Flash by EIC

11 October 2017

IMF raises global GDP outlook based on improving economies, despite long term risk factors

Event

- The International Monetary Fund (IMF) released the October 2016 World Economic Outlook with a higher forecast of global economic growth in 2017 and 2018 at 3.6% and 3.7%, up from in April at 3.5% and 3.6%, respectively. The upward revision owes to economies having better-than-expected GDP growth in the first half of the year, reflecting continual improvement of global growth prospects.

Analysis

- **IMF raises global GDP outlook siting short-run growth improvements in many regions, in particular emerging markets.** Growth outlook of main economies had upward revisions from assessments made in April and July. The Eurozone had growth prospects for 2017 and 2018 revised up to 2.1% and 1.9%, whilst Japan's outlook was forecasted at 1.5% and 0.7%, respectively. For emerging markets like China, growth rate in 2017 and 2018 is expected at 6.8% and 6.5%, and for India expansion is projected to reach 6.7% and 7.4%, in the same period. As a whole, emerging markets and developing countries is forecasted to have an average growth rate of 4.6% and 4.9% in 2017 and 2018, respectively. Such adjustments to global GDP growth in 2017 results from recovery of domestic consumption and labor market, with its momentum likely to carry over into 2018. As for inflation however, its levels is expected remain below 2% among developed countries, with only small increases expected over the next year.

- **However, the IMF revises down US GDP forecast due to political uncertainties, whilst the UK will be exposed to downside risk from Brexit's effect.** The IMF expects the US economy to grow at 2.2% and 2.3% in 2017 and 2018, respectively, siting political uncertainties to impede stimulus from tax reforms. As for the UK, projection was revised downward to in line with lower-than-expected growth in the first half of this year that resulted from slowdown in consumption and weakening of the Pound's value. Furthermore, in the medium term the UK will also face uncertainties arising from Brexit's impact on trade, immigrants, and cross-border financial activities.

- **IMF views that global economy will face more medium term than short term risk to growth.** In the short run, despite uncertainties arising from the US political situation and Brexit's effect, continual improvement of consumers' and investors' confidence may boost global economic growth to exceed expectation. Nevertheless, there are longer terms factors that could hinder growth to fall short of target, they are 1) more than expected tightening of financial conditions following market driven increase in long term interest rates, whilst inflation remains low, 2) rising debt problem in China that could lead to sharp slowdown of the Chinese economy going forward, 3) rising debt situation among emerging markets, whom are heavily reliant on debt financing and will face higher debt burden as interest rates rise, and 4) risk stemming from trade protectionism and geopolitical problems in the Korean peninsula that may cause tension and impact on global economic recovery.

Implication

- **EIC views that the Thai economy will benefit from the increase in global economic growth, in particular the export and tourism industries.** Projected growth in multiple economies around the world will help boost continual growth of the export and tourism industry in the Thailand, whilst improved market sentiment will support increase in its direct foreign investments. Given such, EIC views that the Thai economy is expected to grow at 3.6% and 3.5% in 2017 and 2018, respectively. In terms of global oil prices, however, prices is unlikely to climb back to previous high levels. Meanwhile, domestic consumption is expected to stay low thus putting little pressure on inflation, which has forecasted levels of 0.6% and 1% for 2017 and 2018, respectively.

- **Further tightening of global financial condition is expected, adding risk to the Thai financial market in terms of capital flow.** Interest rate hikes expectations, the Fed's balance sheet unwind and lesser asset purchases by central banks in the Eurozone and Japan will cause the financial market to tighten further. As such any unexpected reaction from the global financial market can have an impact investment of risky asset and trigger capital outflows from developing countries, including Thailand. Nevertheless, EIC assesses that the aforementioned are downside risk that are unlikely to have substantial impact on the Thai financial market as the country's economic fundamentals remain strong. Furthermore, Thailand is financially resilient given current account surplus and higher international reserves than other ASEAN countries. Such will also cause the baht to strengthen in the short term, with gradual depreciation to 33.5-34.5 baht per US dollar levels expected by the end of 2018 following more eased monetary policies of major economies.

By: Thanapol Srithanpong (thanapol.srithanpong@scb.co.th)
Wachirawat Banchuen (wachirawat.banchuen@scb.co.th)
Yuwanee Ouinong (yuwanee.ouinong@scb.co.th)
Economic Intelligence Center (EIC)
Siam Commercial Bank Public Company Limited
EIC Online: www.scbeic.com