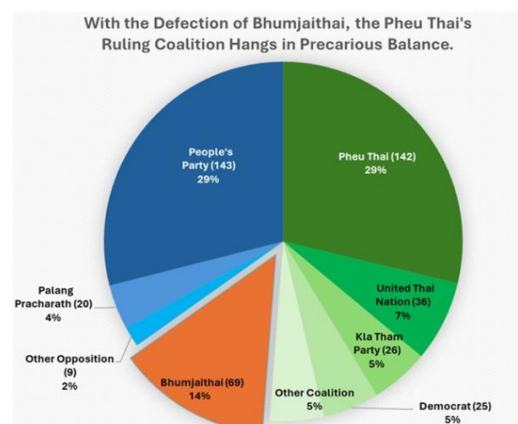


## Thailand's Political Upheaval

### In a Nutshell:

- **Political turmoil grips Thailand** have been precipitated by a leaked phone call, a key defection from the ruling Pheu Thai and calls for PM Paetongtarn's resignation.
  - The ruling **Pheu Thai's razor thin majority** (of 253 out of 500 seats), *backed by only 142 seats of its own*, **suggest a precarious government**, especially ***amid risks of further defections from coalitions it is highly-reliant on.***
  - **Elevated, and potentially prolonged political uncertainty** now **casts a pall** on an already weak economy, further *exacerbating pre-existing by geo-economic (tariff) threats.*
  - With already *compromised business confidence* and *fragile household sentiments*, there **is arguably an need for further stimulus sooner.**
  - BoT may need to hasten 50-75bp of cuts. THB weakness is not a substitute for or an argument against cuts.
  - Instead, **stabilizing the THB even as the BoT cuts may be optimal** to shore up confidence and stave off (misperceived) allegations of mercantilism amid tariff/trade threats.
- 
- Political Upheaval & Crisis of Confidence: Thailand is now submerged **a political upheaval**, as the **ruling Pheu Thai coalition**, led by Paetongtarn Shinawatra is **facing a crisis of confidence**; with **calls for PM Paetongtarn's resignation.**
  - Amid Build-Up of Strains: To be sure, pre-existing accusations of economic mismanagement and disagreements over policies had **already strained the ruling coalition**, and pointedly the Pheu Thai's sway in politics and policy.
  - Leaked Call on Border Clash Blows the Fuse: But it is the *leaked call of the PM criticizing the Thai military in its border clash with Cambodia* is *arguably what blew the political fuse.*
  - Defections & Destabilization: The consequent **defection of Bhumjaithai** (accounting for 69 of the 500 seats in the House) **from the ruling coalition** now **leaves Pheu Thai to struggle with a razor thin majority** (of 253 seats).
  - Minority Government a Risk: Crucially, the **Pheu Thai's coalition**, which was *already awkward to start with*, **could fragment further** with significant risks associated with trying to manage a minority government.
  - Leverage Crushed by Military-/Royalist Opposition: Point being, the **Pheu Thai's 142 seats does not offer sufficient leverage or control.** ***Especially*** as the Party has been ***now pitted against the military-/royalist-backed political factions that dominate.***

- Spill-Over Economic Risks: This unearths **four clear risks and threats** that **Thai political landscape** and **economic contours** are now confronted with.
- Political Uncertainty: First and foremost is the **elevated and potentially extended political** uncertainty as politics is *first seized by no-confidence motion attempts*. And then *power-tussles/broking by “King-maker” parties*.
- Policy Paralysis: Amidst all of these, the **real risk is that policy paralysis hobbles a weak economy** in need of decisive action. For a start, the **Pheu Thai’s decimated majority will frustrate the passage of its reform agenda**.
- Social Unrest: In the worst-case scenario (**not our base case**), there may be social unrest of highly polarizing political agitations spill-over with taking to the streets.
- Goeconomic Leverage/Efficacy Compromised: Moreover, *at a time when unprecedented goeconomic challenges* confronting Thailand, the **lack of political leadership/certainty is an unwelcome handicap for trade/diplomacy and wider geopolitical leverage**.
- Political Turmoil Deepens Economic Gloom: Point being, **limited policy visibility** and **compromised policy stability from political uncertainty**, *drags already dampened business and consumer confidence*, thereby **exacerbating economic gloom**.
- Weighing Further on Growth: In turn, the **adverse impact on growth multipliers** threaten to *knock another 0.2-0.4%-pts off (annualized) growth in coming quarters*.
- BoT (Needs) to Ease: **Policy buffer** is therefore *not just warranted, but arguably more urgent*. **Given fiscal levers hijacked by the political turmoil**, the **BoT arguably needs to compensate**, *hastening another 50-75bp of rate cuts*.
- Weaker THB Relief Not a Substitute ...: Admittedly, there is academic merit in claiming **policy buffer from a weaker THB** (*in response to the political turmoil*). But this **neither a sufficient nor a credible substitute for BoT rate cuts**.
- ... Potentially an Added Risk: In fact, **THB weakness on its own may inadvertently undermine business/consumer confidence in the context of political uncertainty**. Moreover, it could unhelpfully **amplify geo-economic risks** (tariff threats).
- So, Rate Cuts Combined with Macro-FX Stability Optimal: Hence, the **optimal policy-mix for the BoT** is to cut rates, but *whilst backstopping THB from excessive downside volatility and ensuring broader macro-stability*.



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