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Monetary Policy Committee's Decision 1/2017

Mr. Jaturong Jantarangs, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 8 February 2017 as follows.

The Committee voted unanimously to maintain the policy rate at 1.50 percent.

In deliberating their policy decision, the Committee assessed that the Thai economy would recover at a faster pace compared with the previous assessment despite facing uncertainties especially on the external front. Inflation would continue to be on an upward trajectory. Meanwhile, overall financial conditions remained accommodative and conducive to the economic recovery although bond yields increased somewhat. Hence, the Committee decided to keep the policy rate on hold at this meeting.

The Thai economy was projected to expand at a faster pace on the back of a more broad-based recovery in merchandise exports and a faster-than-expected recovery in tourism. At the same time, public expenditure remained an important growth driver, while private consumption and private investment continued to recover at a gradual pace. Nevertheless, the improved growth outlook was still subject to various risk factors that warranted close monitoring going forward. These included the implications of the US economic and foreign trade policies, financial stability concerns in China, political developments in Europe, and problems faced by the European banking sector.

Headline inflation returned to the target band last December and continued trending upward. Core inflation steadied around the previous assessment which reflected low demand-pull inflationary pressure. Meanwhile, the public's medium-term inflation expectations remained close to the target.

Overall financial conditions remained accommodative and conducive to the economic recovery with ample liquidity in the financial system and low real interest rates. Nevertheless, bond yields increased somewhat due to both domestic and external factors. With regard to the exchange rate movements over the recent period, uncertainties stemming from external developments led to some appreciation of the baht against major trading partners' currencies, which might not be as beneficial to the ongoing economic recovery as it could under the Committee's assessment.

The Committee viewed that financial stability remained sound with sufficient cushion against economic and financial volatilities on both domestic and external fronts. However, there remained pockets of risks that warranted close monitoring such as the deterioration in loan quality of some business sectors, defaults of unrated bonds issued by certain companies, and the search-for-yield behavior in the prolonged low interest rate environment which might lead to the underpricing of risks.

Under the Committee's assessment, the Thai economy started to gain more traction, but uncertainties remained at large, particularly those pertaining to the fragile global economic recovery and to the economic and monetary policy directions of major advanced economies. Meanwhile, demand-pull inflationary pressure remained low. Thus, the Committee viewed that monetary policy should remain accommodative, and would stand ready to utilize an appropriate mix of available policy tools in order to ensure that monetary conditions are conducive to the economic recovery, while ensuring financial stability.

Bank of Thailand
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