Standard Chartered

press release

Where we differ from consensus, StanChart reveals 3 factors pushing GDP growth to 4.3%

16 January 2018, Bangkok **–**Team of economists from Standard Chartered Bank (Thai) says the Bank differs from consensus and expects GDP growth of 4.3% in 2018 on the back of improvement in manufacturing, services and agricultural sectors.

At the **Global Research Briefing 2018 news conference**, where Standard Chartered Bank (Thai) holds biannually to clients and members of the press, **Dr. Tim Leelahaphan, Economist, Standard Chartered Bank (Thai) Pcl**, expects the consensus GDP growth forecast to be revised up from the current level of around 4.0%, converging with the Bank's 4.3% forecast, as the manufacturing, services and agricultural sectors gain stronger traction in 2018.

The **manufacturing sector (c.40% of GDP)** has been improving and has shown steady improvement from last year. Taking a deeper look, the Bank found that imports rose 15% year-on-year in January-November 2017. Robust growth in imports – particularly of capital goods, raw materials, and parts for electrical and electronics equipment – suggests a strong foundation for export growth in 2018, which the Commerce Ministry estimates at 6.5%. The Bank thinks the market has overlooked the positive implications of higher 2017 imports for exports this year.

The **services sector (c.50% of GDP)** showed strong momentum in 2017, led by tourism. The Tourism Council of Thailand projects c.38 million foreign tourist arrivals in 2018, up almost 10% from last year's c.35 million. Tourists are expected to generate income of c.THB 2.2 trillion (c.15% of GDP), and around 30% of them are expected to be from China. The Bank does not share the consensus view that THB strength will adversely affect the tourism sector, as tourism demand is strong enough to more than offset this.

The third growth factor, the agricultural sector (c.10% of GDP) is expected to recover this year. Thailand has recovered from a severe El Niño-related drought, and the La Niña weather phenomenon is likely to result in above-normal rainfall in 2018. Water levels in all of

Thailand's major dams are rising, which is positive for the agricultural sector; drought in previous years had resulted in very low water levels.

In addition, Dr. Tim also stated that **he expected monetary policy normalization this year with potential rate hikes in Q3-Q4**, against consensus expectations that the BoT will stay on hold throughout 2018. There are 4 reasons why it is time for the BoT to move after having kept its policy rate unchanged at 1.5% for around three years. First, and most importantly, potential rate hikes by other central banks will likely put pressure on the BoT to tighten, as it prefers not to lag peers. The central banks of the US, Canada, the UK and Korea have raised rates, and Malaysia is expected to follow suit early this year. Second, solid economic growth and closing output gap will give the BoT room to normalize policy. Third, policy normalisation would stem speculative risks from a prolonged low interest-rate environment, and the BoT's statements have emphasised financial stability. Fourth, we see inflation rising further in 2018, having almost reached the lower end of the BoT's 1-4% target.

Thai Baht is expected to lean towards appreciation throughout 2018 and the Bank sees a potential rise of 5% to THB 31/USD by end of Q4/2018. This is primarily driven by solid footings in export and tourism as well as the interest of returning foreign investors following the country's financial recovery.

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