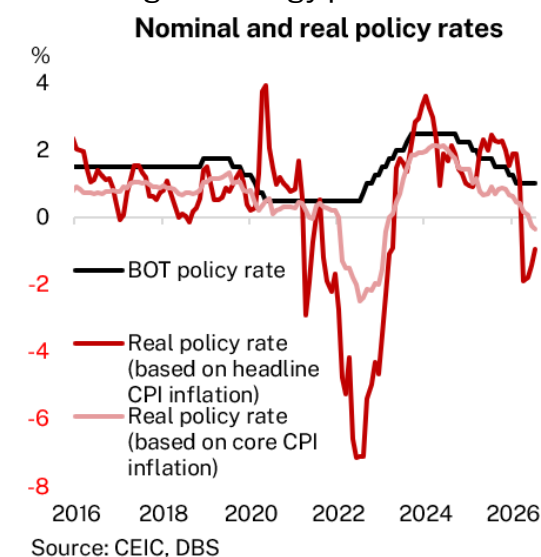
Fluctuations in headline CPI have mainly been driven by energy price volatility amid evolving tensions in the Middle East. Core and food inflation rates have risen but still look contained.



The Bank of Thailand (BOT) was the only central bank to cut its policy rate during the first seven months of 2026, seeking to support uneven economic growth, while looking through the temporary supply-driven inflation shock.



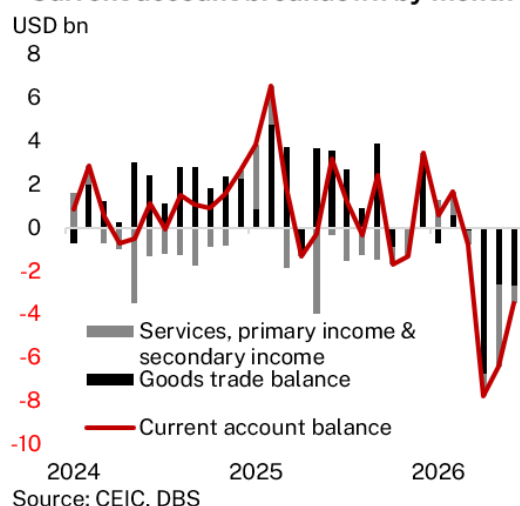
We think the BOT will have little urgency to adjust policy in the near term. The Middle East shock is weighing on growth and lifting inflation. The BOT will aim to support growth, as it expects inflation to ease alongside energy prices.



EXTERNAL POSITION

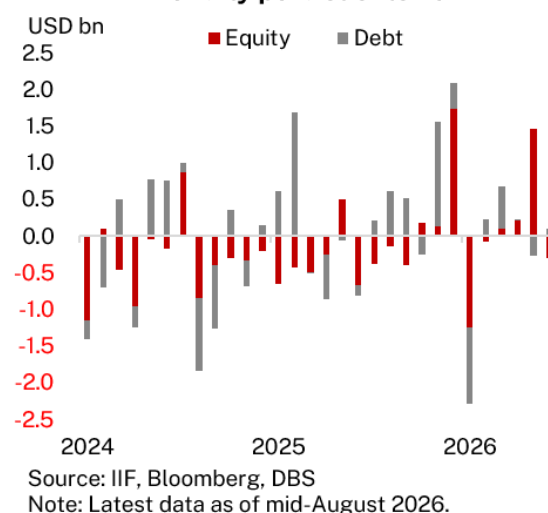
Thailand's current account has been in deficit since March 2026. Imports surged due to higher energy prices stemming from the war in the Middle East, alongside strong investment. These trends would persist in the near term.

Current account breakdown by month



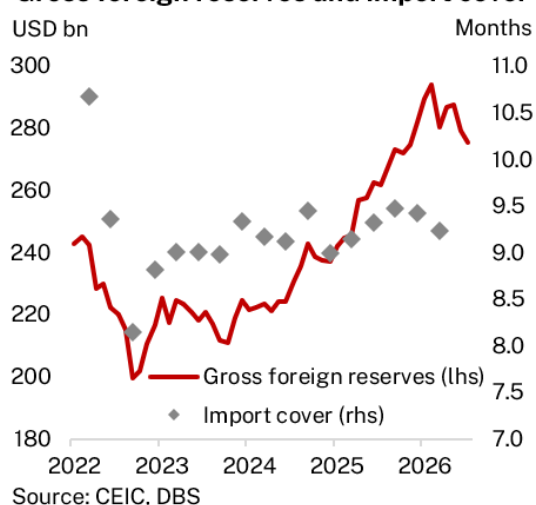
Portfolio flows have been supportive, despite increased volatility in 2026. Both equity and debt flows have benefitted from improved domestic politics, and less severe impact of the Middle East conflict, notwithstanding challenges.

Monthly portfolio flows



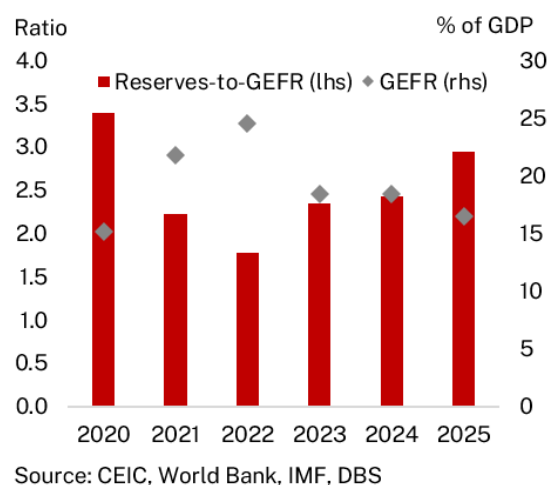
External buffers remain strong, with foreign reserves sufficient to cover around nine months of imports. This resilience is despite the recent surge in imports and pullback in international reserves.

Gross foreign reserves and import cover



The ratio of foreign reserves to gross external financing requirements should remain comfortable, although it will fall due to rising current account pressures. This could resemble the experience in 2022 when oil prices spiked.

Reserves and external financing needs



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