

**No. 13/2018****Monetary Policy Committee's Decision 1/2018**

Mr. Jaturong Jantarangs, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 14 February 2018 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 continued to gain further traction, driven by growth in the external sector as well as the gradual improvement in domestic demand. Headline inflation was projected to rise at a gradual pace. Overall financial conditions remained accommodative and conducive to economic growth. Financial stability remained sound overall, but there were pockets of risks that might lead to the build-up of vulnerabilities in the financial system going forward. The Committee viewed that the current accommodative monetary policy stance remained conducive to the continuation of economic growth and should foster the return of headline inflation to target, although the process could take some time. Thus, the Committee decided to keep the policy rate unchanged at this meeting.

The Thai economy as a whole continued to gain further traction on account of continued improvements in exports of goods and services that were driven by stronger global economic growth. Private consumption continued to expand, especially spending on durable goods, and would be underpinned by government measures. Nevertheless, improvement in overall household purchasing power remained gradual partly due to structural issues in the labor market together with elevated household debt. Private investment picked up further with the improved economic outlook, and was projected to continue expanding with additional support from government projects. Meanwhile, public expenditure remained an important growth driver despite recent delays in disbursement for investment spending. Nevertheless, Thailand's growth outlook was still subject to risks that warranted close monitoring, namely uncertainties pertaining to US economic and foreign trade policies as well as geopolitical risks.

Headline inflation was projected to edge up at a gradual pace on the back of the recovery in domestic demand and the increase in oil prices since last year. However, demand-pull inflationary pressures remained low. Meanwhile, structural changes also contributed to more persistent inflation than in the past.

Overall financial conditions remained accommodative and conducive to economic growth with ample liquidity in the financial system as well as low government bond yields and real interest rates. Such conditions allowed financing by the private sector to continue expanding, with recent improvements seen in credits extended to SMEs across business sectors and areas. On exchange rates, the baht experienced higher volatility in the recent period and its movements in the period ahead would likely remain volatile mainly due to uncertainties pertaining to monetary and fiscal policies in major advanced economies. Thus, the Committee would closely monitor exchange rate developments as well as impacts on the economy going forward.

The Committee viewed that financial stability remained sound but would continue to monitor pockets of risks that might pose vulnerabilities to financial stability in the future. These included, in particular, the search-for-yield behavior in the prolonged low interest rate environment that might lead to underpricing of risks, and the deterioration in debt serviceability of households and SMEs especially those affected by changes in structural factors and business models.

Looking ahead, Thailand's growth outlook improved further particularly on the back of external demand while the strength of the domestic demand recovery and inflation developments must be monitored. Hence, the Committee viewed that monetary policy should remain accommodative and would stand ready to utilize available policy tools to sustain economic growth while also ensuring financial stability.

Bank of Thailand
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