Thailand

Elections in sight

The elections promised by the military regime ever since it took power in 2014 are finally slated to be held in 2019. Yet this does not mean that the political and social crisis has been resolved: the ruling junta intends to remain in power without providing a veritable solution for "national reconciliation". From an economic perspective, short-term prospects are still upbeat. The Thai economy will be hit by the slowdown in China, but thanks to dynamic domestic demand, growth should approach its long-term potential this year. In the long term, in contrast, the outlook continues to deteriorate as the political environment holds back the economy's growth potential.

Elections at last?

The long-awaited elections promised by the military junta ever since it took power following the May 2014 *coup d'état* are expected to be held between February and May of 2019. Postponed on four occasions since 2015, the elections will be the first held since the promulgation of the new constitution in April 2017. Parliament will now be comprised of an upper house, the Senate, with 250 members elected by a panel of grand electors (all jointly named by the King and the military authorities), and a lower house, the House of Representatives, whose 500 members will be elected every four years.

Holding elections will obviously be a big step forward, but it will not suffice to resolve the country's political and social crisis that has been festering for nearly 15 years. The ban on public meetings – one of the military regime's first decisions on taking power – was partially eased in September to appease popular unrest and allow the various political parties to recruit new members and elect their leaders. The ban was not completely lifted until 11 December, leaving the political parties barely two months to organise themselves and launch their electoral campaigns.

The risks of a popular uprising are still high, as illustrated by the numerous protests that have broken out since the ban was lifted. Protests have intensified since the beginning of January, when the military threatened to postpone the elections initially scheduled for 24 February. Officially, the military does not want the elections to interfere with the preparations for the king's coronation, which is scheduled between 4 and 6 May. The elections might be postponed until after the coronation.

The military does not intend to loosen its grip on power

Looking beyond scheduling issues, the elections themselves will not mark a veritable return to democracy. The military has never implemented the "national reconciliation" that it promised after taking power[1]. The ruling military junta seems to have decided to stay in power and is doing all it can to ensure favourable election results. Since taking power, the military's ambition has been to reduce the influence of Thaksin Shinawatra[2] (who is still very influential) and the anti-monarchists as much as possible. This is surely the real reason why the elections have been repeatedly postponed.

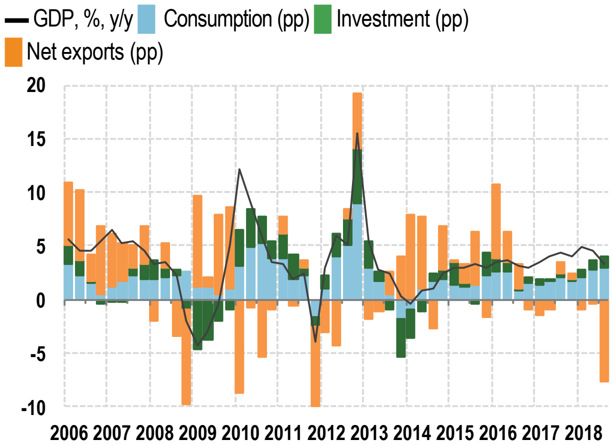
The new constitution was written by the military in its own best interest. Regardless of the election results, the new government will have to comply with a "strategic plan" compiled by the current

1- Forecasts

	2017	2018e	2019e	2020e
Real GDP growth (%)	3.9	4.1	3.7	3.7
Inflation (CPI, year average, %)	0.7	1.1	1.3	1.5
Gen. Gov. balance / GDP (%)	-1.8	-2.1	-2.3	-2.1
Gen. Gov. debt / GDP (%)	41.2	41.8	42.2	42.6
Current account balance / GDP (%)	10.8	8.1	7.3	6.8
External debt / GDP (%)	33.0	32.0	31.5	31.0
Forex reserves (USD bn)	194	197	215	225
Forex reserves, in months of imports	8.5	8.9	9.0	10.1
Exchange rate USDTHB (year end)	32.7	32.4	32.8	32.0

e: BNP Paribas Group Economic Research estimates and forecasts

2- Steady growth



Source: National Accounts

[1] Roughly speaking, power can be divided between the political elite, the bureaucracy and the military – all urban dwellers close to the royal family -- who want to keep an exclusive hold on power, and the more rural Democrats, who believe that power should be exercised by elected political representatives. The new constitution seems to widen the gap further between the two camps, by institutionalising the political presence of the military and the elite.

[2] Prime minister from 2001 to 2006, overthrown by a coup d'etat and in exile ever since to escape corruption charges that he claims are politically motivated.

government and written in the constitution, which provides a framework for the country's political life for the next 20 years. The new government will be restricted by a set of laws that reserves power for the military, the Senate and "independent" agents. The new electoral rules seem to have been designed to encourage the segmentation of the House of Representatives and to prevent the formation of a strong coalition.

Another measure in the new electoral regulations stipulates that an individual who is not a Parliamentary member, but who could be in the military, can apply to be prime minister, if no "natural" candidate emerges from among the MPs. This measure seems to be tailored specifically for Prayuth Chan-o-cha, the acting Prime Minister since the *coup d'état*, so that can remain in his post.

Buoyant growth

From an economic perspective, short-term prospects are still strong despite the expected slowdown in 2019: GDP growth probably exceeded 4% in 2018, the strongest performance since 2012, and is likely to slow to 3.7% in 2019. Regardless of the election results, the new government's economic policy will be tightly framed by the "national strategy", and thus will have little impact on growth.

First, domestic demand will be the main growth engine. Ongoing labour market improvements will boost household consumption. Second, the "Thailand 4.0" strategy, which calls for a transition towards more value-added manufacturing industries, and the various infrastructure projects launched since 2016, notably in the Eastern Economic Corridor (EEC) in the eastern part of the country, will continue to fuel public and private investment. Public investment was already up by more than 4% on average in the first three quarters of 2018.

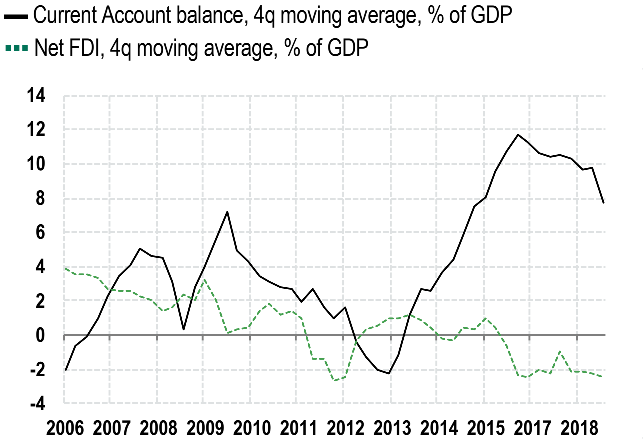
Manufacturing exports, in contrast, which account for more than 50% of GDP, are expected to slow. After growing rapidly in the first 8 months of the year (by more than 10% y/y between January and August 2018), they have slowed sharply since September (increasing less than 1% between September and November 2018). This slowdown will continue in 2019 as Thai exports are hit by the combined impact of the US-China trade war and the Chinese economic slowdown. China and the United States each account for about 12% of Thailand's merchandise exports.

Service exports are also exposed to the Chinese slowdown via tourism revenues (more than 12% of GDP in 2017). Chinese tourists accounted for nearly 30% of the total in first-half 2018.

Medium-term sources of alarm

Naturally, the decline in exports and tourism revenues combined with the increase in imports as part of the advancement of infrastructure projects will strain the current account surplus, which should narrow to 7% of GDP in 2019, from 8% in 2018 and more than 11% in 2016-2017. Even so, the current account surplus is still substantial and will largely offset structural capital outflows (FDI of Thai companies investing abroad).

3- Substantial current account surpluses



Source : Bank of Thailand

Despite a persistently accommodating fiscal policy, the deficit is expected to remain under control. Pre-electoral spending and the various infrastructure projects implemented by the government will add to the public deficit (estimated slightly above 2% of GDP in 2018 and 2019, up from less than 2% of GDP in 2017). The public debt is also expected to increase slightly, but will remain moderate at 42% of GDP in 2019 (up from about 40% of GDP in 2017). The debt profile is also favourable: less than 1% of the debt is denominated in foreign currency, and less than 15% is held by non-residents.

Medium to long-term prospects continue to deteriorate, as they have for the past 10 years. The country is faced with numerous structural challenges (aging population, low level of education and a decline in the country's attractiveness and FDI inflows due to the political crisis). Moreover, these problems are intensifying but no lasting solutions have been found. Assuming they are effectively implemented, the reforms called for in the "national strategy" and the "Thailand 4.0" and EEC plans should increase the country's attractiveness, boost productivity and spark an upmarket shift in industrial supply chains. Yet the lack of political continuity is hampering the implementation of these reforms.

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