Independent Study Title   PREDICTING THAILAND NEGATIVE GDP OUTPUT GAP WITH FINANCIAL VARIABLES

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ABSTRACT

This paper propose to use Thailand's term spread, Stock market index cycle, and USD/THB exchange rate in forecasting when national real GDP is going to be in recession, performing below its long term trend in business cycle state. The binary state is first extracted using HP-filter and then the probability of interested state is predicted using the static and probit model. The in-sample estimation is performed to select optimal lag specification for each variable. Then, we perform an out-sample prediction over period 2008Q1-2014Q4. Both estimation results reveal that term spread has no significant predictive power in forecasting GDP state, unlike the research with other countries data. While, Stock market index shows the best result in predicting GDP 1 quarter ahead with Dynamic probit model. In addition, Dynamic probit can generally help improve the predictive power for most of specifications for 1 quarter ahead forecast.