

press release

Standard Chartered Bank sees Thai Central Bank shift toward tightening policy; Thailand strong heading into elections

20 July 2018, Bangkok – Standard Chartered Bank maintains its call for robust global growth of 4.0% this year, the strongest in five years, as economic fundamentals have remained solid. Unlike in previous years, growth this year has been broad-based and synchronised across regions. However, due to a number of tail risks, Standard Chartered bank is “uncomfortably optimistic” as these could eventually undermine confidence in the major economies, which has so far been resilient in the face of political event risks.

“We flag three main sources of risk to global growth, which we will continue to monitor closely: 1) the consequences of the end of the Quantitative Easing era, 2) the intended and unintended consequences of a possible full-scale US-China trade war, and 3) the sensitivity of many economies to an oil price shock,” according to Standard Chartered Bank’s Global Research team.

Meanwhile, Standard Chartered Bank (Thai) maintains its 4.3% growth forecast for 2018 for Thailand, reiterating its non-consensus call for tightening monetary policy this year, said Tim Leelahaphan, Economist, Standard Chartered Bank (Thai).

Thailand is relatively insulated from global trade and geopolitical headwinds, the country’s external balances are strong, as they are less dependent on trade and bolstered by an extremely strong services account and tourism sector. The pick-up in economic growth is expected to continue. The GDP growth this year is set to exceed 4% (which seen as potential growth), after falling to below 1% after the political turmoil of 2013.

“More or less, the three factors will have an impact across the globe. However, Thailand’s internal factors weigh more on the potential growth of the country at the moment. Thailand has mega-projects related to the Eastern Economic Corridor (EEC) as a long-term growth catalyst. With the likelihood of elections taking place early next year, investors are optimistic about the Thai markets.”

“However, most of the positive drivers have already been factored in for the Thai market. Unless there’s a new driving catalyst, Thailand’s economy is likely to grow at this moderate pace,” added Tim.

Policy – Rising expectations of policy rate normalisation

Figure 1: Thailand macroeconomic forecasts

	2018	2019	2020
GDP growth (real % y/y)	4.3	4.5	5.0
CPI (% annual average)	1.5	2.3	3.0
Policy rate (%)*	2.0	2.5	2.75
Current Account balance (%GDP)	9.0	7.0	3.0
Fiscal balance (% GDP)**	-3.0	-3.0	-3.0

*end-period, **for fiscal year ending in September; Source : Standard Chartered Research

Standard Chartered Bank has maintained its expectation of the Bank of Thailand raising its policy rate by 25 basis points in September and another in the fourth quarter of 2018. This anticipation differs from the consensus view that the central bank will keep policy rates on hold for the rest of this year. However, the latest

minutes of the Monetary Policy Committee meeting, suggested that the trend is leaning towards tightening.

“Our call is supported by improving domestic growth, monetary policy tightening in other countries (both regionally and globally), and the clear shift in the Bank of Thailand’s stance towards tightening. Inflation and the second quarter GDP data to be released ahead of the September Monetary Policy Committee (MPC) meeting will be crucial,” said Tim.

“We continue to question the meaningfulness of the current headline inflation target and, more importantly, the ability of monetary policy to manage headline inflation given that raw food and energy prices make up about 30% of the inflation basket. We believe the central bank may adjust the target early next year; this would have a significant impact on the market’s policy rate expectations.”

Politics – Q3 to see more progress towards elections

The elections are likely to be held in early next year supported by several significant developments, including timeline of relevant bills and enforcement.

“Our recent conversations with investors suggest that they widely expect post-election policy continuity. It remains to be seen whether this can provide a longer-term boost to the economy via new growth catalysts,” said Tim.

Currency outlook

“Based on our expectation of strong external balances and monetary policy tightening, we expect a stronger THB over the medium term,” said Tim.

“In conclusion, the patchy recovery of the Thai economy over the past years is gaining greater momentum. Looking forward, we are optimistic about the potential growth and the resilient foundation of the economy that is ready to take off once triggered by supportive drivers.”

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We are present in more than 60 markets, with over 1,000 branches and around 3,000 ATMs.

Standard Chartered PLC is listed on the London and Hong Kong Stock Exchanges as well as the Bombay and National Stock Exchanges in India.

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