Standard Chartered

press release

Standard Chartered Bank: Thailand's 2020 Growth to Stay Soft, Rate-Cutting Cycle Not Over Yet

- Thailand's potential growth rate of around 4%, which was achieved in 2017-18, is likely to remain elusive for the foreseeable future
- Strong THB is out of line with Thailand's weakening fundamentals and raises concerns for the BoT
- We have a non-consensus call for an additional 25bps policy rate cut in Q1, taking the rate to a new low of 1%

22 January 2020 - Thailand - Lower growth is here to stay No signs of a turnaround yet
Standard Chartered Bank (Thai) believes Thailand is unlikely to return to an economic growth rate of around 4%, which was achieved in 2017-18, for the foreseeable future because of broad-based weakness. Soft domestic demand along with the impact of the US-China trade war on some sectors suggests a turnaround in the near-term will likely be elusive. A protracted economic slowdown could lead to a surge in household debt as depressed incomes increase people's reliance on loans for daily spending. A continued decline in imports points to weaker economic activity on the ground and suggests that Thailand has not yet benefited from investment relocation due to the US-China trade war.

"Domestic activity is unlikely to improve significantly in 2020. Uncertainty surrounding the fiscal budget and rising political noise are contributing to our weak economic outlook, while external risks include the US-China trade dispute and Middle East tensions," said Dr. Tim Leelahaphan, Economist, Standard Chartered Bank (Thai).

"There is no clear evidence that Thailand is benefiting from the US-China trade war via investment relocation, and the increase in foreign direct investment may not be sustained."

THB to remain strong short-term

We forecast the pair at 29.25 at the end of the first quarter this year. Thailand's current account (C/A) surplus has risen again in recent months, despite the elevated Thai baht (THB). Q1 is seasonally very positive for Thailand's C/A balance and the THB given strong tourism receipts. Moreover, the expected delay in implementing the FY20 budget (year starting in October 2019) is likely to result in delayed capital disbursements. This should also support the C/A balance in the short term by reducing capital-goods imports. The key risk to our constructive short-term THB view is the introduction of new and aggressive measures to limit appreciation.

Policy – Rate-cutting cycle is not over yet

Monetary policy will remain the primary tool to support the economy, at least through Q1. Significant fiscal stimulus is unlikely in the near term given that the budget for FY20 is still being finalised. Even when budget disbursement starts, accommodative monetary policy will still be needed to complement fiscal spending. The current government appears to be focused on providing a short-term boost to the economy via private consumption rather than on reviving investment.

"We expect another 25bps policy rate cut by the Bank of Thailand (BoT) in Q1, taking the rate to a record-low 1%. This is a non-consensus call; markets seem reluctant to call for further cuts below the 1.25% historical floor," said Dr. Tim.

"Beyond Q1, we do not rule out further cuts if the economic outlook remains weak," Dr. Tim concluded.

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We are a leading international banking group, with a presence in 60 of the world's most dynamic markets, and serving clients in a further 85. Our purpose is to drive commerce and prosperity through our unique diversity, and our heritage and values are expressed in our brand promise, Here for good.

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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