Thailand's recovery remains fragile as confidence fails to take hold

"Thailand's challenge is not merely a short-term cyclical slowdown but a structural one, as a recovery that relies on temporary stimulus risks turning fragility into the new normal."

Thailand's economy is not short of stimulus. It is short of conviction. Business confidence has remained stuck below neutral for much of 2025, suggesting that firms see little reason to believe the recovery will be either durable or self-sustaining. The latest Business Sentiment Index from the Bank of Thailand shows the headline reading unchanged at 49.8 in December. That number may look marginal, but its persistence tells a sharper story: caution has hardened into habit.

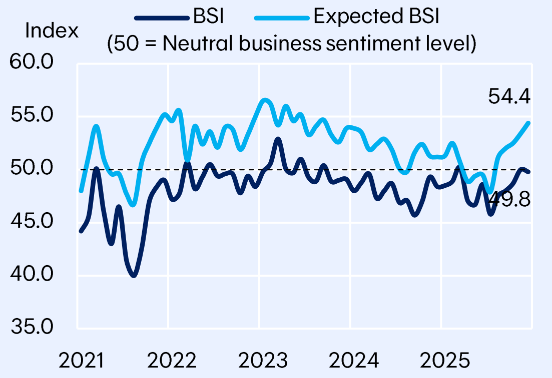
The problem is not a lack of activity, but a lack of momentum that firms trust. Global demand remains uneven, the baht has strengthened, and domestic purchasing power is weak. Together, these forces have discouraged businesses from expanding capacity, investing, or hiring. Thailand's recovery, such as it is, remains narrow and easily disrupted.

Manufacturing illustrates this fragility. Confidence improved briefly in the first half of 2025 as exporters rushed shipments ahead of US reciprocal tariff measures. Food and beverage producers, electrical appliances and intermediate rubber products all benefited from this front-loaded demand. Yet this was less a sign of underlying strength than a race against policy deadlines. Once tariffs took effect in the second half of the year, sentiment deteriorated across most manufacturing categories.

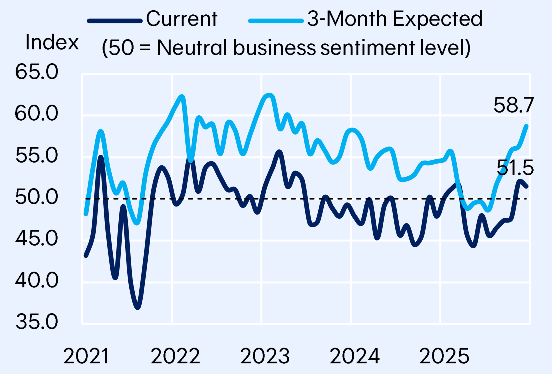
A stronger baht compounded the damage. For exporters of processed agricultural goods, where margins are thin and products easily substituted, currency appreciation quickly eroded competitiveness. Rather than revealing resilience, the manufacturing sector's experience exposed how dependent Thailand remains on external conditions it cannot control.

Only electronic components escaped the gloom. Sentiment in this sector stayed above

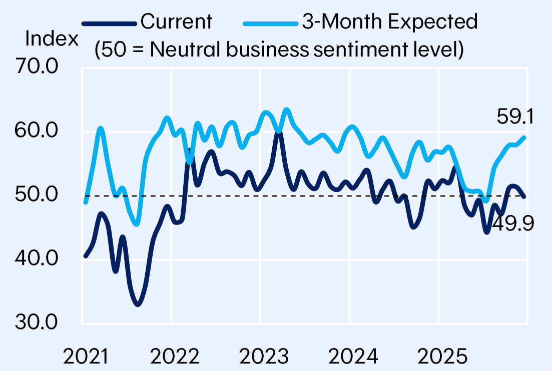
Business Sentiment Index



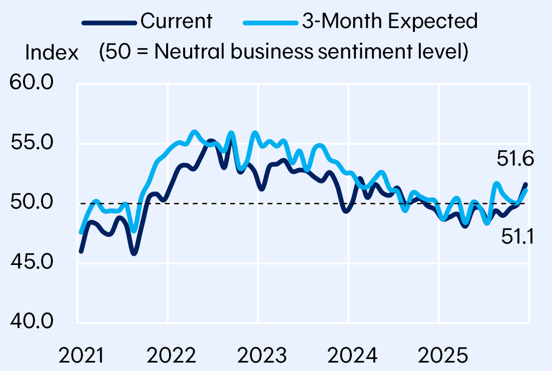
Total Order Book Index



Performance Index



Employment Sentiment Index



Source: Bank of Thailand.

the neutral threshold throughout the year, buoyed by the upturn in the global electronics cycle and demand linked to artificial intelligence, particularly semiconductors. But this success underlines a deeper concern. Thailand's growth engines are becoming increasingly concentrated. A recovery that relies on a narrow slice of the economy is not a robust one.

The service sector offers little reassurance. Overall confidence in non-manufacturing declined compared with the previous year, before staging a late recovery in the final quarter. Hotels, restaurants and retail trade improved as government measures kicked in, including domestic tourism tax incentives and consumption schemes such as We Travel Together and Khon La Khrueng Plus. Confidence rose, but largely because the state stepped in. Demand was cushioned, not cured.

This pattern points to a familiar weakness. Growth is being propped up by policy interventions rather than driven by household confidence or private investment. When support fades, so too does momentum. That leaves the economy vulnerable to repeated cycles of stimulus and slowdown, without addressing the causes of weak demand.

Short-term expectations have brightened. The three-month-ahead sentiment index climbed to 54.4, suggesting businesses expect better conditions in early 2026. Yet this optimism looks more like a sugar rush than a turning point. Anticipation of further handouts, including the next phase of Khon La Khrueng Plus, has lifted sentiment, but not conviction.

Political uncertainty has already begun to weigh on these expectations. The dissolution of parliament reminded firms how quickly policy direction can change. For many businesses, the safest strategy remains to wait rather than commit capital to long-term projects. Confidence, once lost, is slow to rebuild.

Structural indicators reinforce this caution. Employment sentiment hovered around neutral throughout the year, signaling reluctance to expand payrolls. Firms continue to prioritize cost control, automation and hiring only for essential roles. Weak domestic demand and limited ability to pass higher costs on to consumers remain binding constraints, even as inflation expectations over the next 12 months eased to 2.1 per cent.

Thailand's challenge is therefore not just a short-term slowdown. A recovery that depends on temporary export spurts, selective technology booms and recurring fiscal support is unlikely to inspire sustained confidence. Unless policymakers address weak domestic demand, policy volatility and the narrow base of growth, today's fragile recovery risks becoming tomorrow's normal state: stagnation, punctuated by stimulus, but never quite escaping caution.

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