

# JCER/Nikkei Consensus Survey on Asian Economies

July 2018

Survey Date: June 8-28, 2018

## Contents

Overview	Page 2
Forecasts	Page 4
Risk	Page 7
Assessing Potential Key Developments	Page 8
Calendar	Page 9
Comments on Economies	Page 10
Country Reports	
Indonesia	Page 13
Malaysia	Page 15
Philippines	Page 17
Singapore	Page 19
Thailand	Page 21
India	Page 23
Survey Respondents	Page 25
The Survey Team	Page 26

## About the Survey

This quarterly consensus survey, launched in March 2016, covers five ASEAN countries – Indonesia, Malaysia, the Philippines, Singapore, and Thailand – and India. It is conducted by the Japan Center for Economic Research (JCER) in cooperation with Nikkei Inc., the publisher of *The Nikkei* and the *Nikkei Asian Review*. The results are disseminated through Nikkei publications and JCER.

It is linked with a similar consensus survey on the Chinese economy conducted by Nikkei and Nikkei Quick News (NQN). The analyses of both surveys are reflected in this report.

Questionnaires were sent to experts across the region on June 8, 2018, and 40 responses were collected by June 28. In addition to their forecast figures, economists' perspectives and outlooks on Asian economies are provided.

## ■ Overview

July 9, 2018

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# Economists Cautious, but Maintain Steady Forecasts

## Trade War, Markets Among Rising Concerns

The last three months have brought rapid changes in the business environment, including increased U.S.-China trade tensions and market trembling in some emerging economies following U.S. tightening. Asian economists, however, are standing by steady forecasts for their economies in 2018 and beyond. Growth forecasts for major Southeast Asian countries held at levels nearly identical to those of the previous survey in March. Respondents projected growth rates of over 7% for India toward 2019/20, backed by strong domestic demand. Still, economists revealed a more cautious stance toward some looming risks. Rising protectionism coupled with worsening U.S.-China trade relations has sparked serious concern. The possible impact of faster-than-expected U.S. rate hikes has also attracted attention. Such changes are clearly reflected in the results of our risk scoring system and in the answers to this survey's special question.

### Highlights of the Survey

- The weighted average of growth forecasts for the ASEAN5 in 2018 was unchanged from the previous survey at 5.0%. The figures for Thailand and Singapore were up, while figures for Indonesia and Malaysia were down. The projection for the Philippines was unchanged. Domestic demand is generally strong and exports continue their longer-than-expected rise.
- The growth projection for India in 2018/19 was 7.4%, unchanged from the previous survey. The figure is higher by 0.7 points than the 6.7% achieved in 2017/18.
- Foreign exchange rate projections were revised from the previous survey toward weaker currencies in all countries, especially in India, Indonesia, and the Philippines.
- Rise of protectionism was recognized as the biggest risk in Malaysia, Singapore, and Thailand, while currency depreciation was seen as the greatest risk in Indonesia and India. These risks tallied an “alarming level” score, indicating economists’ shared concerns regarding these issues.

### Currency Depreciation, Rate Hikes Expected; Alarm Bells Sound on Trade, Markets

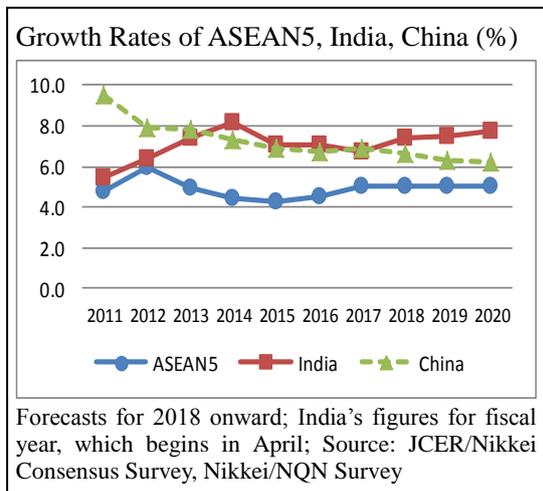
Alarming Signs	
June. 2018	March 2018
★Protectionism (Singapore)(score 95)	★Protectionism (Singapore)(70)
★Currency Depreciation (Indonesia)(90)	★Protectionism (Thailand)(63)
★Inflation (Philippines)(80)	★Inflation (Philippines)(62)
★Protectionism (Malaysia)(77)	★U.S. monetary policy (Singapore)(60)
★Protectionism (Thailand)(71)	

The figures show the scores of the JCER Risk Signal, which is calculated to reach 60 or more when all economists regard an item as one of three biggest risks to an economy.

Global economic and political circumstances have changed drastically in the last three months. Trade tensions rose between the U.S. and China, as well as between the U.S. and its major trading partners. Argentina and other emerging economies experienced market turmoil as U.S. rate hikes accelerated. U.S. President Donald Trump met North Korean leader Kim Jong-un as confusion deepened in the Middle East.

Asian economists have maintained their growth projections from the previous survey as economic activity is still strong, but they have changed their outlook on foreign exchange and interest rates. They revised their forecasts from the previous

survey toward further depreciation for all six currencies, especially for Indonesia rupiah, Philippine peso and Indian rupee. Rate hikes are expected in all countries. Respondents have also significantly revised their assessments of key risks. Asian economists now see rising protectionism along with a series of market-related risks, such as currency depreciation and repercussions of U.S. monetary policy, as more imminent than before.



The 2018 growth forecast of ASEAN5 was 5.0%, unchanged from the previous survey in March. The outlook for Thailand was revised up by 0.3 points supported by strong exports and domestic demand. "Growth looks stronger buoyed by both external and domestic demand," observes Thammarat Kittisiripat of KT ZMICO Securities in Thailand.

The Philippines is expected to maintain strong growth supported by domestic factors. The 2018 growth forecast was 6.8%, unchanged from the previous survey. Growth "will be supported by solid household spending, sustained expansions in [both] government and investment spending," according to Pauline Revillas of Metrobank.

India's economy is expected to return to a high-growth trajectory. The 2018/19 forecast was 7.4%, up 0.7 points from the 6.7% achieved in 2017/18, when the economy temporally slowed due to confusion ahead of the introduction of the new Goods and Services Tax in July 2017. The 2018/19 projection was unchanged from the March survey. "We expect the momentum to continue ... in

fiscal 2018/19," says Dharmakirti Joshi of CRISIL in India.

**Changing Forecasts, Three Months Apart**  
(end of the period)

	Exchange Rate		Interest Rate	
	2017 actual	2018 forecast	2017 actual	2018 forecast
India	63.9	68.5 (65.6)	6.00	6.42 (6.06)
Indonesia	13548	14005 (13579)	4.25	5.25 (4.32)
Malaysia	4.06	3.96 (3.88)	3.00	3.29 (3.32)
Philippines	49.9	52.9 (52.0)	3.00	3.72 (3.43)
Singapore	1.34	1.35 (1.34)	1.50	1.88 (1.80)
Thailand	32.7	31.6 (31.3)	1.50	1.59 (1.64)

Exchange rate: domestic currencies/USD; Interest rate: Three-month SIBOR for Singapore, policy rates for other countries. Figures in parentheses are forecasts from March.

There are significant changes, however, in projections of foreign exchange and interest rates as well as inflation in Asian countries. With the acceleration of the U.S. interest rate rise, pressure toward currency depreciation has intensified in the last three months. This effect was notable in Indonesia, India, and the Philippines.

The Indonesian rupiah declined to 14,404 against the USD at the end of June, an about 4% drop in three months despite the central bank's three rate hikes in May and June.

Economists expect the trend to continue in 2018, and further rate hikes were predicted. (Note: answers were collected before the central bank announced the third rate hike in the current series on June 29.)

The Indian rupee hit a historical low of 69.09 against the USD on June 28. "The pressure on the rupee will continue due to higher oil prices and higher inflation going forward," predicts Punit Srivastava of Daiwa Capital Markets in India.

In the Philippines, the inflation rate for 2018 was revised up by 0.3 points from the March survey to 4.5%. The increase is partly due to tax reforms in January and may prove temporary, but “the upward pressure may continue because of fluctuation in global oil prices,” says Carlo Asuncion of Union Bank of the Philippines. All economists foresee a weaker peso toward the end of 2018.

Market-related risks were a subject of concern. Currency depreciation emerged as the greatest risk in Indonesia and India, and the second greatest in the Philippines. Repercussions of U.S. monetary policy were seen as the second largest risk in Indonesia, Singapore, and India, and the third biggest risk in the Philippines.

Asian economists, however, are taking the rise of protectionism most seriously. It was the largest risk in Singapore, Malaysia, and Thailand. Scores for “rise of protectionism” in the JCER system were 70 or more, indicating an “alarming” level of risk. Protectionism is seen as the second and third largest risk in India and Indonesia respectively.

The survey asked economists to identify potential developments that could impact, both in positive and negative ways, Asian economies as a whole. Attention to a U.S.-China trade war and relevant trade conflicts far exceeded any other negative developments. “Trade war is a major risk to global economic growth,” says Amonthep Chawla of CIMB Thai Bank. (More information on Page 8.)

## ■ Forecasts

### 1. Economic Growth

	2018				2019	2017	2018	2019	2020
	Q1	Q2	Q3	Q4	Q1				
ASEAN5	5.2	5.1 (5.0)	4.8 (4.9)	4.9 (4.9)	4.8	5.0	5.0 (5.0)	5.0 (4.9)	5.0 (5.0)
Indonesia	5.1	5.2 (5.3)	5.3 (5.4)	5.3 (5.4)	5.3	5.1	5.3 (5.4)	5.5 (5.5)	5.7 (5.7)
Malaysia	5.4	5.4 (5.5)	5.2 (5.3)	5.0 (5.2)	5.0	5.9	5.3 (5.4)	5.0 (5.1)	4.8 (4.9)
Philippines	6.8	6.9 (6.8)	6.8 (6.9)	6.9 (6.9)	6.9	6.7	6.8 (6.8)	7.0 (6.9)	6.8 (7.1)
Singapore	4.4	3.5 (2.9)	2.0 (2.3)	2.5 (2.6)	2.8	3.6	3.1 (2.8)	2.8 (2.6)	2.4 (2.5)
Thailand	4.8	4.3 (4.0)	4.3 (4.0)	4.3 (4.0)	3.8	3.9	4.4 (4.1)	4.0 (3.9)	4.2 (4.0)
India	7.7	7.6 (7.7)	7.3 (7.4)	7.1 (7.2)	7.2	6.7	7.4 (7.4)	7.5 (7.8)	7.7
China	6.8	6.7	-	-	-	6.9	6.6 (6.5)	6.3 (6.3)	6.2 (6.2)

Year-on-year %; forecasts are for 2018 onward; figures in parentheses represent average forecasts as of the previous survey in March 2018; Annual figures for India are those of fiscal year (April - March); Source: JCER/Nikkei Consensus Survey, Nikkei/NQN Survey, Haver Analytics

### Strong Domestic Factors and Firm Exports, Uncertainties Remain

Forecasts were almost unchanged from the previous survey for ASEAN5, as well as for India. Domestic demand remains strong in Indonesia and the Philippines. 2018 growth was projected at 5.3% in Indonesia, 0.2 points higher than the figure for 2017. “The economic outlook remains

positive, supported by a pick-up in private investment,” remarks Euben Paracuelles of Nomura Singapore on Indonesia. On the Philippines, Jonathan Ravelas of BDO Unibank maintains that “consumption and government spending will support” growth.

Increasing exports of semiconductors and other goods following 2017 supported growth in Malaysia, Singapore and Thailand. The export boom shows more stamina than previously expected. “The strong export upturn looks to be sustained” in the second half of 2018, says Manu Bhaskaran of Centennial Asia in Singapore.

Malaysia experienced a shift of power for the first time in the country’s 60-year history after a general election in May. The new government, lead by Prime Minister Mahathir bin Mohamad, announced several new policies, including removal of the Goods and Services Tax introduced in 2015 and reviews of big infrastructure projects. “Consumer spending will be boosted by the removal of GST, but review of construction projects will dampen structural investment in the next few quarters,” assesses Vincent Loo Yeong Hong of RHB Research.

Economists identify several risks, including trade protectionism and market turmoil, which could potentially dampen economic growth. “Slowdown in world trade ... will impact [the] Thai economy,” says Naris Sathapholdeja of TMB Bank in Thailand.

## 2. Inflation Rates

	2018				2019	2017	2018	2019	2020
	Q1	Q2	Q3	Q4	Q1				
India	4.6	4.9	4.7	4.2	4.5	3.6	4.6	4.5	4.4
Indonesia	3.3	3.3	3.6	3.7	3.5	3.8	3.6	3.9	3.7
Malaysia	1.8	1.7	1.8	1.8	2.2	3.8	1.9	2.3	2.5
Philippines	3.9	4.6	4.7	4.4	3.9	2.9	4.5	3.6	3.6
Singapore	0.2	0.5	0.7	0.8	1.0	0.6	0.6	1.0	1.4
Thailand	0.6	1.3	1.3	1.0	1.2	0.7	1.1	1.3	1.5

Year-on-year, in percent; forecasts for 2018 onward except India; India’s figures for fiscal year, which starts in April; Source: JCER/Nikkei Consensus Survey, Haver Analytics.

### Philippines’ Rate to Increase Beyond Target in 2018; Oil Prices in Focus

The 2018 (2018/19) forecasts were revised upward for the Philippines and revised downward for other countries. The rate in the Philippines is expected to reach 4.5%, higher than upper limit of the central bank’s target (2-4%). Economists deem the rise temporary, partially affected by the tax reforms in January. “Inflation will peak at around third quarter and will start to slow down,” judges Alvin Ang of Ateneo de Manila University. Still, economists see inflation as the biggest risk for the country in the coming 12 months. “The exchange rate and inflation reinforce each other. A weaker currency increases inflation,” continues Ang.

Economists are monitoring oil prices, which reached USD 70 per barrel this year. “There is an upward pressure on prices which is being fueled by the spurt in commodity prices, including oil prices,” comments Dilip Chenoy of FICCI on Indian economy. Wisnu Wardana of Bank Damamon Indonesia sees “several potential upside risks to inflation this year,” including “higher international prices of oil and food.”

### 3. Unemployment Rates

	2018				2019	2017	2018	2019	2020
	Q1	Q2	Q3	Q4	Q1				
Indonesia	5.1	5.1	5.2	5.2	5.1	5.5	5.2	5.1	5.1
Malaysia	3.3	3.4	3.3	3.3	3.3	3.4	3.4	3.3	3.3
Philippines	5.3	5.4	5.3	5.1	5.0	5.7	5.3	5.1	4.9
Singapore	2.0	2.1	2.1	2.1	2.0	2.2	2.1	2.1	2.2
Thailand	1.2	1.1	1.2	1.1	1.1	1.2	1.2	1.2	1.1

Year-on-year, in percent; forecasts for 2018 onward.

Source: JCER/Nikkei Consensus Survey, Haver Analytics.

### Stable as Economies Grow

Figures could decrease or remain stable in five ASEAN countries thanks to solid economic growth in 2018. “The stable labor market is supported by [these] favorable economic conditions,” says Anthony Dass of Am Investment Bank in Malaysia.

### 4. Exchange Rates (end of the period)

(Domestic Currency / US\$)

	2018				2019	2017	2018	2019	2020
	Q1	Q2	Q3	Q4	Q1				
India	65.0	67.4	68.8	68.5	70.3	63.9	68.5	68.0	70.2
Indonesia	13756	14038	14080	14005	14017	13548	14005	13730	13925
Malaysia	3.86	3.95	3.97	3.96	3.97	4.06	3.96	3.83	3.67
Philippines	52.2	52.9	53.1	52.9	53.2	49.9	52.9	52.7	54.3
Singapore	1.31	1.34	1.36	1.35	1.37	1.34	1.35	1.35	1.38
Thailand	31.2	32.0	31.9	31.6	31.3	32.7	31.6	31.3	32.2

Forecast for end of periods for 2018 onward; Some respondents gave year-end forecasts only.

Source: JCER/Nikkei Consensus Survey, Haver Analytics, Bloomberg

### Depreciation Pressure for Rupee, Rupiah, Peso

Some Asian currencies received depreciation pressure as the U.S. rate hike accelerated this year. The Indian rupee, Indonesian rupiah, and Philippine peso depreciated more than 5% against the USD in the first half of 2018. “Higher [U.S.] fund rates push capital outflow, then depreciate the rupiah,” explains Umar Juoro of CIDES in Indonesia.

“The peso is expected to depreciate as the current account deficit continues to widen,” says Nomura’s Paracuelles. Dharmakirti Joshi of CRISIL thinks “the rupee will face pressure” toward depreciation, with the current account deficit “steadily widening, owing to rising oil and commodity prices and improving of domestic consumption demand.”

### 5. Interest Rates

#### Rates to Increase as Global Tightening Moves Forward

There were a series of rate hikes across Asian economies in the April-June quarter. Indonesia raised its policy rate twice in May and once in late June, with a total increase of 1.0%. India raised its policy rate by 0.25 points to 6.25% on June 6, its first hike in four years and five months. The Philippines raised its rate in May and June. All decisions were made to prevent currency depreciation and inflation.

Economists expect further rate hikes in these countries. Nomura India's Sonal Varma believes that high economic growth and high inflation will continue for the moment and expects "another 25bp rate hike in August, followed by a pause." Carlo Asuncion of Union Bank of the Philippines predicts that the central bank "will continue to raise rates to stabilize the peso and financial markets."

### Interest Rate (end of the period)

	2018				2019	2017	2018	2019	2020
	Q1	Q2	Q3	Q4	Q1				
India	6.00	6.25	6.44	6.42	6.44	6.00	6.42	6.50	6.56
Indonesia	4.25	4.90	5.15	5.25	5.19	4.25	5.25	5.44	5.50
Malaysia	3.25	3.25	3.25	3.29	3.35	3.00	3.29	3.50	3.50
Philippines	3.00	3.50	3.67	3.72	3.75	3.00	3.72	3.80	3.75
Singapore	1.45	1.55	1.71	1.88	1.88	1.50	1.88	2.17	2.20
Thailand	1.50	1.50	1.50	1.59	1.71	1.50	1.59	1.96	2.50

Three-month SIBOR for Singapore; policy interest rates for other countries; forecasts for 2018 onward.

Some respondents provided year-end forecasts only.

Source: JCER/Nikkei Consensus Survey, Haver Analytics, Bloomberg

## ■ Risk

### Changes in Anticipated Risks for Asian Economies in the Coming Twelve Months

Country	June 2018		Mar. 2018		Dec. 2017	
	Risk	Score	Risk	score	Risk	score
Indonesia	1. Currency depreciation ☆	90	1. Capital outflows ☆	50	1. U.S. monetary policy ☆	40
	2. U.S. monetary policy ☆	45	2. Financial turmoil from Trump policies ★	47	1. China slowdown	40
	3. Protectionism ★	30	3. Protectionism ★	40	1. Fiscal restriction	40
Malaysia	1. Protectionism ★	77	1. Protectionism ★	55	1. China slowdown	55
	2. Capital outflows ☆	37	2. China slowdown	48	2. U.S. monetary policy ☆	45
	2. China slowdown	37	3. U.S. monetary policy ☆	38	3. Fall in commodity prices ☆	35
Philippines	1. Inflation	80	1. Inflation	62	1. Infrastructure	51
	2. Currency depreciation ☆	43	2. Currency depreciation ☆	25	2. Political instability	49
	3. U.S. monetary policy ☆	37	2. Protectionism ★	25	3. Inflation	40
Singapore	1. Protectionism ★	95	1. Protectionism ★	70	1. Terrorism/geopolitics	55
	2. U.S. monetary policy ☆	55	2. U.S. monetary policy ☆	60	2. Protectionism ★	40
	3. Financial turmoil ☆	20	3. China slowdown	35	3. U.S. monetary policy ☆	25
	3. China slowdown	20	3. Financial turmoil from Trump policies ★	35	3. Infrastructure	25
	3. Asia economies slowdown	20			3. High-tech exports slowdown	25
Thailand	1. Protectionism ★	71	1. Protectionism ★	63	1. Political instability	63
	2. Political instability	37	2. Political instability	53	2. Currency appreciation ☆	37
	3. Financial turmoil ☆	34	3. China slowdown	40	2. China slowdown	37
India	1. Currency depreciation ☆	56	1. Protectionism ★	40	1. Rise in commodity prices ☆	53
	2. U.S. monetary policy ☆	40	1. Political instability	40	2. Political instability	48
	2. Rise in commodity prices ☆	40	2. Rise in commodity prices ☆	36	3. U.S. monetary policy ☆	27
	2. Protectionism ★	40				

Scores are based on JCER Risk Signal scoring system. Yellow indicates a risk at the "cautious" level; red at the "alarming" level. ★ indicates risks related to U.S. President Donald Trump's policies. ☆ indicates market-related risks. Source: JCER/Nikkei Consensus Survey on Asian Economies

**Remarks on the Table**

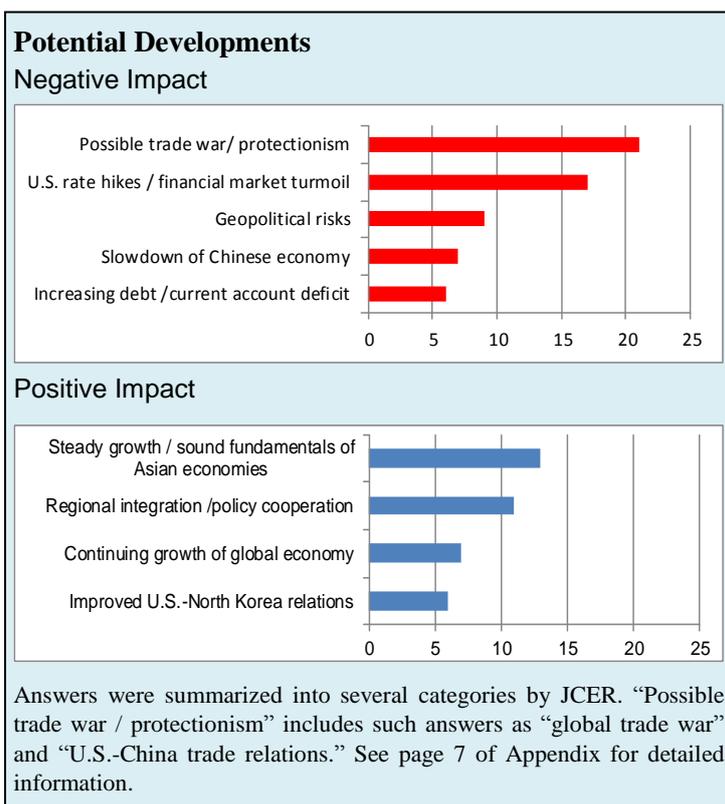
Risks in the table are described in simplified expressions. “Currency depreciation” is employed to indicate “Domestic currency depreciates”; “Currency appreciation” for “Domestic currency appreciates”; “Inflation” for “Inflation accelerates/asset bubble”; “Fiscal restriction” for “Fiscal austerity drags on growth”; “Capital outflows” for “Capital outflows/foreign investment slowdown”; “U.S. monetary policy” for “Repercussions of U.S. monetary policy”; “Financial turmoil from Trump policies” for “Financial turmoil triggered by policies of U.S. President Donald Trump”; “Protectionism” for “Rise of protectionism/slowdown or decrease in world trade”; “Financial turmoil” or “Financial turmoil (unanticipated events)” for “Financial turmoil triggered by unanticipated events outside of the U.S.”; “China slowdown” for “Chinese economy slowdown”; “Asia slowdown” for “Slowdown in other Asian countries”; “Infrastructure” for “Infrastructure issues hinder economic activity”; “Terrorism/geopolitical” for “Terrorism/other geopolitical risks”; “High-tech exports slowdown” for “Slowdown of high-tech products exports”

**Increased Recognition of Protectionism, Currency Depreciation as Risks**

Economists were in relative agreement in their recognition of certain risks. Rising protectionism was the biggest risk identified in Singapore, Malaysia, and Thailand. The score reached 95 in Singapore as all respondents but one saw it as the largest risk. It was the second and third largest risk respectively in India and Indonesia. Inflation was seen as the biggest risk in the Philippines.

Currency depreciation was the largest risk in Indonesia and India. Repercussions of U.S. monetary policy ranked among the top-three risks in Indonesia, the Philippines, Singapore, and India. Financial turmoil triggered by unanticipated events outside of the U.S. was also seen as a big risk by some economists. Nattaporn Triratanasirikul of Kasikorn Research Center expressed primary concern with “how the underlying debt problem in China could evolve.” Uncertainty in European politics is also a concern.

**■ Potential Developments that Could Impact Asian Economies**



In addition to regular questions on risks for the economies of each country, the survey asked about potential developments that could impact Asian economies as a whole. “Possible trade war / protectionism,” a negative development, was the single most popular response. Manokaran Mottain of Alliance Bank in Malaysia thinks a U.S.-China trade war is the single biggest concern, saying: “Trade war between the U.S. and China will impact the supply chains of goods that are being tariffed in either the U.S. or China.”

Financial turmoil triggered by the overly rapid pace of U.S. monetary tightening and related

moves was the second biggest potential negative development.

On the positive side, “steady growth / sound fundamentals of Asian economies” and “regional integration / policy cooperation” were the top two responses. Dendi Ramdani of Bank Mandiri in Indonesia expects that the new situation “may promote awareness to [spark] closer economic cooperation between these countries in regional trade and capital flow, both FDI and hot money management.”

## ■ Calendar

### Series of Surprising Developments

The world witnessed a series of surprising events in the last three months. U.S. President Donald Trump and North Korean leader Kim Jong-un held a historic meeting in Singapore after an extended series of diplomatic games, including Mr. Trump’s announcement of the meeting’s cancellation. Mr. Kim visited China three times before and after the summit. These events are bringing about important changes in the framework of international relations in Asia. The U.S. withdrew from the Iran nuclear agreement and shifted its Israeli embassy to Jerusalem, which deepened confusion in the Middle East.

Dr. Mahathir bin Mohamad won the general election in Malaysia in May and returned to the office of prime minister at age 92. It was the first power shift in the country’s 60-year history, a development that may impact some neighboring ASEAN countries.

On trade, the U.S. firmed up details of trade restrictions including import tariffs on goods from China, the E.U. and Canada, and other partners. China and others announced retaliation plans.

Market expectations have gathered around an increasing pace in U.S. rate hikes. Money fled from Argentina, Turkey, and some other emerging economies. In Asia, Indonesia, the Philippines, and India raised their policy rates to defend their currencies.

### News Related to Asian Economies from April to June; Upcoming Events

April 3	U.S.-China tensions intensify as U.S. announces detailed plans of import restrictions
April 13	Singapore’s MAS tightens its monetary policy
April 17	U.S. FCC announces plans to ban use of IT products from Huawei and ZTE
April 24	US 10 year-bond yield rises to 3% for the first time since January, 2014
April 27	Leaders of South and North Koreas meet, announce Panmunjom Declaration
May 4	Argentina raises policy rate to 40%, requests IMF emergency credit package on May 8
May 7	North Korean leader Kim Jong-un revisits China, meets Xi Jinping, 2 <sup>nd</sup> visit in 6 weeks
May 7	WTI oil price hits USD 70 for the first time since 2014
May 8	U.S. withdraws from Iran nuclear agreement, triggers new confusion in Middle East
May 9	General election in Malaysia results in first shift of power in the nation’s history
May 10	The Philippines raises policy rate by 0.25 points: center of corridor 3% →3.25%
May 17	Indonesia raises rate from 4.25% to 4.5%

May 22	Four years since coup d'état in Thailand
May 23	Possibility of window dressing on govt. debt announced in Malaysia
May 23	One year after riot in Mindanao, the Philippines
May 25	EU's new data protection rules (GDPR) take effect
May 30	Indonesia raises interest rate from 4.5% to 4.75%
June 1	Malaysia reduces GST rate from 6% to 0%
June 1	New government in Italy takes power: coalition of populist M5S and nationalist League
June 6	Indian central bank raises policy rate by 0.25% to 6.25%
June 8	G7 summit meeting in Canada; split deepens between U.S. and others
June 12	U.S. President Trump and N. Korean leader Kim Jong-un meet in Singapore
June 12	Fed hikes FF rate by 0.25points to 1.75-2%
June 19	North Korean leader Kim Jong-un makes the 3rd visit to China, meets Xi Jinping.
June 20	The Philippines raises policy rate by 0.25 points: center of corridor 3.25% →3.5%
June 24	Recep Tayyip Erdogan reelected as Turkey's president
June 27	Local elections in Indonesia
June 29	Indonesia raises interest rate by 0.5% to 5.25%
July 1	Mexican presidential election: leftist outsider Andres Manuel Lopez Obrador wins
July 29	General election in Cambodia
July 31	Fed to hold FOMC
Aug. 4	Registration for 2019 presidential election begins in Indonesia
Aug 18	Asian Games in Indonesia (to Sept. 2)
Sept 15	10 years after the Lehman shock
Sept. 23	Campaign of 2019 presidential election starts in Indonesia
Sept. 25	Fed to hold FOMC

## ■ Comments on Economies

### ➤ Overview, Growth

Country	Comment
Indonesia	“Concurrently, we expect that the preparation for 2019 presidential election may help boost spending.” “Support may also come from domestic investment in the first half of this year.” (Wisnu Wardana, Bank Danamon Indonesia)
	“Economic reform is slowing down.” (Umar Juoro, CIDES)
Malaysia	“...upgrad[ed] this year's consumer spending growth forecast to 7.3% [from] 6.5% (2017 result was 7.0%), reflecting additional boost to disposable income and purchasing power from Pakatan Harapan (PH) government's first 100-day 10 pledges.” (Suhaimi Ilias, Maybank Investment Bank)
	“Domestically, the recent political changes have seen the new Pakatan Harapan government nixing key infrastructure projects which could weigh on investment growth and public consumption.” (Wan Suhaimie, Kenanga Investment Bank)
Philippines	“Very strong infrastructure spending and robust employment figures [will] support the growth.” (Victor Abola, University of Asia and the Pacific)

Singapore	“... the U.S. moves on tariffs are a major source of uncertainty for growth prospects.” (Randolph Tan, SUSS)
	“Increasing trend of export will be maintained backed by growing demand from advanced countries.” (Yuma Tsuchiya, MUFG Bank)
Thailand	“Thai merchandise export growth will continue to uplift overall economic growth in 2018, subject to uncertainties from U.S. trade protectionism.” (Naris Sathapholdeja, TMB Bank)
India	“We expect moderation in H2 given higher base, financial tightness, busy election calendar affecting investment outlook, and fading effects of the remonetization.” (Sonal Varma, Nomura India;)

➤ **Markets, Inflation**

Country	Comment
Indonesia	“Currently, Bank Indonesia focuses on the stability of domestic economy, especially the stability of Rupiah. This policy is also used for pre-emptive.” (Juniman, Maybank Indonesia)
	“Pushing for stability over growth, monetary policymakers had weight its concern over the pressure on Rupiah and inflation, rather than medium term economic growth.” (Wisnu Wardana, Bank Danamon Indonesia)
Malaysia	“We expect some near term weakening pressure on the MYR against the USD due to external noises such as trade war, fear of emerging market debt crisis,” but “underlying domestic macroeconomic fundamentals added with healthy levels of reserves ... should see the MYR gain some strength.” (Anthony Dass, AmBank Group)
Philippines	“Risks remain tilted to the upside on the back of volatile global oil prices and weaker peso.” “However, there is a downward bias as inflation is seen to stabilize over the medium term once the economy’s potential capacity is increased because of infra development and better supply conditions.” (Pauline Revillas, Metrobank)
Singapore	“Having made a highly-publicized shift in the last policy meeting in April, the MAS is expected to hold its stance, barring any unexpected shocks.” (Randolph Tan, SUSS)
Thailand	“MPC would raise rate once late this year because ... economic growth could move beyond potential and inflation is projected to stay within the official target range.” (Somprawin Manprasert, Bank of Ayudhya)
	“As Thailand is approaching its national election, the political uncertainty should be high.” The policy interest rate might not be raised before the election “unless the economy becomes overheated.” (Krasae Rangsipol, Siam Commercial Bank Economic Intelligence Center)
India	“Core inflation (excluding food and fuel) has been rising steadily the last few months, pointing to overheating in multiple sectors.” (Tirthankar Patnaik, Mizuho Bank)

➤ **Risk, Structural Issues, Asian Economies**

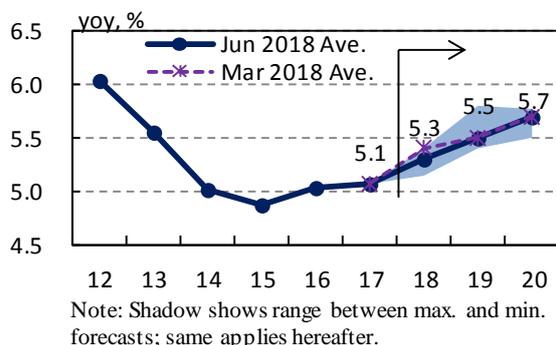
Country	Comment
Indonesia	“The U.S. monetay policy normalization affects the Indonesia domestic financial markets [by] triggering capital outflows from bond and capital markets, and Rupiah depreciation.” (Dendi Ramdani, Bank Mandiri)

Malaysia	“Malaysia has significant trade relations with China and U.S. Any negative development in these areas impacts Malaysia's economic prospects significantly.” (Vincent Loo Yeong Hong, RHB Research)
	“We expect export-dependent Asian economies to be unavoidably impacted by these developments. However, we continue to observe that trade has remained above-trend for key Asian economies, albeit moderating.” (Wan Suhaimie, Kenanga Investment Bank)
	“Our current government debt level appears to be a main concern for the country, as the new government is trying to solve this debt issue through different initiatives.” (Manokaran Mottain, Alliance Bank)
Philippines	“Above-target inflation may be a sign of overheating economy, while widening current account deficit may lead to capital outflows and currency depreciation.” (Euben Paracuelles, Nomura)
	“Trade deficit to remain high until 2019.” (Victor Abola, University of Asia and the Pacific)
Singapore	“ASEAN relies on trade as its lifeblood and a potential trade war between the US and China could have debilitating effects on supply chains in ASEAN.” (Manu Bhaskaran, Centennial Asia)
	“If you look at Asian countries/regions only, currency depreciation is limited and no sign of movements which could lead to currency crisis. This is because fundamentals ... have been improved.” (Yuma Tsuchiya, MUFG Bank)
Thailand	“The political risk still looms, in the run up and after the election in 2019.” (Euben Paracuelles, Nomura)
India	“Recent FICCI surveys indicate [that] cost of credit to be a factor” to constrain businesses activities. The balance between inflation and growth ... is challenging.” (Dilip Chenoy, FICCI)

Note: See the list of survey respondents on page 25 for official names and titles.

# Indonesia

## ➤ Highlights



## Growth to Increase, Currency a Concern

Growth outlooks have not changed much from the previous survey. The economy is expected to grow at more than 5% through 2020, supported by strong domestic demand. Prospects have changed significantly on exchange and interest rates. The rupiah received downward pressure in Q2 as U.S. rate hikes accelerated. Bank Indonesia raised the policy rate three times in May and June to prevent further rupiah depreciation. Additional increases in the policy rate, which may affect the economy, are expected in 2018 and beyond.

## 1. Growth Prospects

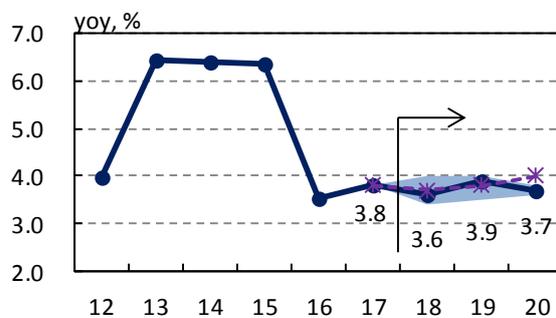
		Average	Max.	Min.
2018	Jan.-Mar.	5.1		
	Apr.-Jun.	5.2 (▲0.1)	5.4	5.1
	Jul.-Sep.	5.3 (▲0.1)	5.5	5.2
	Oct.-Dec.	5.3 (▲0.1)	5.6	5.2
2019	Jan.-Mar.	5.3	5.3	5.3
2017		5.1		
2018		5.3 (▲0.1)	5.4	5.1
2019		5.5 (+0.0)	5.8	5.4
2020		5.7 (+0.0)	5.8	5.5

Note: Figures in parentheses show change from three months ago.

## Strong Domestic Demand vs. Weaker Rupiah

Economists expect growth of over 5% for subsequent quarters through Q1 2019. Nomura's Euben Paracuelles says the "economic outlook remains positive, supported by a pick-up in private investment." Wisnu Wardana of Bank Danamon echoes this view: "The preparation for the 2019 presidential election may help boost spending." On the other hand, economists see possible rupiah depreciation as a negative factor.

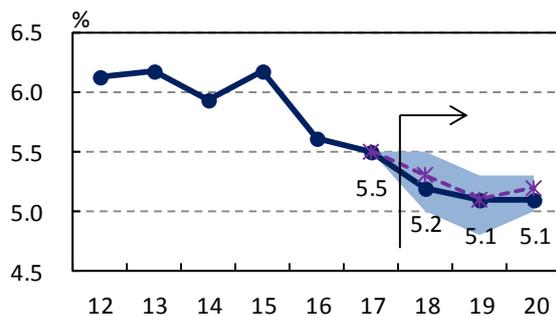
## 2. Inflation



## Decrease Expected, Currency & Oil Concerns

The 2018 forecast was revised down by 0.1 point from the previous survey to 3.6%. It is expected to increase in 2019, but should stay within the central bank's target range (3-5%). Among factors inspiring caution among economists, Dendi Ramdani of Bank Mandiri finds that "cost push factor may increase the inflation rate due to rupiah depreciation and higher fuel prices." Bank Danamon's Wardana adds that "domestic consumer expectation on price is on a gradual uptrend."

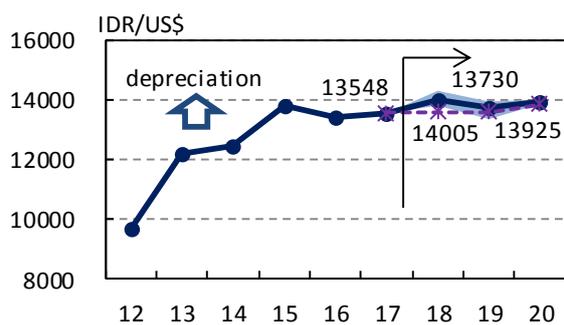
## 3. Unemployment



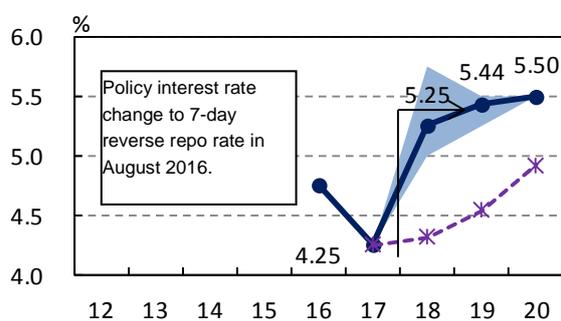
## Slow Improvement Expected

Economists expect the unemployment rate to decrease through 2020 as the economy grows. But the pace of reduction may not be fast enough. Bank Mandiri's Ramdani feels that "unemployment may be difficult to [drive] lower as economic growth is under pressure in the coming months." Bank Danamon's Wardana points out that this owes to "almost half of direct investments [having gone] to tertiary sectors that are less labor intensive."

**4. Exchange Rate (end of the period)**



**5. Interest Rate (end of the period)**



**6. Risks (table tentative, items unchanged)**

Rank	Risk	Score
1	Domestic currency depreciates	90
2	Repercussions of U.S. monetary policy	45
3	Protectionism/slowdown in world trade	30
4	Capital outflows/foreign investment slowdown	25
5	Financial turmoil (events outside of the U.S.)	20

**7. Potential Development that Could Impact Asian Economies**

	Negatives	Positives
Trade	<ul style="list-style-type: none"> <li>• Rise of protectionism</li> <li>• Lower global trade volume</li> <li>• U.S.-China trade war</li> </ul>	<ul style="list-style-type: none"> <li>• Trigger closer cooperation between Asian countries</li> <li>• Global demand increase</li> </ul>
Finance	<ul style="list-style-type: none"> <li>• Global quantitative tightening</li> <li>• U.S. policy rate increase</li> <li>• Higher global interest rates</li> <li>• More volatile exchange rates</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce the volume of hot money</li> <li>• Opportunity to manage healthy capital flow</li> </ul>
Others	—	• Security and political stability in the region

**Further Depreciation Possible**

The rupiah declined in Q2 as U.S. rate hikes accelerated. The average forecast expects slight depreciation of the rupiah to continue in 2018. According to Umar Juoro of CIDES: “Higher fund rates push capital outflow [and] depreciate the rupiah.” Bank Danamon’s Warudana says that local currency may be impacted “when ECB starts its quantitative tightening, since almost half of foreign ownership in IDR bonds are held by European-based investors.”

**Additional Hikes Foreseen**

The situation has completely changed since the last survey. Bank of Indonesia moved to raise its rate after May. Economists now expect further rate hikes in 2018 and beyond. Maybank Indonesia’s Juniman says that Bank Indonesia’s policy “is used for pre-emptive” purposes. Nomura’s Euben Paracuelles feels that BI’s new governor Perry Warjiyo “sounded decisively hawkish.” The answers were collected before the central bank decided to raise the rate by 0.5 points to 5.25% on June 29.

**Market and Foreign-origin Risks**

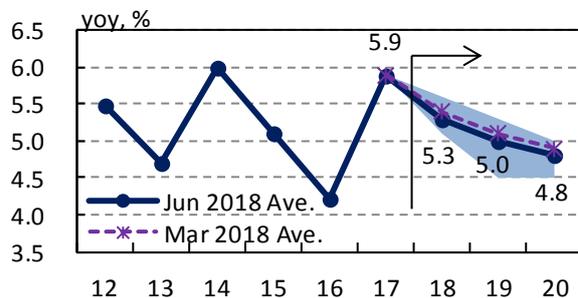
All top-five risks were market-related or of foreign origin. Currency depreciation became the biggest risk for the first time in the survey since its start in April 2016. Umar Juoro of CIDES explains that “external factors are dominant.” Ramdani of Bank Mandiri says: “U.S. monetary policy normalizations affect the Indonesian domestic financial market, [triggering] capital outflow from bond and capital markets, and rupiah depreciation.”

**Trade War Negative; Hope for Cooperation**

The survey asked about potential developments that could broadly affect Asian economies. Possible trade war and financial confusion were raised as negatives, while potential regional cooperation was seen as a positive. Juoro of CIDES fears that the Fed’s rate hikes could portend “currency depreciation and lower economic growth” for Asian economies. Ramdani of Bank Mandiri suggests that U.S. moves “may promote awareness to [instigate] closer economic cooperation” in Asia.

# Malaysia

## ➤ Highlights



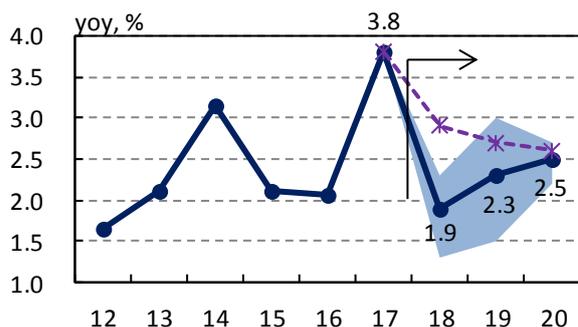
Note: Shadow shows range between max. and min. forecasts; same applies hereafter.

## 1. Growth Prospects

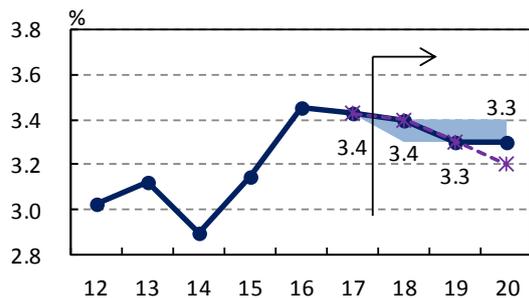
		Average	Max.	Min.
2018	Jan.-Mar.	5.4		
	Apr.-Jun.	5.4 (▲0.1)	5.8	5.3
	Jul.-Sep.	5.2 (▲0.1)	5.5	5.0
	Oct.-Dec.	5.0 (▲0.2)	5.7	4.2
2019	Jan.-Mar.	5.0	5.4	4.7
2017		5.9		
2018		5.3 (▲0.1)	5.6	5.1
2019		5.0 (▲0.1)	5.3	4.5
2020		4.8 (▲0.1)	5.0	4.5

Note: Figures in parentheses show change from three months ago.

## 2. Inflation



## 3. Unemployment



## Election Upset has Mixed Effects on Economy

Malaysia’s 14<sup>th</sup> General Election held on May 9 brought a historic upset, with the opposition coalition winning a shock victory. Alliance Bank’s Manokaran Mottain forecasts an uplift in GDP growth due to the “removal of GST... which will boost private consumption,” while Wan Suhaimie of Kenanga Investment Bank points out that “the new government nixing key infrastructure projects... could weigh on investment growth and public consumption,” which could dampen growth.

## Slight Downward Revision to GDP Forecast

The GDP outlook for 2018 through 2020 has been revised downward by 0.1% point from the March survey. Nomura’s Euben Paracuelles states that although GDP growth in Q2 will likely be supported by “government spending around the May 9 general election, the return of fuel subsidies, and the zero-rating of the GST,” looking to Q3 he claims that “the boost in private consumption... is unlikely to offset the hit to growth from significant government spending cuts to offset the loss in GST revenue.”

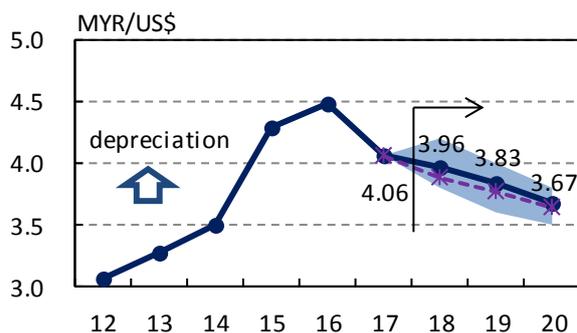
## Lower Inflation Outlook with GST Removal

Economists cut their 2018 headline inflation projections to 1.9%, a sharp decline from the 2.9% forecasted in the March survey. Maybank’s Suhaimi Ilias explains that the downward revision takes into account “the cut in GST rate... and the de-facto return of domestic fuel price subsidy,” while AmBank Group’s Anthony Dass also expects “some inflationary pressure from the demand side.”

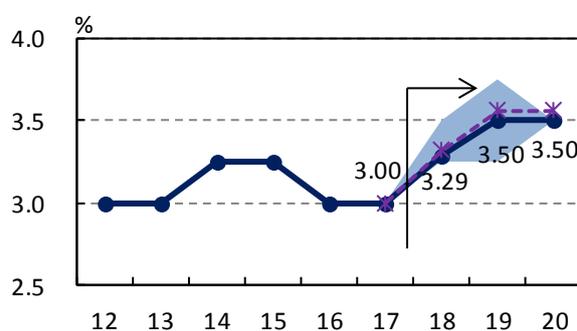
## Unemployment Level to Remain Healthy

Unemployment rates are expected to remain stable through 2020 at 3.3~3.4%. RHB Research Institute’s Vincent Loo Yeong Hong believes that “the labor market should remain stable,” and that the unemployment rate will “only [inch] up slightly when growth slows below 5%.”

**4. Exchange Rate (end of the period)**



**5. Policy Interest Rate (end of the period)**



**6. Risks**

Rank	Risk	Score
1	Protectionism/slowdown in world trade	77
2	Capital outflows/foreign investment slowdown	37
2	Chinese economy slowdown	37
4	Rising government debt	33
5	Financial turmoil (Trump policies)	23

**7. Potential Developments that Could Impact Asian Economies**

Negatives	• US-China trade war
	• High foreign portfolio investment
	• Quantitative tightening
Positives	• Concerted policy efforts
	• Regional cooperation
	• High intra-Asia trade

**Weakening Pressure on Ringgit**

Economists revised their forecasts toward a weaker ringgit. Although domestic macroeconomic fundamentals remain strong, Maybank’s Suhaimi Ilias warns that “there could be some uncertainty over the next few quarters as the new government introduces changes in policies.” Alliance Bank’s Manokaran Mottain expects that it will require “more time for the initiatives to be achieved and [to gain] confidence from foreign investors.”

**3.25% OPR to Stay for the Rest of 2018**

Most economists expect the OPR to be held at 3.25% for the rest of the year. While according to Nomura’s Euben Paracuelles “the surprise resignation of Bank Negara Malaysia’s Governor Ibrahim adds some uncertainty,” AmBank Group’s Anthony Dass feels that there is no real urgency to raise rates given that “the economy is [delivering] positive real returns, the ringgit is still stronger than the USD when compared to [other] regional currencies, and [there is] no real inflationary pressure.”

**Growing Concern over Global Protectionism**

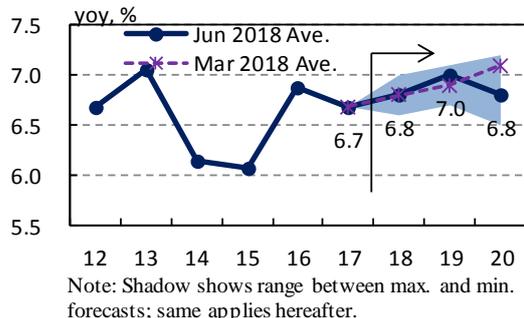
The rise of global protectionism poses the largest risk to Malaysia’s economy. “Malaysia has significant trade relations with China and the U.S., [so] any negative development in these areas impacts economic prospects significantly,” says RHB Research Institute’s Vincent Loo Yeong Hong. Kenanga IB’s Wan Suhaimie is also concerned that China’s economic slowdown “could weigh down domestic exports.”

**Trade War Risk vs. Concerted Policy Efforts**

A potential U.S.-China trade war would be detrimental to Asian economies, which are “very much integrated with the global trade and financial market chain,” says Maybank’s Suhaimi Ilias. It would have “negative spillover effects [such as] foreign capital flight,” warns Alliance Bank’s Manokaran Mottain. Kenanga IB’s Wan Suhaimie suggests “concerted policy efforts from trade agreements” as a potential positive development for Asian countries.

# Philippines

## ➤ Highlights



## Growth to Continue as Inflation Risk Increases

Economists are confident of the Philippines’ strong economic growth supported by strong domestic demand, but inflation risks are rising. Alvin Ang of Ateneo de Manila University points out that “the government’s momentum on public construction and infrastructure will pick up the slack created by slower consumption due to the impact of the TRAIN law [tax reform] and higher fuel prices.” The inflation rate is expected to break the upper limit of BSP’s target range (4.0%) in 2018, but is projected to slow in ’19, supporting sustainable growth.

## 1. Growth Prospects

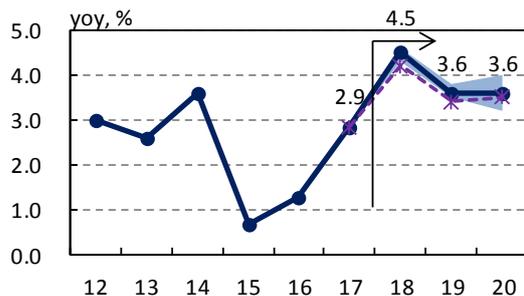
		Average	Max.	Min.
2018	Jan.-Mar.	6.8		
	Apr.-Jun.	6.9 (+0.1)	7.1	6.7
	Jul.-Sep.	6.8 (▲0.1)	7.0	6.7
	Oct.-Dec.	6.9 (+0.0)	7.2	6.7
2019	Jan.-Mar.	6.9	7.1	6.5
2017	6.7			
2018	6.8 (+0.0)	7.0	6.6	
2019	7.0 (+0.1)	7.1	6.7	
2020	6.8 (▲0.3)	7.2	6.5	

Note: Figures in parentheses show change from three months ago.

## Around 7% Growth to Continue Through 2020

Economists expect the Philippine economy to maintain around a 7% growth rate through 2020. Victor Abola of University of Asia and the Pacific identifies “very strong infrastructure spending and robust employment growth,” as key. Even though “elevated domestic inflation has become a drag on economic growth prospects,” says Carlo Asuncion of Union Bank of the Philippines, “economic expansion is still expected on an upswing with macroeconomic fundamentals still intact, and consumer and producer confidence still high.”

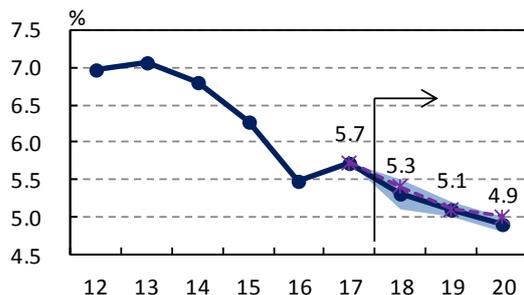
## 2. Inflation



## Rapid Upturn in 2018, Decrease Expected in '19

Inflation will not avoid surpassing BSP’s target range (upper limit 4.0%) in 2018, owing to the TRAIN law, higher oil prices, and a weaker Philippine peso (PHP). Many economists regard these factors as temporary. MetroBank’s Pauline Revillas says “inflation is seen to stabilize over the medium term once the economy’s potential capacity is increased because of infra development.”

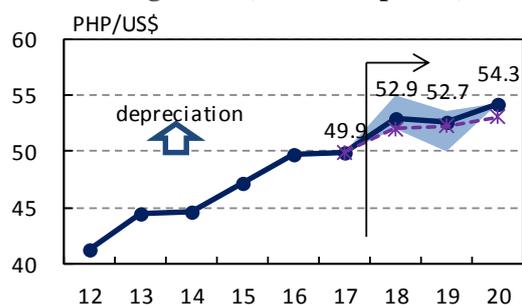
## 3. Unemployment



## Economic Growth Supports Improvement

The unemployment rate is projected to dip under 5% levels in 2020 “on the back of a stronger growth outlook,” says Euben Paracuelles of Nomura. Jonathan Ravelas of BDO Unibank adds: “The prospects of the government’s Build, Build, Build program should help translate in Jobs, Jobs, Jobs as government spends on infrastructure and private investments continue.”

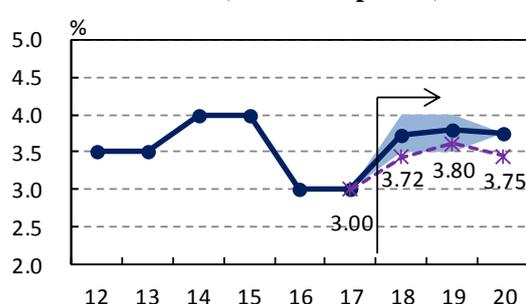
**4. Exchange Rate (end of the period)**



**Depreciation Concerns Raised**

Economists revised downward the PHP exchange rate against the U.S. dollar, expecting the PHP to depreciate more than 5% in one year by the end of 2018. Reasons are manifold, but include prospects of US rate hikes, widening trade deficits due to higher oil prices, and “expectations of higher imports on the back of the government’s massive infra spending plan,” according to Metrobank’s Revillas. Victor Abola predicts that the “trade deficit [will] remain high until 2019.”

**5. Interest Rate (end of the period)**



**Additional Rate Hike Projected in 2018**

Respondents forecast one more rate hike by the end of 2018 after two consecutive hikes in 2Q 2018 to kill overheating inflation. Carlo Asuncion says hikes also serve “to stabilize the peso and financial markets.” Going forward in 2019 the BSP has kept quiet regarding a policy rate shift. Alvin Ang remarks: “As inflation is tapering, we do not expect further rate increases next year unless inflation breaks 5.5%, which is unlikely.”

**6. Risks**

Rank	Risk	Score
1	Inflation accelerates/asset bubble	80
2	Domestic currency depreciates	43
3	Repercussions of U.S. monetary policy	37
4	Protectionism/slowdown in world trade	29
5	Capital outflows/foreign investment slowdown	20
6	Infrastructure issues hinder economic activity	14

The score is calculated to reach 60 or more when all economists regard an item as one of three biggest risks.

**Two Concerns: Inflation & Currency**

Inflation acceleration and PHP depreciation are the top two risks, mirroring the previous survey in March 2018. “The exchange rate and inflation reinforce each other,” says Alvin Ang. For now direct damage to the Philippines’ macro economy from these issues seems to be limited, but many economists including Nomura’s Paracuelles will monitor them closely. “Above-target inflation may be a sign of an overheating economy,” he says, “while a widening current account deficit may lead to capital outflows and currency depreciation.”

**7. Potential Developments that Could Impact Asian Economies**

<b>【Negative】</b>
US-China trade tensions
Volatile oil price
<b>【Positive】</b>
ASEAN’s strong economic growth
Improved US-North Korea relations

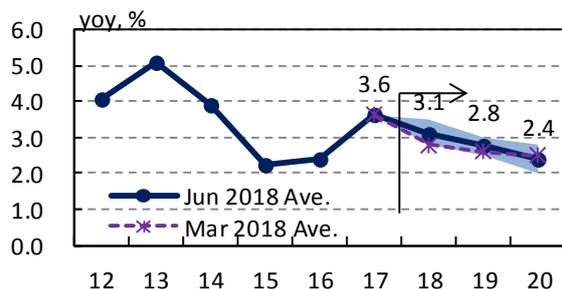
※Answers two or more economists picked up

**Concerns Over U.S.-China Relations and Oil**

Economists are wary of two main uncertainties. One is a deterioration trade relations between the U.S. and China. “Since a lot of Asian economies have trade connections to both countries, the escalation of trade tensions will definitely have huge impacts,” says Asuncion of Union Bank. The other is a rise in oil prices, due to the fact that “most countries in the [Asian] region depend on oil for economic activities,” says Alvin Ang.

# Singapore

## ➤ Highlights



Note: Shadow shows range between max. and min. forecasts; same applies hereafter.

## Growth to Moderate, Stay Above 3% in 2018

Growth is expected to moderate in 2018 from a strong 2017. The 2018 forecast was nevertheless revised upward by 0.3 points from the March survey to 3.1%, based on stronger-than-expected exports in the first half. Manu Bhaskaran of Centennial Asia expects that “export growth will remain robust,” but is worried that rising trade tensions could pose “the most salient threat to the cyclical outlook.” Other economists share this concern.

## 1. Growth Prospects

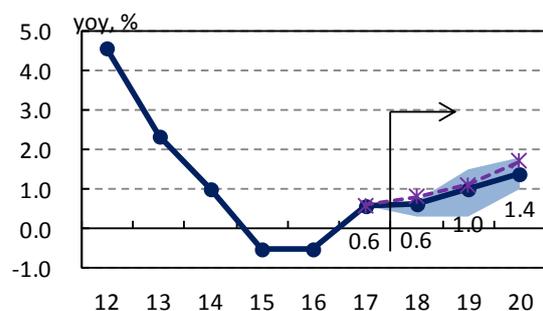
		Average	Max.	Min.
2018	Jan.-Mar.	4.4		
	Apr.-Jun.	3.5 (+0.6)	3.8	3.0
	Jul.-Sep.	2.0 (▲0.3)	2.8	1.5
	Oct.-Dec.	2.5 (▲0.1)	3.1	2.0
2019	Jan.-Mar.	2.8	3.2	2.5
2017		3.6		
2018		3.1 (+0.3)	3.5	2.8
2019		2.8 (+0.2)	3.0	2.5
2020		2.4 (▲0.1)	2.8	2.0

Note: Figures in parentheses show change from three months ago.

## Exports Firm, but Headwinds Threaten

Economic performance brought “positive surprises” in the last few quarters, says Randolph Tan of Singapore University of Social Sciences. Strong exports provided the driving force. MUFG Bank’s Yuma Tsuchiya expects that the “increasing trend of exports will be maintained, backed by growing demand from advanced countries.” On the other hand, warns Euben Paracuelles of Nomura, “the economy continues to face structural headwinds,” such as increasing debt and aging.

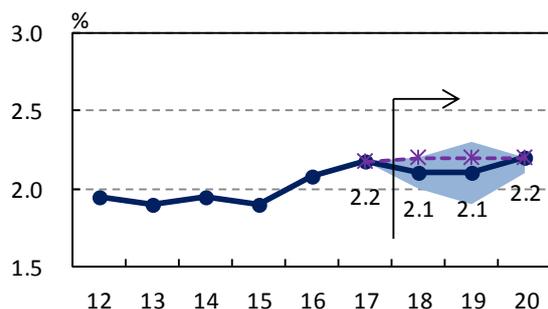
## 2. Inflation



## CPI to Remain Flat in 2018

The CPI turned positive in 2017 after recording negative figures in 2015 and '16. The forecasted figure for 2018 matches last year’s level, 0.6%, but has been revised downward by 0.3 points from the previous survey. “Underlying demand-pull inflation pressure remains limited,” says Paracuelles of Nomura. Economists consider wages, healthcare and housing costs, and prices of car certificates of entitlement to predict future developments.

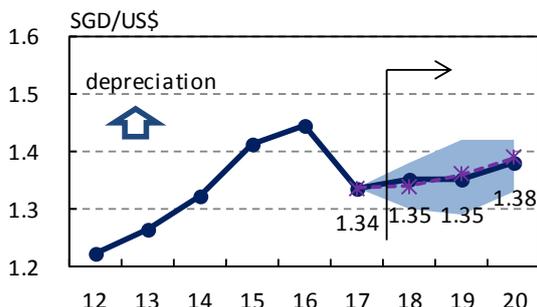
## 3. Unemployment



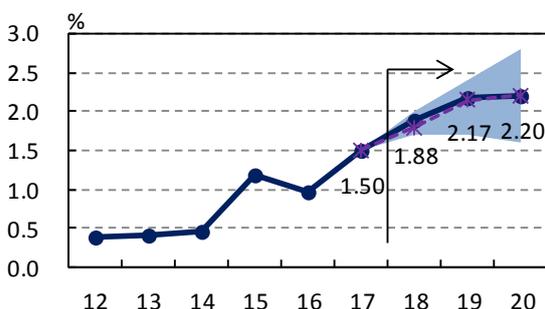
## Rate to Hover Above 2%

Economists see the unemployment rate hovering above 2% toward 2020. “The labor market will begin to tighten,” says Bhaskaran of Centennial Asia of short-term prospects. In the longer term, he adds, “concerns about technological disruption and even displacement are pertinent” and “could dent jobs prospects.”

**4. Monetary Policy and Exchange Rate**  
(end of the period)



**5. Interest Rate (end of the period)**



**6. Risks**

Rank	Risk	Score
1	Protectionism/slowdown in world trade	95
2	Repercussions of U.S. monetary policy	55
3	Financial turmoil (events outside of the U.S.)	20
3	Chinese economy slowdown	20
3	Slowdown in other Asian countries	20

**7. Potential Developments that Could Impact Asian Economies**

Negatives
Global Trade War/ Protectionism
Too-fast tightening in global monetary policy
Financial imbalance
Geopolitical uncertainty in East Asia
Sharp slowdown of Chinese economy
Slow pace of ASEAN integration
European political uncertainty
Positives
Sustained uptrend of global demand
Concerted efforts to support infrastructure development
Improvement of economic fundamentals in Asia
Maturing economic policies

**Another Tightening Action Expected**

Singapore manages its monetary policy through foreign exchange rates rather than interest rates. The Monetary Authority of Singapore (MAS) shifted its policy toward appreciation (tightening) in April. Many expect further steps toward tightening in October. The average forecast sees SGD’s rate staying flat against the USD toward 2019, but views differ by economist.

**SIBOR to Rise with U.S. Rate Hikes**

As Singapore does not have a policy interest rate, the survey requests forecasts of the SGD SIBOR 3-month rate. It is expected to rise along with U.S. rate hikes. “We share the widely expected view that SIBOR is continuing to pick up,” says SUSS’s Tan. Centennial’s Bhaskaran observes that the “period of ultra-low interest rates and easy money [is] over.”

**Protectionism Scores a 95**

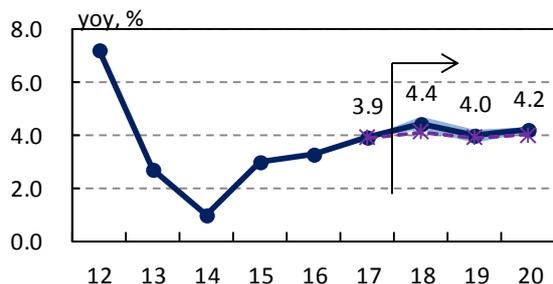
In the March survey “Protectionism” was identified as the largest risk. All answers saw it as the biggest or the second biggest, elevating the score to 95. “Singapore is one of the economies with a high dependence on trade with China” and it will be influenced by “trade friction between the U.S. and China,” points out MUFG’s Tsuchiya. Financial market-related risks are also recognized as a big risk on the horizon.

**Trade War vs. Strong Economies**

The survey asked about potential developments that could broadly affect Asian economies. Economists’ concerns centered on U.S.-China trade tension. “ASEAN relies on trade as its lifeblood and a potential trade war between the U.S. and China could have debilitating effects on supply chains in ASEAN,” says Bhaskaran of Centennial. A faster-than-expected pace of tightening could cause financial upset in countries with weaker fundamentals. Among positive potential developments, economists identify healthy growth of the global economy as well as strong economic fundamentals in Asia.

# Thailand

## ➤ Highlights



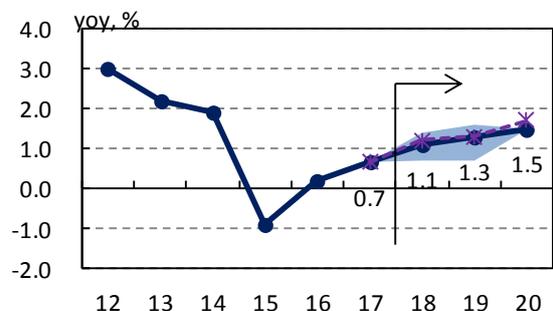
Note: Shadow shows range between max. and min. forecasts; same applies hereafter.

### 1. Growth Prospects

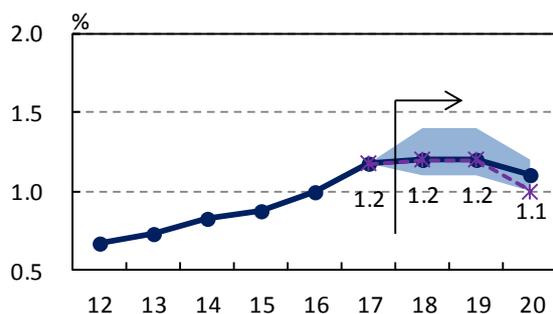
		Average	Max.	Min.
2018	Jan.-Mar.	4.8		
	Apr.-Jun.	4.3 (+0.3)	4.6	3.9
	Jul.-Sep.	4.3 (+0.3)	4.6	4.1
	Oct.-Dec.	4.3 (+0.3)	5.0	4.0
2019	Jan.-Mar.	3.8	4.2	3.3
2017		3.9		
2018		4.4 (+0.3)	4.7	4.2
2019		4.0 (+0.1)	4.2	3.7
2020		4.2 (+0.2)	4.3	4.1

Note: Figures in parentheses show change from three months ago.

### 2. Inflation



### 3. Unemployment



## Forecast Revised Upward for 2018

The average 2018 growth rate is forecast at 4.4%, revised 0.3 points upward from the March survey. “Domestic demand showed signs of recovery, though growth [rates] were still across the board. Looking forward, the exports and tourism sectors will still be key drivers throughout this year,” says Kasikornbank’s Nattaporn Tiratanasirikul. Many forecast a slowdown of growth in 2019. Consumer prices are expected to rise as the economy recovers. Economists are monitoring the timing of a policy interest rate increase—the rate has remained at 1.5% for more than three years.

## Growth to Decelerate, but Maintain 4% in 2019

The growth rate for 2019 will stay above 4% despite deceleration. As CIMB Thai Bank’s Amonthep Chawla reports: “The agricultural sector and small and medium-sized enterprises have not gained much benefit from the recovery push. Private consumption has not recovered on a broad-based level and confidence in the government’s economic policies has been hampered by a delay in the general elections.”

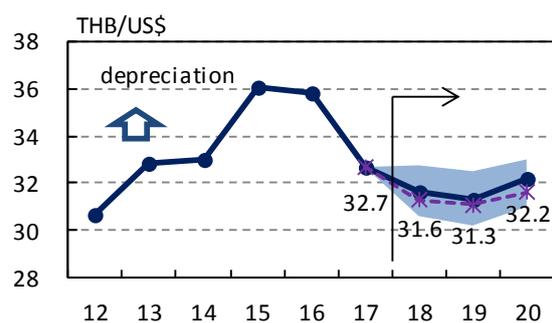
## Rate to Accelerate Toward 2020

The outlook for the inflation rate will exceed 1.0% in 2018, continuing to increase in 2019 and 2020. Bank of Ayudhya’s Somprawin Manprasert finds that “improving domestic spending is starting to trigger a wage-price upward spiral and create upward pressure on inflation.” TMB Bank’s Naris Sathapholdeja, however, predicts that “due to structural change such as increasing e-commerce trading and baht appreciation, the inflation rate is not expected to reach 2.5%,” the mid-point of BOT’s target range.

## Figure to Hover Around 1.2%

The unemployment rate will hover around 1.2% in 2018 and 2019. Nattaporn of Kasikornbank thinks a low rate “is supported by an increase in numbers of employed persons in the agricultural sector.” She adds that “rising employment is evident in tourism-related sectors.” KT ZMICO’s Thammarat Kittisiripat points out that “some developments toward AIs and closing branches in financial institutions will [bring] a mild rise in unemployed persons.”

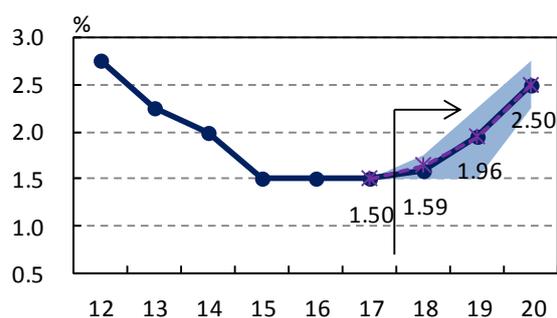
**4. Exchange Rate (end of the period)**



**Strong Baht to Continue Toward 2019**

Following appreciation up to early 2018, the baht has experienced depreciation, recording 32 baht against the U.S. dollar at the end of May. Most economists see this recent move as temporary and foresee the strong baht continuing in 2018 and '19, maintaining 31-plus levels. Nomura Singapore's Euben Paracuelles says the "Thai baht is expected to strengthen again in late 2018, thanks to a still-large current account surplus."

**5. Interest Rate (end of the period)**



**Rate Hikes in Sight**

An improving economy has sparked discussion of interest rate hikes. Bank of Ayudhya's Somprawin expects a 0.25 point rate rise in 4Q of 2018. "Gradual withdrawal of accommodative policies would avoid large divergence between the BOT's monetary policies and those of central banks across the region." Siam Commercial Bank's Krasae Rangsipol takes another view: "As Thailand is approaching its national election, political uncertainty should be high and not beneficial to growth. Thus the next hike can wait until the election result unfolds unless the economy becomes overheated in the coming quarters, or there is any concern relating to financial stability," he says.

**6. Risks**

Rank	Risk	Score
1	Protectionism/slowdown in world trade	71
2	Political instability	37
3	Financial turmoil (events outside of the U.S.)	34
4	Financial turmoil (Trump policies)	26
5	Capital outflows/foreign investment slowdown	11
5	Repercussions of U.S. monetary policy	11
5	Chinese economy slowdown	11
5	Infrastructure issues hinder economic activity	11

**Protectionism Largest Risk; Politics Matter**

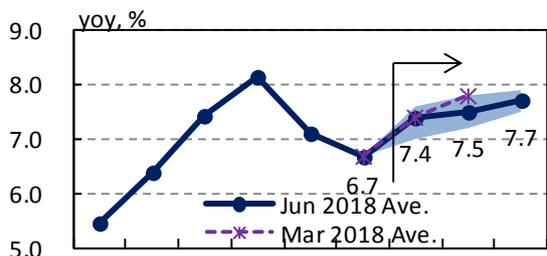
"Rise of protectionism" remains the largest risk identified. "Mr. Trump's unexpected or unpredictable actions in U.S. economic and foreign policy could be key factors dampening market sentiment," says Bank of Ayudhya's Somprawin. "Exports accounted for more than 50% of Thai GDP," points out Naris of TMB, adding that "increased exports also historically induced increased private investment. Slowdown in world trade adversely impacts merchandise exports."

"Political risk" remains in second place. Euben of Nomura says that "political risk still looms in the run up and after the election in 2019."

Other viewpoints include that of Nattaporn of Kasikornbank, who highlights concerns over "how underlying debt problems in China could evolve." Siam Commercial Bank's Krasae is closely monitoring "tensions in the Middle East that could lead to further spikes in oil prices."

# India

## ➤ Highlights



2012/13 2014/15 2016/17 2018/19 2020/21  
 Note: Shadow shows range between max. and min. forecasts; same applies hereafter.

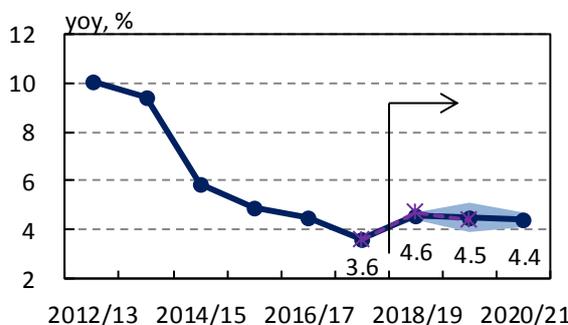
## 1. Growth Prospects

1) Real GDP growth (year-on-year, %)

		Average	Max.	Min.
2018	Jan.-Mar.	7.7		
	Apr.-Jun.	7.6 (▲0.1)	8.0	7.3
	Jul.-Sep.	7.3 (▲0.1)	7.5	7.1
	Oct.-Dec.	7.1 (▲0.1)	7.4	6.7
2019	Jan.-Mar.	7.2	7.9	6.7
2017/18		6.7		
2018/19		7.4 (+0.0)	7.6	7.0
2019/20		7.5 (▲0.3)	7.8	7.2
2020/21		7.7	7.9	7.5

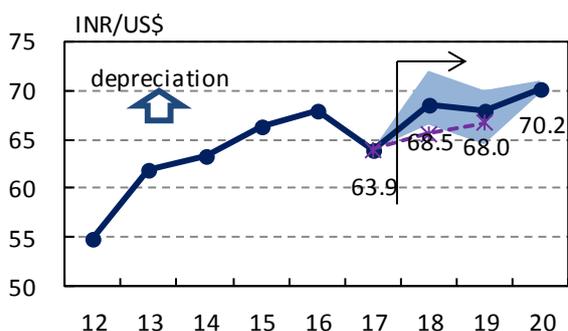
Note: Figures in parentheses show change from three months ago.

## 2. Inflation



2012/13 2014/15 2016/17 2018/19 2020/21

## 3. Exchange Rate (end of calendar year)



12 13 14 15 16 17 18 19 20

## Growth to Recover Over 7%

All economists expect growth of 7% or more for fiscal 2018/19. Growth of 7.7% in the Jan.-Mar. quarter demonstrated strong recovery from the temporary slowdown of 2017. The negative impacts of GST and demonetization continue to fade, and a normal monsoon is expected this year. Consumption figures are strong. Economists' concerns focus on a weaker rupee and higher oil prices that would lead to fuel inflation.

## Rupee & Oil Threaten Strong Economy

Punit Srivastava of Daiwa Capital Markets says: "The pick-up is seen from strong growth in agriculture and manufacturing." But according to Thirthankar Patnaik of Mizuho Bank, "higher fuel prices, a depreciating rupee, and the higher cost of funds are sure to be hurdles for the macro economy." Dilip Chenoy of the Federation of Indian Chambers of Commerce and Industry is also highlights the external factor of oil and commodity prices.

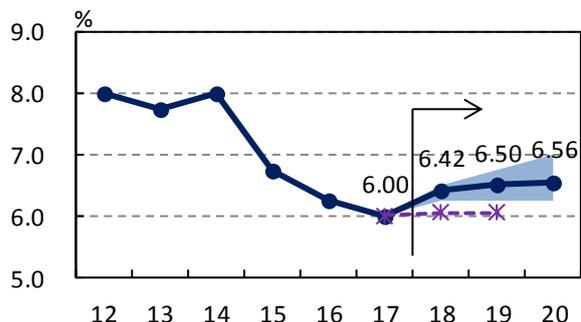
## Rate to Rise, Remain Over 4%

The average figure in 2018/19 was 4.6%, up 1.0 point from the previous fiscal, but revised downward by 0.1 point from the March survey. Both upward and downward pressures exist. Anticipation of a normal monsoon may soften food inflation, but economists warn of higher commodity prices, stronger domestic demand, and the impact of rising crop prices due to the government's support policy. CRISIL's Dharmakirti Joshi explains that "inflationary conditions are likely to firm up in fiscal 18/19."

## Depreciation Pressure

All surveyed economists expect the rupee to depreciate toward the end of 2018. As Joshi of CRISIL explains: "The rupee will face pressure from the CAD from rising oil and commodity prices." Chenoy of FICCI also points out that "the effects of FRB's rate hike and the portfolio investment outflows remain on the horizon for now." On the other hand, Srivastava of Daiwa is relatively optimistic noting that "high forex reserve will act as a buffer and help RBI to defend the rupee."

**4. Policy Interest Rate (RBI Repo Rate)  
(end of calendar year)**



**Another Rate Hike in Sight**

RBI raised its policy rate in June for the first time in four years. A majority of respondents foresee another rate hike in this summer due to inflation pressure. Sonal Varma of Nomura expects another 25bp rate hike in August. In her estimation, the “next 4-5 months are likely to be a period of high growth/inflation followed by a period of moderating growth/low inflation.” Srivastava of Daiwa also sees upward pressure on the RBI rate. Chenoy of FICCI disagrees. He sees RBI refraining from another hike because “it remains critical that all policy levers are used to push investments.”

**5. Risks**

Rank	Risk	Score
1	Domestic currency depreciates	56
2	Repercussions of U.S. monetary policy	40
2	Protectionism/slowdown in world trade	40
2	Rise in commodity prices	40
5	Inflation accelerates/asset bubble	36
6	Political instability	16
7	Financial turmoil (Trump policies)	12

**Weaker Rupee Emerges as Largest Risk**

Depreciation of the rupee was the most cited risk for the Indian economy for the first time since this survey started in March 2016. Srivastava of Daiwa describes it as the “single greatest risk.” Some economists see the rupee falling under 70 against the USD within the year.

Rise in commodity prices emerges as a big concern, along with U.S. monetary policy and protectionism. Varma of Nomura says “increased crude oil prices are key risks for inflation, balance of payments, growth and fiscal trajectory.” She also highlights state and central elections in 2018-19 as factors of uncertainty.

**6. Potential Developments that Could Impact Asian Economies**

Negatives
<ul style="list-style-type: none"> <li>• Crude oil price volatility</li> <li>• Pace of QE withdrawal</li> <li>• China growth prospects</li> <li>• Slowdown in China manufacturing</li> <li>• Policies of Donald Trump</li> <li>• Rising interest rate in U.S.</li> <li>• Trade relations between U.S. and China</li> </ul>
Positives
<ul style="list-style-type: none"> <li>• Fall in oil prices</li> <li>• Further rise in US stock markets</li> <li>• Normalisation of the relations between U.S. and North Korea</li> </ul>

**Oil, U.S., China Among Concerns**

The survey asked about potential developments that could broadly affect Asian economies. Indian economists focused on oil prices, U.S. economy and policy, the Chinese economy, and trade issues as developments that might bring negative effects. On the positive side, Srivastava of Daiwa points to both a potential “fall in oil prices” and a “further rise in US stock markets.” He singles out a fall in oil prices, calling it the “single biggest trigger for many of the Asian economies to perform better than expected.”

### ■ List of survey respondents

Indonesia		
Maybank Indonesia	Chief Economist	Juniman
Bank Mandiri	Head of Industry and Regional Research Department	Dendi Ramdani
CIDES (Center for Information and Development Studies)	Chairman	Umar Juoro
Bank Danamon Indonesia	Economist	Wisnu Wardana
Malaysia		
Maybank Investment Bank	Group Chief Economist	Suhaimi Ilias
RHB Research Institute	Senior Manager	Vincent Loo Yeong Hong
Kenanga Investment Bank	Head, Economics Department	Wan Suhaimie bin Wan Mohd Saidie
AmBank Research	Chief Economist	Anthony Dass
Alliance Bank	Chief Economist	Manokaran Mottain
Philippines		
Ateneo de Manila University	Director, Ateneo Center for Economic Research and Development	Alvin Ang
BDO Unibank Inc.	FVP-Chief Market Strategist	Jonathan Ravelas
Metrobank	Research Analyst	Pauline Revillas
ING Bank Philippines	Senior Economist	Joey Cuyegkeng
University of Asia and the Pacific	Senior Economist	Victor Abola
Union Bank of the Philippines	Chief Economist	Carlo Asuncion
Singapore		
Centennial Asia Advisors	CEO	Manu Bhaskaran
Singapore University of Social Sciences	Director, Centre for Applied Research	Randolph Tan
MUFG Bank, Ltd.	Senior Economist	Yuma Tsuchiya
Thailand		
Siam Commercial Bank Economic Intelligence Center	Senior Economist	Krasae Rangsipol
Kasikorn Research Center	Head-Research of Macroeconomics	Nattaporn Triratanasirikul
KT ZMICO Securities	Senior Economist	Thammarat Kittisiripat
Bank of Ayudhya PCL	Head of Research Division and Chief Economist	Somprawin Manprasert
CIMB Thai Bank	Head of Research Office	Amonthep Chawla
TMB Bank PCL	Team Head, TMB Analytics	Naris Sathapholdeja
India		
Daiwa Capital Markets India	Head of research	Punit Srivastava
CRISIL	Chief Economist	Dharmakirti Joshi
Nomura India	India Chief Economist	Sonal Varma
Mizuho Bank Limited	Chief Strategist and Head of Research, India	Tirthankar Patnaik
Federation of Indian Chambers of Commerce and Industry, (FICCI)	Secretary General	Dilip Chenoy
For Multiple Countries		
Nomura Singapore	Senior Economist	Euben Paracuelles
Barclays Bank	Chief Asia-Pacific Economist	David Fernandez

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Kenji Yuasa, Lead Economist, JCER

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Singapore	Kiyoshi Kusaka, Principal Economist, JCER
Thailand	Masashi Uehara, Principal Economist, JCER
India	Go Yamada, Principal Economist, JCER

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