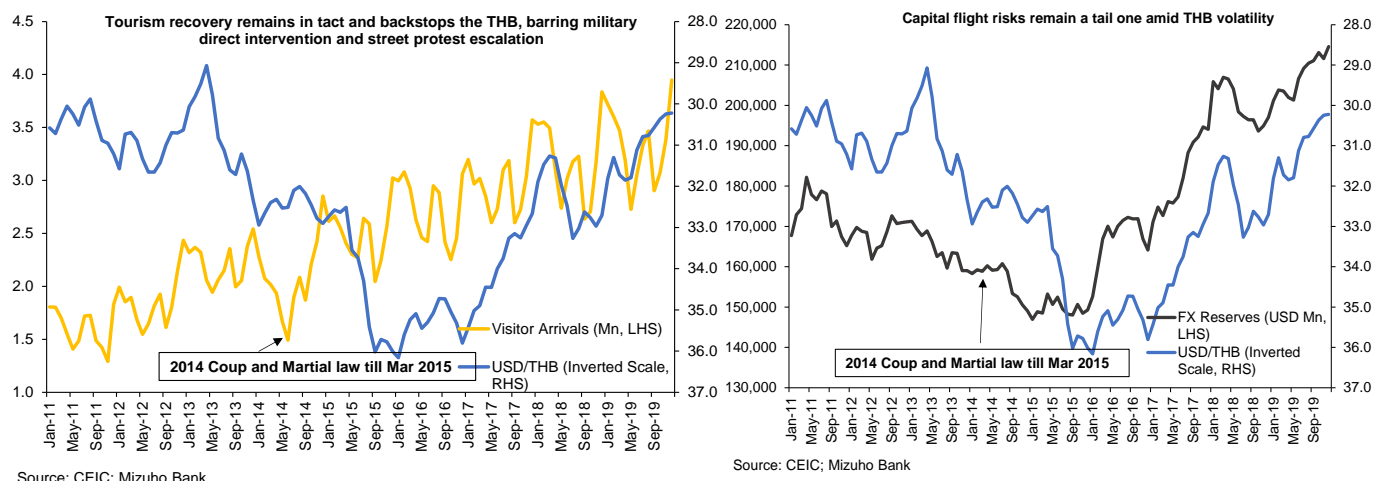


Thailand: Political Instability, Economic Continuity



- After surviving four no-confidence votes since the start of 2020, **PM Prayuth has been ordered by the constitutional court (5-4 ruling) to suspend performing prime ministerial duties** until the ruling on a petition questioning the validity on his eight-year tenure is confirmed. Fellow general Deputy Prime Minister Prawit Wongsuwan will stand in as acting prime minister, ensuring continuity.
- While the petition to challenge the PM Prayuth's tenure was accepted unanimously, the much closer call to suspend his premiership is likely to translate to a tight decision on the ruling.
- Notably, the court did not provide a date for the ruling which **threatens to create a prolong period of uncertainty**. Unsurprisingly, similar to previous episodes of political instability, the THB experienced an immediate weakening on the announcement.
- As overall economic fundamentals will still anchor the THB's medium term performance, one key economic threat is the **ability of the ruling party to ensure the safe passage of the budget bill which has sent to the Senate for approval** after passing through the lower house.
- While **PM Prayuth's coalition commands a majority in the Senate which forms our base case for the bill to be approved**, the **PM's suspension may seep doubt** and instability which may derail the fiscal budget and in turn worsen economic confidence.
- Historically, FDI applications had plunged in the post-coup years. The upshot being that political and fiscal stability is critical to anchor longer term commitment to infrastructure, human capital which enhances longer term potential growth. For now, capital flight risks remain a tail one as the Senate majority is expected to hold up.
- Barring a **sharp escalation into street protests and direct military intervention**, the **base case for the tourism sector remain intact, providing economic recovery and backstop the THB**. Nonetheless, if political uncertainty escalates in the months ahead, it may **stir unsolicited volatility to the THB**, which is currently already facing external headwinds from the Fed.

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