

**No. 21/2018****Monetary Policy Committee's Decision 2/2018**

Mr. Jaturong Jantarangs, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 28 March 2018 as follows.

**The Committee voted 6 to 1 to maintain the policy rate at 1.50 percent. One member voted to raise the policy rate by 0.25 percentage point from 1.50 to 1.75 percent.**

In deliberating their policy decision, the Committee assessed that the Thai economy continued to gain further traction and would achieve higher growth than previously assessed in the last quarter, driven by both growth in the external sector and gradual improvements in domestic demand. Headline inflation was projected to gradually rise albeit at a slightly slower pace than previously assessed. 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. Most members 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, and thus decided to keep the policy rate unchanged at this meeting. Nevertheless, one member viewed that prolonged monetary accommodation might induce households and businesses to underestimate potential changes in financial conditions, while raising the policy rate at the current juncture would not hinder economic growth going forward.

The Thai economy as a whole continued to gain further traction and was expected to achieve higher growth than the previous assessment due particularly to continued improvements in merchandise exports and tourism driven by stronger global economic growth. Private consumption growth remained moderate partly because the economic recovery had yet to benefit household income and employment in a broad-based manner while household debt remained elevated. In the Committee's view, these issues must be addressed through structural policies. 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 would be a driver of growth while there remained risks of delays in budget disbursement. Furthermore, Thailand's growth outlook was still subject to external risks that continued to warrant monitoring, including uncertainties pertaining to US economic and foreign trade policies, retaliatory measures from trading partners of the US, and 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, although the increase would be slower than the previous assessment as fresh food prices declined more than expected. Meanwhile, demand-pull inflationary pressures remained low and structural changes 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 gradual improvements seen in the amount of credit extended to SMEs. 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, fiscal, and foreign trade policies among 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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## Forecast Summary as of March 2018

	2017*	2018	2019
GDP Growth	3.9	4.1	4.1
		(3.9)	-
Headline Inflation	0.7	1.0	1.2
		(1.1)	-
Core Inflation	0.6	0.7	0.8
		(0.8)	-

\* Outturn, ( ) Monetary Policy Report, December 2017

- The Thai economy gained further traction and was projected to achieve higher growth, driven by growth in the external sector and gradual improvements in domestic demand.
- Headline inflation was projected to increase at a slower pace than previously assessed as fresh food prices declined more than expected.
- Risks to growth forecast tilted to the downside due to increased uncertainties pertaining to US foreign trade policies and potential retaliatory measures from its trading partners which might negatively affect global trade, trading partners' growth, and Thai exports.
- Risks to inflation forecasts tilted to the downside from risks to economic growth.

## Forecasts in the *Monetary Policy Report* as of March 2018

(% YoY)	2017*	2018 <sup>E</sup>		2019 <sup>E</sup>
		Dec 17	Mar 18	Mar 18
GDP Growth	3.9	3.9	4.1	4.1
- Private Consumption	3.2	3.1	3.3	3.3
- Private Investment	1.7	2.3	3.0	3.6
- Government Consumption	0.5	3.2	2.9	3.3
- Public Investment	-1.2	9.0	9.5	3.4
- Exports of Goods and Services	5.5	3.7	5.2	3.6
- Imports of Goods and Services	6.8	3.5	5.5	3.7
Current Account (Billion USD)	49.3	43.1	42.2	39.5
- Value of Merchandise Exports	9.7	4.0	7.0	3.6
- Value of Merchandise Imports	14.4	7.5	11.5	5.4
Headline Inflation	0.7	1.1	1.0	1.2
Core Inflation	0.6	0.8	0.7	0.8
Assumptions				
- Number of Tourists (Million)	35.4	37.3	37.6	39.0
- Dubai Oil Price (USD/Barrel)	53.1	55.0	62.4	63.0

- Merchandise exports and tourism were projected to record higher growth driven by stronger global economic growth.
- Private consumption growth remained moderate as the economic recovery had yet to benefit household income and employment in a broad-based manner while household debt remained elevated.
- Private investment picked up further with the improved economic outlook and was projected to continue expanding with additional support from government projects.
- Public expenditure would be a driver of growth but there remained risks of delays in budget disbursement.

\* Outturn