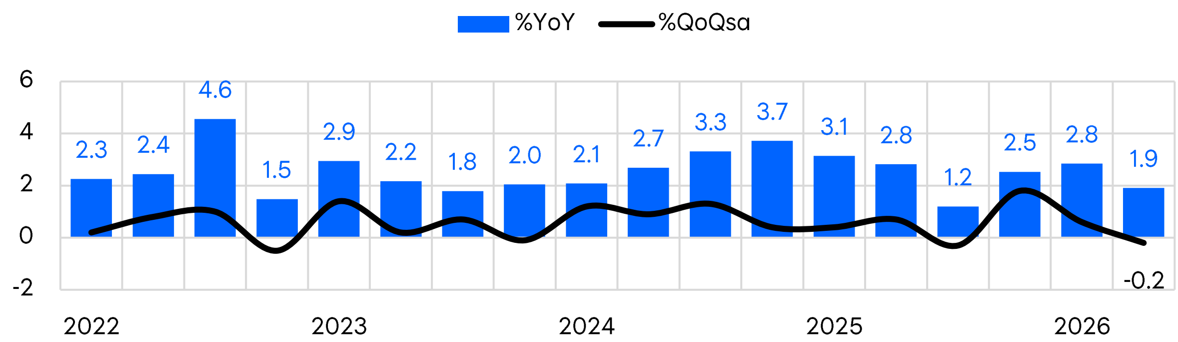
Thailand’s Economic Outlook

1. Economic Growth: A modest upside surprise masks softer domestic momentum

Thailand’s economy performed slightly better than expected in Q2 2026, expanding 1.9% year-on-year, above the 1.7% median forecast in a Reuters poll of 15 economists. On a seasonally adjusted basis, GDP contracted by 0.2% quarter-on-quarter, considerably less than the 0.6% contraction expected by the market. The upside surprise was modest, however. Annual growth still slowed sharply from 2.8% in Q1, while the sequential contraction pointed to weakening underlying momentum.

Thailand’s GDP Growth (%)



Source: Office of the National Economic and Social Development Council.

The expenditure breakdown reveals an unusually import-intensive growth pattern. Gross fixed capital formation contributed 1.9 percentage points to Q2 growth, while private consumption added another 1.2 percentage points. Exports of goods and services made a much larger gross contribution of 9.1 percentage points, alongside a sizeable 16.8 percentage-point drag from imports. In volume terms, imports of goods and services surged 24.2%, almost twice the 12.5% increase in exports. Part of the increase reflected stronger imports of capital goods and intermediate inputs alongside the acceleration in private investment. The figures point to a strong but highly import-intensive investment and trade cycle.

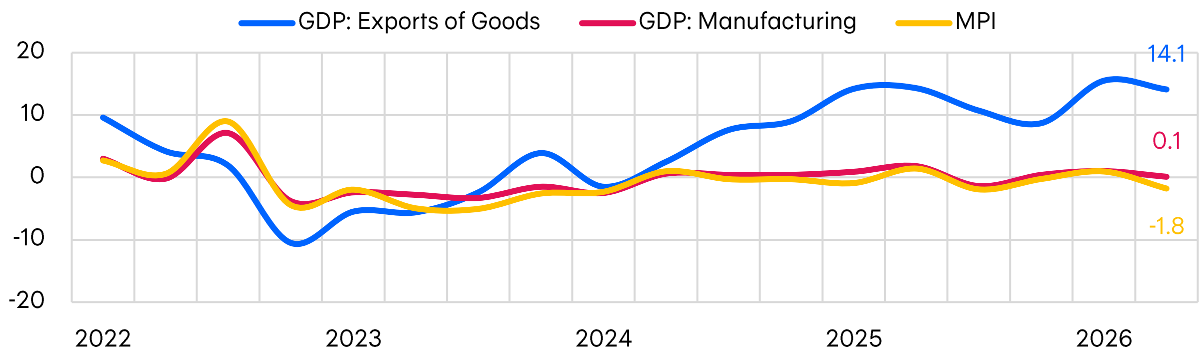
Contributions to Growth Rate of GDP (%)

Source: Office of the National Economic and Social Development Council.

Private investment was the clearest bright spot. It surged 13.4%, its strongest expansion in 54 quarters, accelerating from 10.1% in Q1 and led by a 16.6% increase in machinery and equipment. Public investment moved sharply in the opposite direction, contracting 1.6% after expanding 9.4% in the previous quarter. The divergence suggests that the investment cycle is being driven predominantly by the private sector rather than public-sector capital spending. Private consumption, meanwhile, slowed to 1.9%, while government consumption was almost flat.

There is also a notable disconnect between exports and domestic manufacturing. Merchandise exports rose 17.6%, supported by strong global demand for electronics and technology-related products, yet manufacturing output increased by just 0.1%, while capacity utilization fell to 57.5%, its lowest level in 24 quarters. Tourism provided little additional momentum, with foreign arrivals declining 4.4% year-on-year. Taken together, the figures suggest that export strength has yet to translate into a broad-based recovery in domestic activity.

GDP: Exports of Goods and Manufacturing and Manufacturing Production Index (%YoY)



Source: Office of Industrial Economics and Office of the National Economic and Social Development Council.

NESDC expects GDP growth of 2.0–2.5% in 2026, with a midpoint of 2.2%. This sits toward the upper end of forecasts published ahead of the Q2 release: ADB projects growth of 1.8% (as of July 8, 2026), Krungsri Research 1.9% (as of July 14, 2026), and SCB EIC 2.0% (as of June 23, 2026), while the Bank of Thailand is more upbeat at 2.3% (as of June 24, 2026).

NESDC's latest projections also point to a significant change in the expected composition of growth compared with its May assessment.

The most striking revisions are to private investment and exports, while its forecasts for government consumption and public investment have been revised slightly lower. At the same time, the current account outlook has swung from surplus to deficit, consistent with the sharp increase in imports.

NESDC 2026 Forecast

	May 2026 Forecast	Aug. 2026 Forecast
Real GDP growth	1.5–2.5% (2.0%)	2.0–2.5% (2.2%)
Private Consumption	2.4%	2.6%
Government Consumption	1.3%	1.2%
Private Investment	3.7%	9.6%
Public Investment	3.5%	3.1%
Merchandise Exports (Value, USD)	9.6%	15.1%
Merchandise Exports (Volume)	7.8%	12.1%
Headline Inflation	0.3–0.8%	1.5–2.0%
Current Account (% of GDP)	1.2%	-1.2%

Source: Office of the National Economic and Social Development Council.

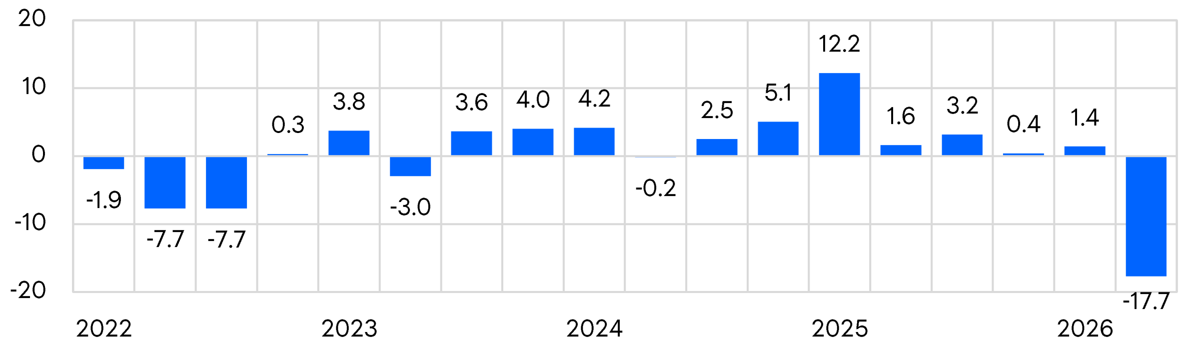
Overall, the revisions reinforce the picture of an economy increasingly reliant on private investment and exports rather than broad-based domestic demand.

The stronger-than-expected Q2 outturn therefore provides some upside to the near-term picture, but does not fundamentally alter the growth story. After the sequential contraction in Q2, sustaining growth around NESDC's midpoint will increasingly depend on whether the strength in investment and exports broadens into domestic demand and production.

2. Economic Stability: Strong buffers, but external and price pressures have risen

Thailand's overall macroeconomic stability remains relatively sound, supported by high international reserves and a still-tight labor market, although the external balance deteriorated sharply and inflationary pressures re-emerged in Q2 2026. The current account recorded a USD 17.7 billion deficit, equivalent to 12.0% of GDP in Q2, reversing a surplus of USD 1.5 billion in Q1 and marking the first deficit in eight quarters. The deterioration reflected both a USD 12.1 billion merchandise trade deficit and a USD 5.6 billion deficit in services, primary income and secondary income.

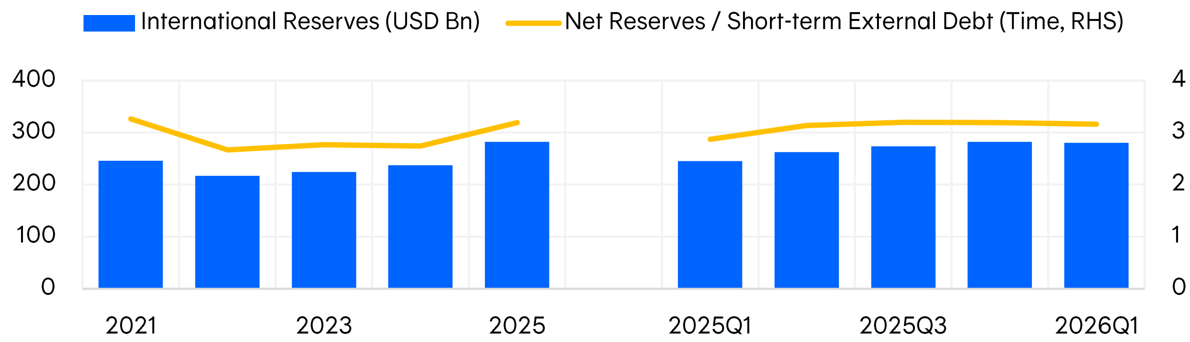
Current Account Balance (USD Bn)



Source: Bank of Thailand.

The swing in the external balance was driven largely by an exceptional increase in imports. In baht terms, merchandise imports rose 39.9% year-on-year, substantially faster than the 15.2% increase in exports, resulting in a trade deficit of THB 392.6 billion. Services also remained in deficit: receipts increased by 8.7%, supported by travel, transport and other business services, but payments rose faster at 16.4%, leaving the overall goods and services balance at a deficit of THB 509.1 billion. Despite

International Reserves / External Debt

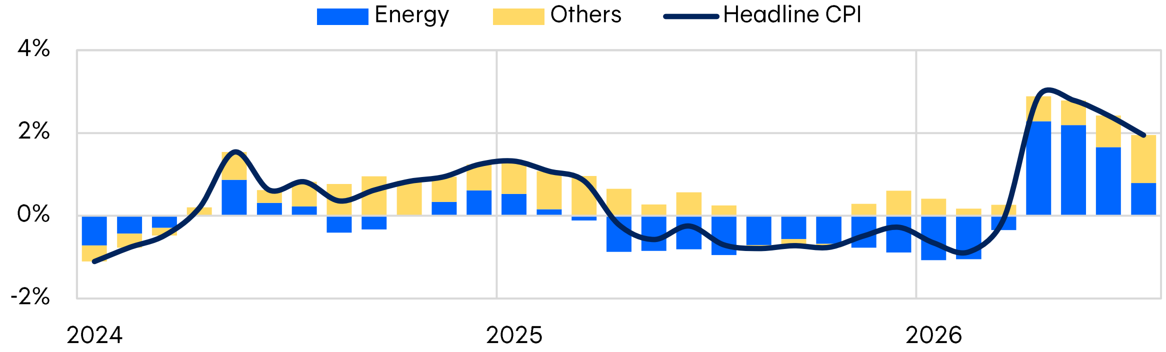


Source: Bank of Thailand and Office of the National Economic and Social Development Council.

this deterioration, Thailand retains substantial external buffers, with international reserves standing at USD 280.5 billion at the end of the first quarter of 2026.

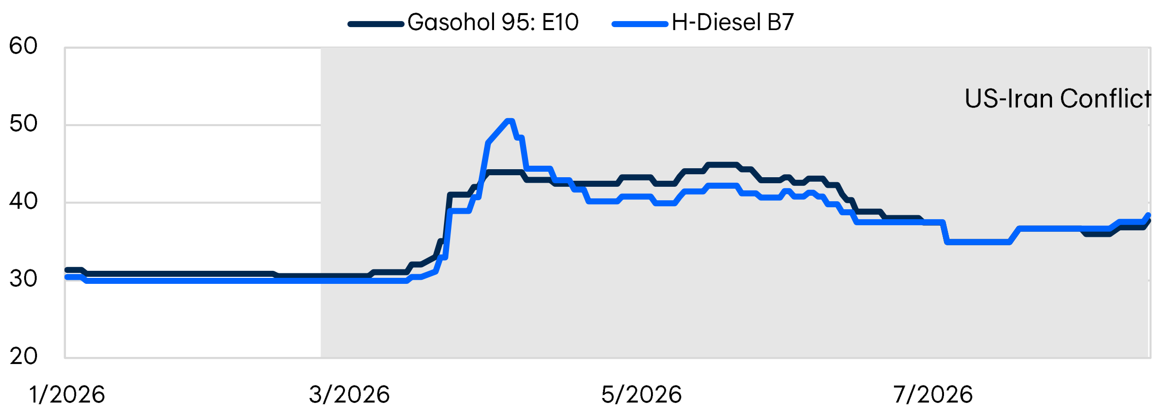
Inflation has replaced deflation as the more immediate price-stability concern. Headline inflation accelerated to 2.7% in Q2, after four consecutive quarters of negative inflation, while core inflation increased to 1.0%. The increase was concentrated largely in energy-related prices: the energy price index rose 16.9%, while transportation and communication prices increased 10.4%. The shift suggests that the inflation impulse is primarily cost-driven rather than demand-driven, consistent with the continued softness in household consumption.

Contributions to CPI (%)



Source: Trade Policy and Strategy Office.

Oil Retail Price (THB/Liter)



Source: Energy Policy and Planning Office, Ministry of Energy.

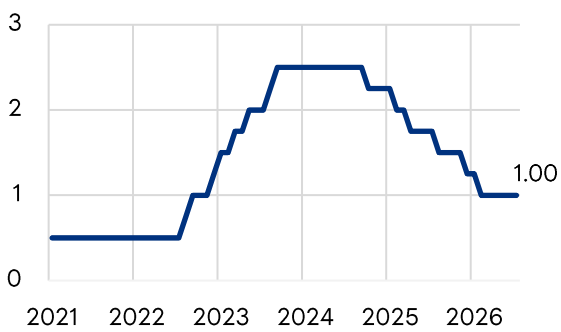
The labor market, by contrast, remained broadly resilient. Employment increased 5.1% year-on-year to 41.5 million, while the unemployment rate remained low at 0.96%, only slightly above 0.94% in Q1. Some pockets of weakness nevertheless warrant attention. The number of unemployed people increased to around 401,000, and among those who had never worked before, 85.9% were aged 15–24. Both short- and long-term unemployment also increased from the previous quarter. The headline labor-market figures therefore remain favorable, but the composition points to continuing challenges in matching younger workers with employment opportunities.

Overall, Thailand enters the second half of 2026 with substantial external reserves and low unemployment, but a less comfortable stability backdrop than the headline indicators alone suggest. The sharp deterioration in the current account and renewed energy-driven inflation have increased the economy's sensitivity to external shocks, particularly further increases in energy prices or disruptions to global trade and transport. The Q2 current account deficit appears unusually large relative to the full-year outlook. NESDC expects a current account deficit of 1.2% of GDP for 2026 as a whole and headline inflation of 1.5–2.0%, implying some normalization in both the external balance and price pressures in the second half. Even so, the stability backdrop remains markedly less favorable than in 2025, when inflation averaged -0.1% and the current account recorded a surplus of 3.0% of GDP.

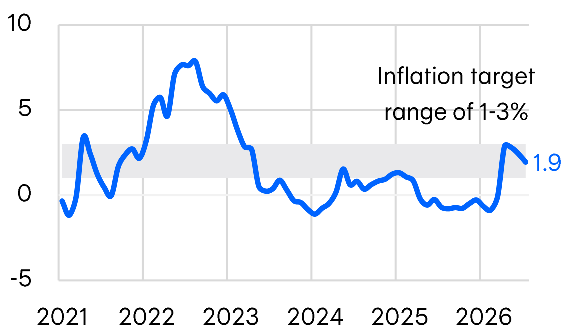
3. Monetary and Fiscal Policy: Less room to maneuver as monetary transmission weakens

Thailand's policy environment has become more complicated as growth momentum weakens while inflationary pressures re-emerge. The Monetary Policy Committee (MPC) maintained the policy rate at 1.00% at its June 24 meeting, following a 25-basis-point cut from 1.25% in February. The Committee viewed the prevailing stance as accommodative and appropriate for supporting the recovery while preserving limited policy space. The inflation target remains at 1–3%, with the next MPC meeting scheduled for August 26.

Policy Rate (%)



Headline Inflation (%YoY)



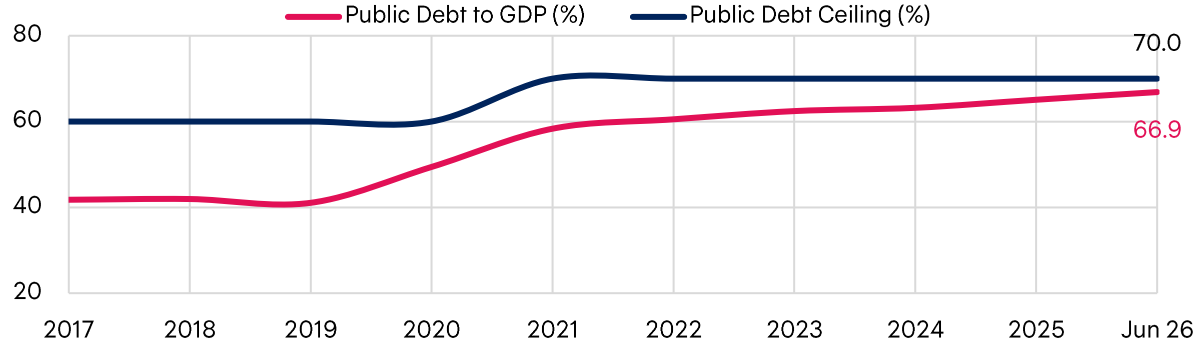
Source: Bank of Thailand and Trade Policy and Strategy Office (TPSO), Ministry of Commerce.

While Q2 momentum weakened, the MPC's full-year outlook has improved. The MPC projects GDP growth of 2.3% in 2026 and 1.8% in 2027, supported by stronger-than-expected exports and technology-related investment. Headline inflation is projected at 2.8% this year before easing to 1.4% in 2027 as temporary energy and supply-side pressures subside. The combination of stronger near-term growth and elevated but largely supply-driven inflation reduces the urgency for further rate cuts, particularly given the need to preserve monetary policy space.

More importantly, the effectiveness of further monetary easing is increasingly constrained by weak credit transmission. Despite lower interest rates, overall credit growth remains subdued and concentrated among large corporates, while household lending has contracted and financial institutions remain cautious toward higher-risk borrowers, particularly SMEs. Lower policy rates therefore may not translate fully into stronger household consumption or SME investment. This weakens the case for relying on conventional rate cuts alone and increases the importance of targeted financial measures alongside broader efforts to improve credit access.

Fiscal policy is consequently taking a more prominent role in supporting domestic demand. The government has introduced the "Thais Help Thais Plus" program, including additional support for around 13.2 million state welfare-card holders and a 60/40 co-payment scheme covering around 26.0 million participants. Spending under the scheme had reached approximately THB 106.6 billion by

Public debt is approaching the 70% ceiling.



Source: Office of the National Economic and Social Development Council.

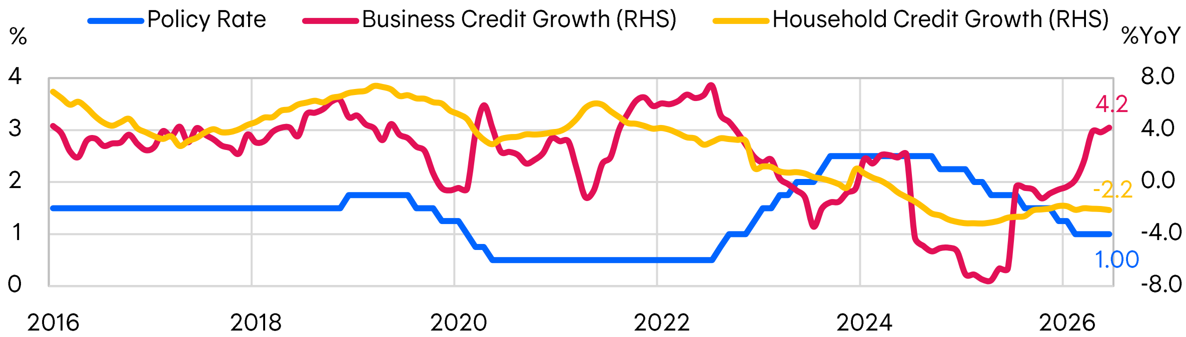
August 9, providing more direct support to household purchasing power and small businesses. Fiscal support is also being reinforced through continued FY2026 budget disbursement and public investment.

The room for fiscal expansion, however, is narrowing. Public debt stood at 66.9% of GDP at end-June 2026, approaching the 70% ceiling, while the proposed FY2027 budget totals THB 3.8 trillion with a planned deficit of around THB 788 billion. The public debt ratio is projected to rise further to around 68.2% by end-FY2026 and 69.4% by end-FY2027, leaving less room to respond to future shocks if these projections materialize.

The policy mix is therefore becoming increasingly asymmetric: monetary policy remains accommodative but faces weak transmission, while fiscal policy offers more direct support to domestic demand but has progressively less room to expand. Near-term policy will consequently need to rely more on targeted measures than broad-based stimulus. Over time, increasingly constrained monetary and fiscal space also raises the importance of measures that improve productivity, SME competitiveness and the ability of stronger investment and export activity to spread more broadly through the domestic economy.

4. Thai Baht Outlook: External pressures point to continued volatility

Lower rates have yet to generate a broad-based credit recovery.

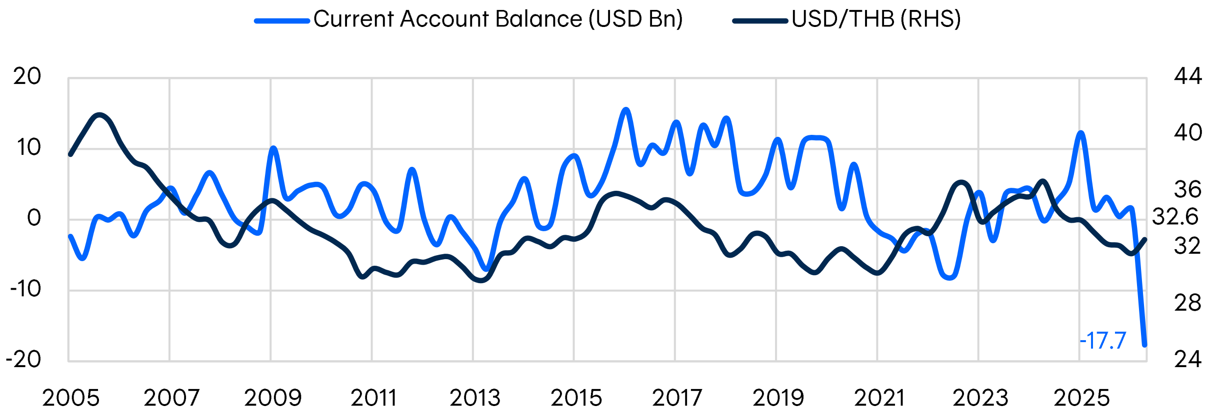


Source: Bank of Thailand.

The Thai baht came under renewed pressure in Q2 2026 as a stronger US dollar coincided with a sharp deterioration in Thailand's external balance. The average reference exchange rate weakened to THB 32.60 per US dollar from THB 31.61 in Q1, a depreciation of 3.13%. The nominal effective exchange rate (NEER) also declined by 2.70% quarter-on-quarter, while the real effective exchange rate (REER) fell by a more modest 0.86%, indicating that the weakness was not confined to movements against the US dollar.

The depreciation reflected a combination of global and domestic pressures. Externally, heightened geopolitical tensions in the Middle East strengthened demand for the US dollar and increased uncertainty over energy prices and global financial conditions. Domestically, the swing in Thailand's current account from a USD 1.5 billion surplus in Q1 to a USD 17.7 billion deficit in Q2 reduced support for the baht. Falling gold prices added further depreciation pressure during the quarter.

Baht weakness coincided with a sharp deterioration in the current account.



Source: Bank of Thailand.

The outlook will continue to depend heavily on US monetary policy, global risk sentiment, energy prices and Thailand's external balance. Changes in expectations for US interest rates could generate sizeable two-way currency movements, while renewed geopolitical tensions or higher oil prices would raise Thailand's energy-import bill and potentially put additional pressure on both the current account and the baht. The unusually strong growth in imports associated with the current investment cycle could also limit the support traditionally provided by merchandise exports. Thailand's sizeable international reserves nevertheless provide an important buffer against periods of external volatility.

The balance of risks therefore points to continued two-way volatility rather than a clear directional trend. An easing of geopolitical tensions, more stable energy prices and a weaker US dollar would provide scope for the baht to recover, particularly if Thailand's current account position normalizes. Conversely, renewed dollar strength, higher energy prices or persistent global risk aversion would increase depreciation pressure. NESDC expects the current account deficit to narrow to 1.2% of GDP for 2026 as a whole, suggesting that some of the domestic pressure on the currency could ease if the external balance develops broadly as expected.

Overall, a sustained improvement in the baht would likely require both a more supportive global environment and a normalization in Thailand's external balance. Strong reserve buffers reduce the risk that currency volatility develops into a broader external-stability problem, but they do not insulate the baht from short-term pressures arising from global financial conditions, energy prices and capital flows.

5. Key Risks Ahead: External shocks could expose domestic vulnerabilities

Thailand's outlook for the remainder of 2026 remains vulnerable to weaker domestic momentum and persistent external uncertainty. The slowdown in Q2 suggests that growth could lose further momentum if external demand weakens before domestic activity gains traction. This vulnerability is amplified by the uneven composition of growth: private investment and technology-related exports remain strong, while household demand, broader manufacturing activity and tourism are considerably softer.

1. Geopolitical tensions and energy prices. A prolonged or renewed escalation in the Middle East could push global oil and natural gas prices higher, disrupt major shipping routes and raise freight and insurance costs. As a net energy importer, Thailand would face a higher import bill alongside rising transportation and production costs. The effects could spread simultaneously through inflation, the current account, the baht, household purchasing power and business margins, making the policy response more difficult.

2. Global growth and trade policy. Manufactured exports, particularly electronics and technology-related products, continue to benefit from strong global technology demand, but performance remains uneven across industries. A sharper slowdown in major economies, renewed trade restrictions or greater uncertainty surrounding US tariff policy could weaken export orders and investment sentiment. Intensifying regional competition for both export markets and foreign investment adds another layer of risk, particularly if Thailand is unable to sustain improvements in productivity and competitiveness.

3. A weak and uneven domestic recovery. Private consumption has lost momentum amid high household debt, weak purchasing power and cautious lending conditions, with household debt remaining around 85.9% of GDP in Q1 2026. At the same time, the current investment cycle is relatively import-intensive, potentially limiting its multiplier effects on domestic production, employment and income if linkages with local supply chains remain weak. Tourism also remains uncertain, with foreign arrivals declining 4.4% year-on-year in Q2 despite improving receipts. Together, these factors could leave growth concentrated in a relatively narrow group of export- and investment-oriented industries.

4. Climate risks to agriculture and food prices. El Niño and the possibility of more severe drought conditions could reduce agricultural output while adding pressure to food prices. NESDC estimates that under a severe scenario involving a 15% decline in rice and cassava production, losses could reach approximately THB 49.3 billion, equivalent to around 1.1% of agricultural GDP and 0.1% of overall GDP. The effects on rural incomes and vulnerable households could be more significant than the relatively small headline GDP impact suggests.

Policy constraint: Less room to absorb future shocks. Monetary policy remains accommodative, but weak credit transmission limits the effectiveness of further rate reductions in supporting households and SMEs. Fiscal policy can provide more direct support, but rising public debt and debt-servicing requirements leave progressively less room for broad-based stimulus. Limited policy space could therefore amplify the economic impact of the four risks above, particularly if several shocks occur simultaneously.

Overall, the central risk is not any single shock, but the possibility that external pressures interact with existing domestic vulnerabilities. An energy shock could simultaneously raise inflation, weaken the current account and baht, and reduce household purchasing power; a global slowdown could weaken exports before domestic demand has recovered; and financial constraints could amplify the impact on highly indebted households and SMEs. Thailand retains important buffers, including substantial international reserves and strong investment in selected industries, but more balanced and resilient growth will ultimately depend on whether the gains from exports and investment spread more broadly into domestic production, employment and household income.

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