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

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Monetary Policy Committee's Decision 1/2019

Mr. Titanun Mallikamas, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 6 February 2019 as follows.

The Committee voted 4 to 2 to maintain the policy rate at 1.75 percent. Two members voted to raise the policy rate by 0.25 percentage point from 1.75 to 2.00 percent. One MPC member was unable to attend the meeting.

In deliberating their policy decision, the Committee assessed that the Thai economy would continue to gain traction on the back of domestic demand despite a slowdown in external demand. Headline inflation was restrained by lower energy prices and subject to increased downside risks, while core inflation would edge up in line with previous projection. Overall financial conditions remained accommodative and conducive to economic growth. However, there were risks to financial stability in the future that warranted close monitoring. The Committee viewed that the current accommodative monetary policy stance had contributed to the continuation of economic growth and was appropriate given the inflation target. Thus, most members decided to keep the policy rate unchanged at this meeting. Nevertheless, two members viewed that the economy continued expanding around its potential, and that overall financial conditions would remain accommodative and conducive to economic growth despite an additional 0.25 percentage point increase in the policy rate. Hence, they voted to raise the policy rate at this meeting to curb financial stability risks and to build up policy space.

The Thai economy as a whole was expected to continue expanding around its potential despite increased downside risks. This was due to merchandise exports growth which was affected by the global economic slowdown, trade protectionism measures between the US and China, and a down cycle of electronic products. Meanwhile, tourism would improve mainly on the back of a faster-than-expected recovery in the number of Chinese tourists. Domestic demand momentum continued to expand. Private consumption was expected to expand on the back of increasingly broad-based improvements in both farm and non-farm income with additional supports from government measures. Nevertheless, private consumption was restrained by elevated household debt. Private investment was projected to expand thanks to the relocation of production base to Thailand and public-private partnership projects for infrastructure investment. Public expenditure would grow at a slower pace mainly due to the lower-than-expected actual spending and budget for current and capital expenditures as well as delayed investment by some state-owned enterprises. The Committee would monitor external risks from both trade protectionism measures between the US and China and the Chinese economic outlook as well as the progress of major infrastructure investment and its knock-on effects on private investment which could affect momentum of economic growth in the period ahead.

Headline inflation was restrained by lower energy prices and subject to increased downside risks due to fluctuations in energy and fresh food prices. Core inflation would edge up given the gradually rising demand-pull inflationary pressures. The Committee viewed that structural changes contributed to more persistent inflation than in the past. Such changes included the expansion of e-commerce, rising price competition, and technological development which reduced costs of production.

Financial conditions over the previous period had been accommodative and conducive to economic growth with ample liquidity in the financial system. Financial institutions gradually increased interest rates following the policy rate, especially deposit interest rates. Real interest rates rose but still remained at a low level, allowing financing by the private sector to continue expanding. Loans extended to businesses and consumers continued to grow. With regard to exchange rates, the Thai baht against the US dollar appreciated mainly due to the weakened US dollar. The movement of the Thai baht was in line with those of emerging markets and regional economies. Looking ahead, the baht would likely remain volatile due to uncertainties pertaining to external front, and thus the Committee would continue to closely monitor exchange rate developments as well as their impacts on the economy.

Financial stability remained sound overall but there remained a need to monitor risks that might pose vulnerabilities to financial stability in the future, especially the search-for-yield behavior amid the low interest rate environment that might lead to underpricing of risks. The Committee viewed that the implemented macroprudential measures and the increased policy rate would help curb accumulation of vulnerabilities in the financial system to some extent. Nevertheless, developments in the mortgage loan market, adjustments in the real estate sector, growth in assets held by saving cooperatives, as well as debt accumulation among households and large corporates, which could lead to underpricing of risks, still warranted monitoring.

Looking ahead, the Thai economy was projected to continue to gain traction although the external demand might slow down. The Committee viewed that accommodative monetary policy would remain appropriate in the period ahead, and thus would continue to monitor developments of economic growth, inflation, and financial stability, together with associated risks, in deliberating appropriate monetary policy in the period ahead.

Bank of Thailand
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For further information, please contact: Monetary Policy Strategy Division
Tel: +66 2283 6186, +66 2356 7872
E-mail: MPStrategyDiv@bot.or.th