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Monetary Policy Committee's Decision 2/2019

Mr. Titanun Mallikamas, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 20 March 2019 as follows.

The Committee voted unanimously to maintain the policy rate at 1.75 percent.

In deliberating their policy decision, the Committee assessed that the Thai economy would expand around its potential despite at a slower pace than previously assessed due to a slowdown in external demand. Nevertheless, domestic demand would continue to gain traction. Headline inflation projection was in line with the previous forecast, while core inflation would be slightly lower than previously assessed. Overall financial conditions remained accommodative and conducive to economic growth. However, there were risks to financial stability in the future that warranted continued 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. In addition, given heightened global and domestic uncertainties in the current period, the Committee thus voted to keep the policy rate unchanged at this meeting to assess the clarity of impacts from such uncertainties.

Despite a slight downward revision to economic projection, the Thai economy as a whole was expected to continue expanding around its potential on the back of domestic demand. Private consumption was expected to continue expanding 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 continue expanding thanks to the relocation of production base to Thailand, public-private partnership projects for infrastructure investment, and favourable business sentiment. Meanwhile, merchandise exports grew at a slower pace than previously assessed due to the global economic slowdown, a down cycle of electronic products as well as impacts from trade protectionism measures between the US and China. Tourism continued to gain traction. Public expenditure, both consumption and investment, would grow at a slower pace than previously assessed, which was partly due to delay in some state-owned enterprise investment projects. The Committee would monitor external risks from both trade protectionism measures between the US and China, as well as economic outlooks of China and advanced economies, which could affect domestic demand. Furthermore, the Committee would monitor the progress of major infrastructure investment and private investment, which could affect momentum of economic growth in the period ahead.

The annual average of headline inflation would be largely unchanged from the previous projection. This was attributable to higher energy prices relative to the assessment in the previous meeting. In addition, fresh food prices increased as excess supply alleviated and the drought condition intensified, which offset effects of lower core inflation compared to the previous assessment. 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. Real interest rates 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 depreciated against the US dollar in the intermeeting period in line with regional currencies. Looking ahead, the baht would likely remain volatile due to both domestic and external uncertainties, 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. The Committee viewed that the implemented macroprudential measures and the increased policy rate would to some extent help curb accumulation of vulnerabilities in the financial system from the search-for-yield behavior in the low interest rate environment that might lead to underpricing of risks. Nevertheless, developments in the mortgage loan market, adjustments in the real estate sector, growth in assets held by saving cooperatives, rising household debt, as well as debt accumulation by large corporates that could lead to underpricing of risks still warranted monitoring. In the following period, there remained a need to address financial stability risks through a combination of tools, including the appropriate policy interest rate as well as microprudential and macroprudential measures.

Looking ahead, the Thai economy was projected to continue to gain traction although the external demand momentum might slow down. The Committee viewed that current accommodative monetary policy stance would remain appropriate and 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
20 March 2019

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Forecast Summary as of March 2019

	2018*	2019	2020
GDP Growth	4.1	3.8	3.9
		(4.0)	
Headline Inflation	1.1	1.0	1.1
		(1.0)	
Core Inflation	0.7	0.8	0.9
		(0.9)	

* Outturn, ( ) *Monetary Policy Report*, December 2018

- The Thai economy continued to expand around its potential, albeit at a slower rate than previously assessed due to slowdown in external demand. Domestic demand would continue to expand.
- Headline inflation would be largely unchanged compared with the previous assessment, while core inflation would be slightly lower.
- There remained downside risks to the Thai economy mainly due to external uncertainties.
- Headline and core inflation projections were subject to downside risks.

Forecasts in the *Monetary Policy Report* as of March 2019

(% YoY)	2018*	2019		2020
		Dec 18	Mar 19	Mar 19
GDP Growth	4.1	4.0	3.8	3.9
- Private Consumption	4.6	4.0	3.9	3.7
- Private Investment	3.9	4.5	4.4	5.0
- Government Consumption	1.8	2.6	2.3	2.6
- Public Investment	3.3	6.6	6.1	6.6
- Exports of Goods and Services	4.2	4.1	3.1	3.7
- Imports of Goods and Services	8.6	3.2	2.7	4.2
Current Account (Billion USD)	36.5	34.5	34.5	31.5
- Value of Merchandise Exports	7.2	3.8	3.0	4.1
- Value of Merchandise Imports	14.3	3.8	3.1	4.8
Headline Inflation	1.1	1.0	1.0	1.1
Core Inflation	0.7	0.9	0.8	0.9
Assumptions				
- Number of Tourists (Million)	38.3	40.0	40.4	42.0
- Dubai Oil Price (USD/Barrel)	69.6	66.0	66.0	66.0

* Outturn

- Private consumption was expected to continue expanding on the back of increasingly broad-based improvements in farm and non-farm incomes, which were due in part to supports from government measures. However, private consumption was restrained by elevated household debt.
- Private investment was projected to continue expanding thanks to the relocation of production base to Thailand, public-private partnership projects for infrastructure investment, and favourable business sentiment.
- Public expenditure, both consumption and investment, would grow at a slower pace than previously assessed due in part to delay in some state-owned enterprise investment projects.
- Merchandise exports would grow at a slower pace than previously assessed in line with global economic slowdown, a down cycle of electronic products, as well as impacts from trade protectionism measures between the US and China.
- Tourism continued to gain traction.