

ASEAN Economy: Thailand General Elections

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Highlights

- **Under the new constitution, the military is highly likely to form the majority of the new Thai government**
- According to Nida polls, the Shinawatra-linked **Pheu Thai party is likely to form the majority of the Lower House** but not the government
- With incumbent PM Prayut Chan-ocha expected to continue as Prime Minister, **little changes to Thailand's economy policies are expected**
- Both the junta and the Pheu Thai party practise pro-Keynesian, demand-focus policies; any political gridlock is largely expected to center around the size of stimulus and infrastructure investment
- Princess Ubolratana's failed attempt to run for PM under the Thai Raksa Chart party may have hiked political risks between the Red and Yellow shirts

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Background: Thailand since the 1998 AFC

The political and economic climate in Thailand today can be traced back to the Asian Financial Crisis of 1998, when it suffered an economic recession of -7.6%. In 2001, a businessman named Thaksin Shinawatra became Prime Minister of Thailand. His brand of economics – policies that are pro-Keynesian, demand-driven and sweetened with low rates – saw Thailand's economy rebound back to 6.5% on average a year from 2002 to 2005, an incredible turnaround from its slump in 1998. By 2003, Thailand was able to pay back its last monetary debt to the IMF loaned during the AFC – two years ahead of schedule.

Due to the unique brand of economics and the perceived economic success that was brought to Thailand so immediately after the 1998 AFC, Thaksin's Thai Rakha Thai party and its many reincarnations continue to remain popular in the rural north – otherwise known as the "Red Shirts". Yingluck Shinawatra – Thaksin's sister – governed Thailand from 2011 to 2014, and is Thailand's last elected leader before being removed in the 2014 military coup.

First general elections since 2011

Thailand has been ruled by the military since 2014 – the longest rule by the junta in Thai recent history. After no less than five delayed elections, Thailand will hold its first general elections on March 24, 2019.

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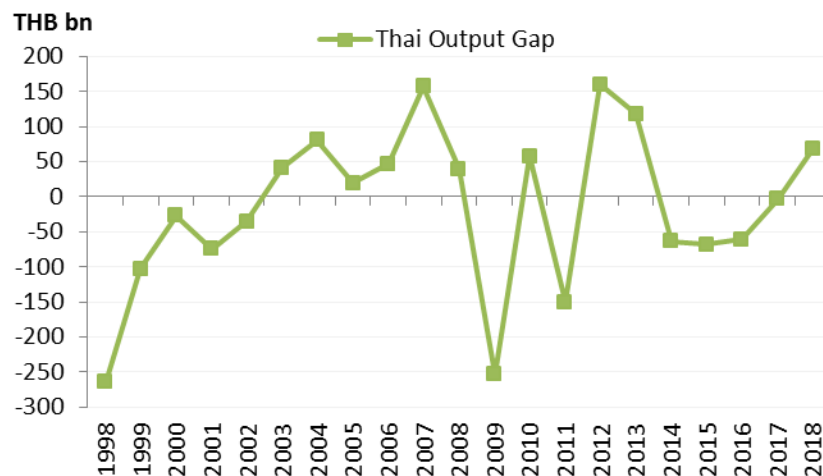
Year	Election promise	Reason for delay
2014	End of 2015	Delay in reconciliation roadmap and the government intending to hold a referendum on the constitution.
2015	2016	Government wanting to focus on addressing pressing concerns related to security, corruption, human trafficking and crime.
2016	2017	Needed time for four organic laws to come into effect.
2017	2018	National Legislative Assembly of Thailand delayed enforcement of election bill to buy more time for political parties to prepare for election.
2018	Feb 2019	Scheduling clashes with coronation of the new Thai King
2019	Mar 24, 2019	-

Thailand's economic fortunes under the military

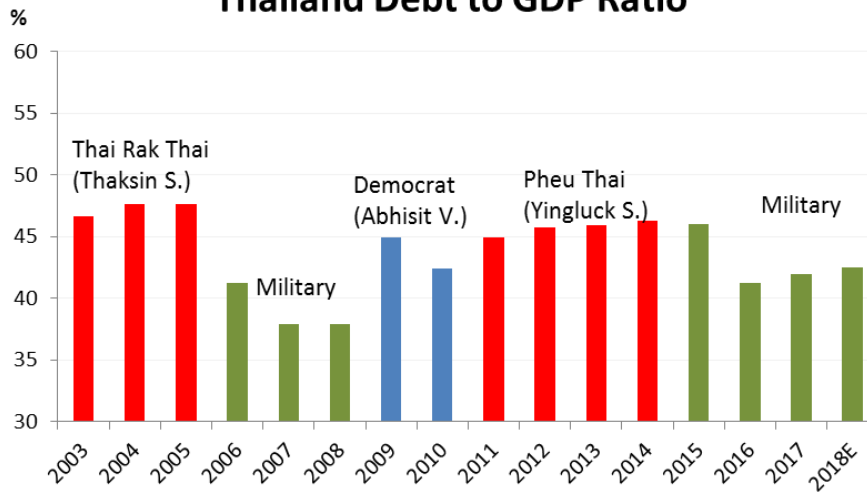
Excluding 2014, Thailand under incumbent Prime Minister Prayut Chan-ocha has averaged 3.6% GDP growth per year since taking over the country. By our estimates, Thailand's output gap would have turned positive in 2018, the first since the 2014 military coup. While critics may point out that Thailand's average growth per year from 2002 to 2014 was higher at 4.2%, that period coincided with a global economic boom, especially with the emergence of the BRICs nations, and it will be unfair to compare these two regimes laterally.

Fiscally, the military has also been more prudent than other political parties, with Thailand's debt-to-GDP levels averaging 43% since 2015 – lower than Yingluck Shinawatra's administration of 45.7%. The current account balance has also improved significantly beginning 2015, running a huge surplus of 10.5% at its peak in Q1 2018 from the deficit of -1% in Q4 2013.

Thailand Estimated Output Gap



Thailand Debt to GDP Ratio



Source: Bloomberg, OCBC

Who is running in the 2019 General Elections?

The two main parties in this year's general elections are the military-aligned Palang Pracharath party and the Pheu Thai party, the Shinawatras' main political vehicle and last headed by ex-PM Yingluck Shinawatra.

Party	Background	Economic Ideology	Expected Economic Policies
Pheu Thai and previous political parties affiliated to Thai Rak Thai Party	Headed by Yingluck Shinawatra before the 2014 coup	Expansionary policies	<ul style="list-style-type: none"> - Possibly reduce corporate tax, like in 2012 - May implement some form of rice subsidies/purchase programme - Subsidised healthcare costs - Village Funds - Raising minimum wages - One Tambon One product initiative where each village specializes in the production of one high-quality product.
Palang Pracharath	Led by 4 current cabinet ministers	Expansionary policies	<ul style="list-style-type: none"> - Village Funds - One Tambon One product - Provision of microloans in villages
Democrat	A conservative and royalist party	Pro-market	<ul style="list-style-type: none"> - Accelerate issuance of title deeds for land holders - Progressive land tax - Minimum income for farmers - Insurance provisions for farming-related activities
Future Forward	Led by tycoon-turned-politician	Pro-market	<ul style="list-style-type: none"> - Supporting small businesses through providing financial support. - Enforce law to promote free competition.

Who is expected to win?

Under the new constitution, Thailand's Upper House (250 seats) is already staffed with military appointed personnel, leaving the Lower House (500 seats) up for grabs. This means that the junta-aligned Palang Pracharath party need only win 126 of 500 seats (25%) to occupy majority of the government and hand the role of PM back to incumbent Prayut Chan-ocha. A survey by the National Institute of Development Administration (Nida poll) shows that incumbent PM Prayut is the most popular choice for the post of PM in the coming elections, but the Pheu Thai Party tops the poll for choice of forming the core of the next government.

The Pheu Thai party may still form the majority of the government if they win more than 375 seats in the Lower House (75%), but that is a tall order. Thaksin managed to win 374 of 500 seats in the 2006 general elections, but without his and her sister's physical presence in Thailand this time, it is difficult to imagine such a landslide result again.

What is the likely impact on the economy post elections?

Under the new constitution, the military is already expected to make up most of the Upper House, while the Nida polls suggest that the Pheu Thai party could form majority of the Lower House. Judging from the Palang Pracharath's projects (notably its Pracharath programme) and the Pheu Thai's past policies under the Shinawatras, both parties appear to share the same pro-Keynesian, demand-focus economic ideologies. An opposition-controlled Lower House, however, means policies may take a longer time to pass through Parliament. Mega projects are likely to see longer delays in their approval and completion.

Thai Raksa Chart escalates political risk

On 8 Feb, the Thai Raksa Chart party – a fallback vehicle of Thaksin's after the Pheu Thai party – nominated Princess Ubolratana Rajakanya as its prime minister candidate. The princess' attempted foray into politics, however, ended as quickly as it started after her brother, King Maha Vajiralongkorn, on the same day issued a palace statement decreeing the move "unconstitutional". The party is expected to name another prime minister candidate.

As of 11 Feb, Thailand's Electoral Committee has officially barred members of the royal family from running for office, effectively ending Princess' Ubolratana bid to be the next PM. What may follow in the coming days is a possible ban by the Electoral Committee on the entire Thai Raksa Chart party. Political risks could start to mount with this development. Mounting tensions could unsettle investor confidence as it revives memories of the poor GDP growth Thailand suffered in 2014 as a result of prolonged street demonstrations.

GDP and other key forecasts

Assuming the base case scenario where incumbent PM Prayut is re-elected to be the PM and the Pheu Thai party forms the majority of the Lower House (as suggested by the Nida poll), we expect little changes to Thailand's growth prospects in both the short and long run.

Scenario	Lower House Seats		GDP Forecast			Current Account Forecast		
	Phalang	Pheu Thai	2019	2020	2021	2019	2020	2021
Base Case	>126	<375	3.9%	3.7%	3.5%	8.6%	8.0%	7.4%
Pheu Thai Majority	<126	>375	3.7%	3.5%	3.3%	8.0%	6.7%	5.3%
Military Majority	>251	<251	3.9%	3.7%	3.5%	9.0%	8.5%	8.0%

	Thai Baht	SET 50 Index	Thai Govt Bonds
Base Case Overall majority: military Lower House majority: Pheu Thai	USDTHB is expected to appreciate in a gradual manner towards 30.0 over 12 months	The Thai economy is expected to bear the brunt of a China slowdown; any appreciation is expected to be slight and unlikely to exceed 1,200.	Potential gridlock between the opposition-controlled Lower House and the Senate could lead to a marginal bond sell-off, but 10Y yields are unlikely to trade above 3%.
Pheu Thai Majority Overall majority: Pheu Thai Lower House majority: Pheu Thai	Heightened political tensions could lead to a loss of investor confidence and a sell-off in USDTHB towards 32.0.	A potential loss of investor confidence could lead to a sell-off in the stock market; in Q4 2013, the SET 50 fell -12% in 3 months - a repeat is highly possible in this scenario.	Potentially shaken investor confidence may cause 10Y yields to rise up to 3%.
Military Majority Overall majority: military Lower House majority: military	Similar to the base case, the USDTHB is expected to appreciate in a gradual manner towards 30.0 over 12 months	Similar to the base case, the Thai economy is expected to bear the brunt of a China slowdown; any appreciation is expected to be slight and unlikely to exceed 1,200.	With little opposition, investor confidence in Thailand should improve and 10Y bond yields are likely to trade between 2%-2.5%.

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