BANK OF THAILAND
BOT Press Release
Communications and Relations Office, Corporate Communications Department
Tel. +66 2283 5016-7 Fax. +66 2283 6969 www.bot.or.th

No. 37/2019

Monetary Policy Report, June 2019

The Bank of Thailand (BOT) released the June 2019 issue of the *Monetary Policy Report*. The *Report*, published quarterly, is aimed at enhancing public understanding of the Monetary Policy Committee (MPC)'s policy stance and its assessment of Thailand's economic outlook. Details are summarized as follows.

Monetary Policy Conduct in the Second Quarter of 2019

In the Committee's view, the Thai economy was expected to expand at a slower pace than the previous assessment as merchandise and services exports would likely grow at a significantly lower rate than previously expected. Headline and core inflation were projected to be in line with the previous forecast. However, there were pockets of risks that might pose vulnerabilities to financial stability in the future. **Thus, the Committee unanimously voted at the meetings on May 8 and June 26, 2019, to maintain the policy rate at 1.75 percent.** The Committee viewed that the current accommodative monetary policy stance contributed to the continuation of economic growth and was appropriate given the inflation target. Moreover, the Committee expressed concerns over the baht appreciation which might not be consistent with economic fundamentals and would continue to closely monitor developments of exchange rates and capital flows. In the period ahead, there remained a need to address financial stability risks through a combination of tools, including the appropriate policy rate as well as microprudential and macroprudential measures which would need to place greater emphasis on debt serviceability of borrowers.

Against the backdrop of heightened uncertainties surrounding both external and domestic factors going forward, the current accommodative monetary policy stance was deemed appropriate. The Committee would continue to closely monitor developments of economic growth, inflation and financial stability, together with associated risks, especially the impacts of trade tensions, in deliberating appropriate monetary policy in the period ahead.

Assessment of the Economic and Financial Outlook as the Basis for Policy Formulation

1. Global Economy

The global economy was expected to grow at slower rate mainly due to escalated trade tensions between the U.S. and China, causing a decline in global trade volume and investor confidence. However, strong labor markets and consumer confidence as well as government stimulus measures in advanced economies would be key supporting factors for economic growth in the period ahead. **The Committee thus revised the growth projection of Thailand's trading partner economies downward to be 3.0 percent in 2019 and 2.8 percent in 2020. Nonetheless, there remained possibilities that trading partner economies could underperform the baseline projection** due to uncertainties surrounding trade protectionist measures that might intensify, geopolitical risks, and increased risks of the no-deal Brexit.

Monetary policy stance of most central banks were more accommodative. The U.S. Federal Reserve (Fed) would likely cut the policy rate once in 2019 with an additional cut in 2020, compared with the previous assessment of one policy rate hike in 2019. The European Central Bank (ECB) would likely hold its policy rate until the first half of 2020 and launch a plan to inject liquidity in the financial system through the third Targeted Longer-term Refinancing Operations (TLTROs III). Meanwhile, the Bank of Japan (BOJ) was expected to keep both short- and long-term interest rate targets until at least the first half of 2020. Regarding central banks with policy rate cuts, some had raised their policy rates multiple times last year, such as the Bangko Sentral ng Pilipinas (BSP) and the Reserve Bank of India (RBI). On the other hand, other central banks still maintained their policy rates such as Bank of Korea (BOK) and Bank Indonesia (BI).

Emerging markets (EMs) experienced volatile capital flows. Capital outflows from EMs occurred amid intensified trade tensions, driven by both increases in import tariffs as retaliatory measures between the U.S. and China and the U.S. announcement to sanction China's major technology company due to security issues. However, capital flows returned to EMs, especially Thailand and India, following a more dovish monetary policy stance of central banks in advanced economies. In addition, in the case of Thailand, other supporting factors included a greater clarity pertaining to domestic political developments and a larger share distributed to Thai equities in foreign investment funds following an increase in the weights of Thailand's assets in the MSCI and JP Morgan indices.

2. Financial Conditions and Financial Stability

Thailand's financial conditions remained accommodative as reflected by the real policy rate that remained accommodative and at a low level relative to those of other EMs. Thailand's short-term interest rates in the money market and short-term government bond yields were broadly in line with the policy rate. Medium- and long-term government bond yields fell in accordance with the U.S. treasury yields. Private credit moderated, partly due to a partial loan repayment by large corporates after having switched to corporate bond financing. As a result, financing through the bond and equity markets continued to rise. Meanwhile, credit extended to households continued to grow in all loan types. The baht appreciated against the U.S. dollar relative to the end of the previous quarter, especially following intensified trade tensions and a greater clarity pertaining to Thailand's political developments. The real effective exchange rate also appreciated partly due to the baht appreciation against most trading partner currencies.

There were pockets of risks in the financial system that could pose vulnerabilities to financial stability in the future. These included (1) an accumulation of household debt and deterioration of debt serviceability among some group of households and small businesses, (2) the search-for-yield behavior, particularly among saving cooperatives and large corporates, and (3) risks in the property sector including a decline in foreign demand for Thai condominiums in response to the global economic slowdown which could lengthen time to sell existing excess supply. Nevertheless, risks in the property sector were partly addressed through the revised loan-to-value ratio (LTV) measure, as observed in developers' adjustments by delaying launches of new projects and overall housing price index that remained largely unchanged. Moreover, financial institutions would be more cautious in expanding mortgage loans, especially those for second and subsequent residential units acquired by the same purchasers.

3. Economic and Inflation Outlook

The Thai economy was expected to expand at a slower rate of 3.3 and 3.7 percent in 2019 and 2020, respectively, down from the projection in the previous Monetary Policy Report. The downward revision was mainly due to external demand, where growth of merchandise and services exports was projected to be lower than the previous assessment following a slowdown of trading partner economies and global trade volume. Moreover, private consumption and investment were expected to moderate from the previous year. Meanwhile, government spending would continue to support growth albeit at a lesser extent than previously assessed.

The value of merchandise exports in 2019 was expected to remain broadly unchanged from the previous year, a downward revision from the previous forecast. This was a result of intensified trade tensions which dampened global trade volume and external demand. However, Thai merchandise exports in the period ahead would be supported by the relocation of production base of some businesses to Thailand and 5G technology-related infrastructure investment plans in many countries, which would promote global trade and investment. This would, in turn, benefit Thailand's exports of electronics parts going forward.

Exports of services were projected to decelerate and exhibit a slower growth than previously assessed due to a decreased number of foreign tourists and lower spending per head. Meanwhile, global economic slowdown would likely result in a moderate outlook of tourists traveling to regional countries including Thailand. However, in the period ahead, extended exemption of visa-on-arrival (VOA) fees until the end of October 2019 and greater tourism promotion by both government and the private sector might partly help offset the impact. Therefore, the projected number of foreign tourists was revised down to 39.9 and 41.3 million in 2019 and 2020, respectively.

Private consumption in 2019 was expected to moderate compared to the high growth last year, but would continue to expand. Supporting factors included sales promotion continuously offered by businesses, as well as government measures which helped support household consumption to some extent. However, private consumption in the period ahead would be restrained by non-farm household income given signs of moderation in earnings, particularly in export-related manufacturing sector, and lower consumer confidence among low-income households due to elevated household debt.

Private investment was expected to continue expanding despite at a lower rate than the previous assessment following a softer outlook of exports and a decline in investment confidence of businesses. However, private investment in 2020 was projected to improve, thanks to a greater clarity of some mega-investment projects, outlook for additional relocation of production base to Thailand especially industries affected by trade protectionist measures, and the progress on infrastructure development in the Eastern Economic Corridor (EEC).

Public spending was projected to support economic growth at a lesser extent than previously assessed. The downward revision was mainly due to public investment. Investment by the central government decreased due to an expected delay in the enactment of the Annual Budget Expenditure Act, B.E. 2563 (A.D. 2020) following a delayed formation of the new government. Moreover, investment by state-owned enterprises also declined from postponement of some investment projects due to contract reviews and problems in accessing construction sites, as well as changes in construction plans. Meanwhile, public consumption was expected to moderate slightly due to decelerating trend of personnel compensation expenditure.

Headline inflation was projected to be in line with the previous assessment. Core inflation and fresh food prices were expected to be lower than previously anticipated due to data outturns from March to May 2019. In addition, demand-pull inflationary pressures would likely decline. However, energy prices were projected to trend up, especially in 2019, which would help offset the downward pressures, keeping headline inflation close to the previous forecast. **Therefore, the Committee projected headline inflation to average 1.0 percent for both 2019 and 2020, and core inflation to average 0.7 and 0.9 percent for 2019 and 2020, respectively.**

The growth projection was subject to downside risks due to (1) a larger-than-expected slowdown in global trade volume and impact on Thai merchandise exports in the case of intensifed trade protectionist measures, (2) a lower-than-expected trading partner economic growth, particularly in the event of no-deal Brexit, as well as due to consequences of Chinese economic and financial stability problems and geopolitical risks, (3) a delay in the new government formation which could impact the continuation of government budget disbursement and policy implementation, and (4) a lower-than-expected growth of Chinese tourist figures if the Chinese government were to promote domestic tourism. However, **there was a possibility that the Thai economy would outperform the baseline projection** owing to (1) higher-than-projected growth of Thailand's trading partner economies, should there be additional government stimulus measures or better-than-expected improvements on trade tensions, and (2) higher-than-expected domestic demand as a result of (2.1) a sooner-than-expected implementation of government infrastructure investment projects, PPP projects and private investment, and (2.2) a larger-than-expected contribution from government stimulus measures if the new government could accelerate disbursements or release additional measures to stimulate private spending. Meanwhile, **risks to the forecasts of headline and core inflation were expected to tilt downward** in line with risks to growth projections and assumptions on global crude oil price.

Bank of Thailand
10 July 2019

For further information: Monetary Policy Strategy Division
Tel. 0 2283 6186, 0 2356 7872
E-mail: MPStrategyDiv@bot.or.th