Thailand

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Political risks dominate headlines

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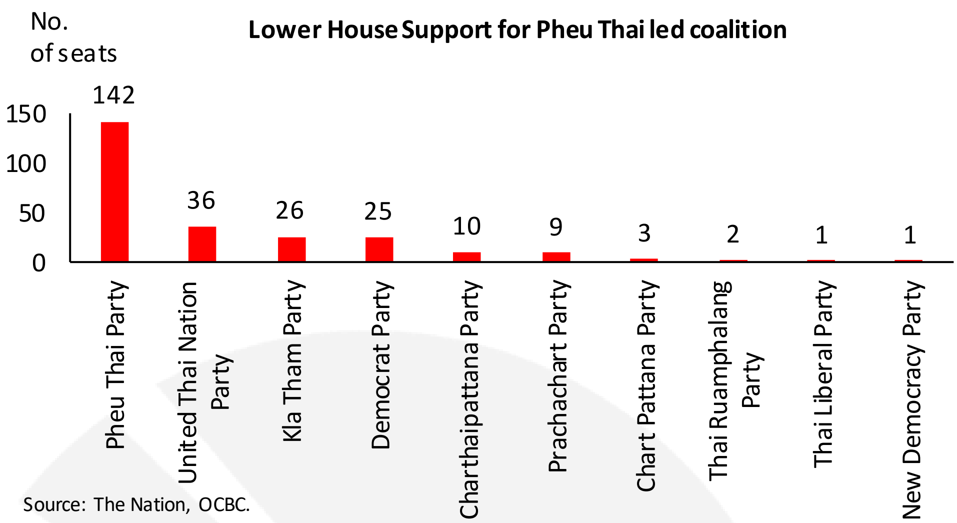
- The political situation came to a head when the Bhumjaithai party officially withdrew from the ruling coalition on 19 June 2025.
- Although the economy is no stranger to political uncertainty, the timing could not be more inconvenient considering external headwinds. Our baseline remains for the political situation to stay contained.
- Under this scenario, we retain our 2025 GDP growth forecast of 2.0% and one more 25bp cut from the Bank of Thailand (BoT) this year. However, if the political situation worsens, the growth outlook could be further impacted.

The political situation came to a head on 19 June when the Bhumjaithai party officially withdrew from the ruling coalition. Thai assets reacted negatively to the news, with USD/THB moving higher and testing 33 levels (at the time of writing) and the index of the Stock Exchange of Thailand dropping more than 2% but recouping some losses into early afternoon.



Source: The Nation, OCBC.

Local media reported rising tensions between the PM Paetongtarn Shinawatra and the leader of the Bhumjaithai party Anutin Charnvirakul on account of few issues including an impending cabinet reshuffle[1] as well as the border tensions between Thailand and Cambodia[2]. The departure of the Bhumjaithai party leaves the political math for the Pheu Thai led coalition somewhat more

[1] The Pheu Thai party was keen to regain the Interior Ministry position from the Bhumjaithai Party.
[2] A leaked tape of an official conversation between the Thailand and Cambodia leaders was the source of the tensions.

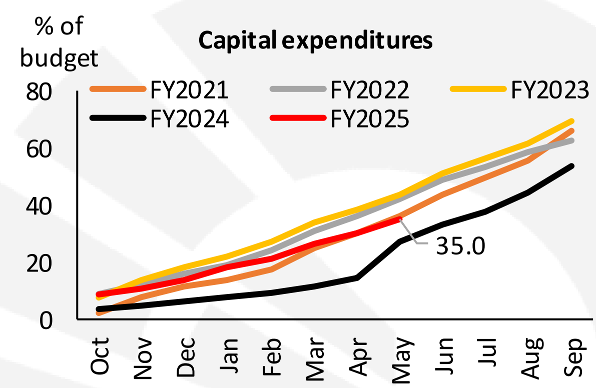
precarious. The Bhumjaithai party holds 69 seats in parliament, and its withdrawal from the coalition leaves the government with a relatively slim majority of less than 10 seats in the lower house. There are currently 495 MPs in the lower house. At least 248 votes (a majority) are required to pass a legislation.

Although the economy is no stranger to political uncertainty, the timing could not be more inconvenient considering external headwinds. The question really is how the current situation will evolve. There are a few possible scenarios.

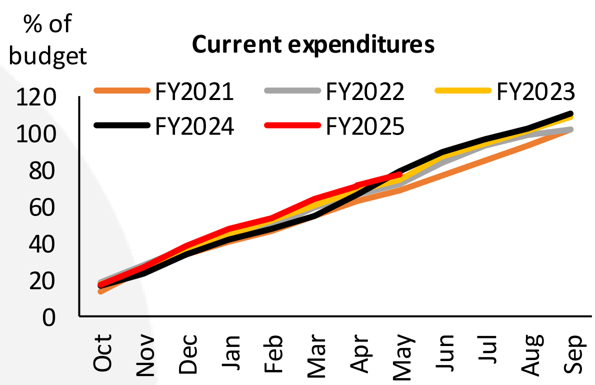
The first one would constitute a relative status-quo, albeit with a narrower lower house margin. Under this scenario, PM Paetongtarn Shinawatra remains in her position and consolidates power preventing other coalition partners from leaving. This is our current baseline scenario. Indeed, incoming statements from PM Paetongtarn Shinawatra suggest a more reconciliatory tone.

While this could reduce near-term political uncertainties, the path ahead may remain challenging. The first litmus test of the PM will be deliberations on the FY26 budget (i.e., year ending September 2026). The first reading of the budget bill was passed on 31 May, with the second and third readings remain to be completed by the lower house. The Senate will also have to approve the bill, before it is sent to His Majesty the King for royal endorsement. The FY26 budget comes into effect on 1 October 2025.

Recent data suggests that there is a clear need to press ahead with government spending. Government spending dropped sharply to -38.7% YoY in April-May 2025 from 37.5% in 1Q25, led by sharp drops in current (-39.0% from 25.5% in 1Q25) and capital (-37.2% from +190.4% in 1Q25) expenditures. This represents 77.3% of the FY25 annual current expenditure budget and only 36.8% of the annual capital expenditure budget.



Source: Budget Bureau, Ministry of Finance, CEIC, OCBC.

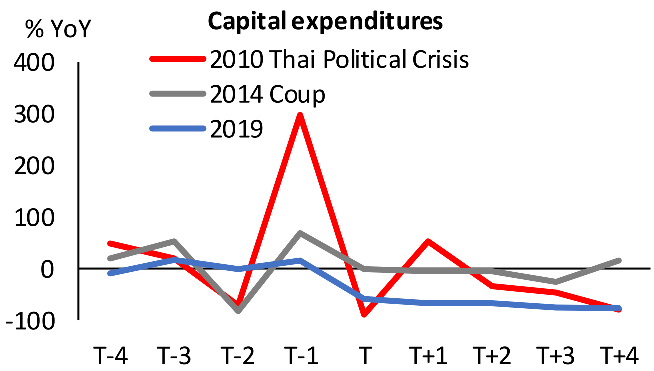


Source: Budget Bureau, Ministry of Finance, CEIC, OCBC.

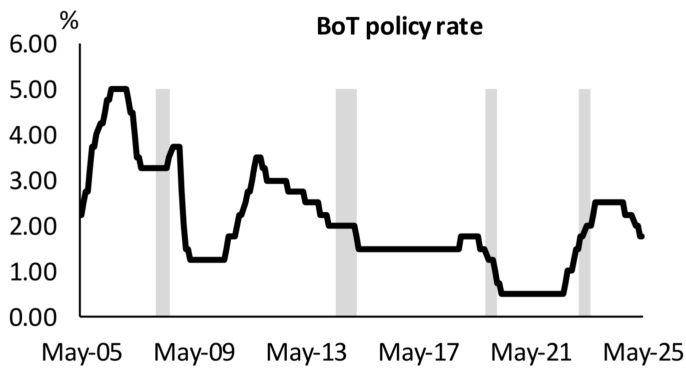
The cabinet approved THB157bn (~0.8% of GDP) worth of spending on 20 May. This is not new money rather a rechannelling of funds from those previously earmarked for the digital wallet program as well as from the 2025 annual budget central contingency fund. It remains to be seen whether spending of these funds can be expedited to support near-term growth.

Our baseline for 2025 GDP growth is 2.0% YoY, which could still be achieved under these circumstances. This assumes that tariff negotiations with the US continue without disruption. We expect BoT to keep its policy rate unchanged at its upcoming 25 June meeting at 1.75% but reduce its policy rate by 25bps in 3Q25. As such, we expect the BoT policy rate to be 1.50% by end-2025.

Under a worse-case scenario, other coalition partners withdraw support for the Pheu Thai led coalition and there is a loss of majority, leading to parliament dissolution. If this were to materialise, the collision of domestic and external headwinds will significantly weigh on sentiment. The implications for economic growth would also be significant. Past precedence has showed that economic growth momentum tends to slow sharply during times of political uncertainties driven by lower government and investment spending. This coupled with weakness in exports as under our baseline in 2H25 will be a double whammy for the economy.



Note: t= Jan 2010, May 2014 and October 2019. Source: MoF, OCBC.



Source: Bank of Thailand, CEIC, OCBC.

If this scenario were to materialise, we would expect GDP growth to weaken significantly in 2H25, with full year growth slowing to 1.5% YoY. There would likely be delays in adopting the FY26 budget, allowing the FY25 budget to apply until the new budget is approved. This could shift the onus of supporting economic growth to the BoT. The central bank has during past episodes of political uncertainty reduced rates to support growth. We would forecast an additional cumulative 50bps in rate cuts under this scenario in addition to our baseline 25bp cut. This would take the policy rate to 1.00% by end-2025.

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