



BANK OF THAILAND

BOT Press Release

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Monetary Policy Committee's Decision 3/2018

Mr. Jaturong Jantarangs, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 16 May 2018 as follows.

The Committee voted unanimously to maintain the policy rate at 1.50 percent. One MPC member was unable to attend the meeting.

In deliberating their policy decision, the Committee assessed that the Thai economy continued to gain further traction over the previous assessment, driven by both growth in the external sector and gradual improvements in domestic demand. Headline inflation gradually rose in line with the previous assessment. Core inflation was projected to rise slowly. Overall financial conditions remained accommodative and conducive to economic growth. Financial stability remained sound overall, but it was deemed necessary to monitor pockets of risks that might lead to the build-up of vulnerabilities in the financial system in the future especially given prolonged monetary accommodation. The Committee viewed that the current accommodative monetary policy stance remained conducive to the continuation of economic growth and should support the rise of headline inflation toward target in a sustainable manner, although the process would 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, driven particularly by continued improvements in merchandise exports and tourism thanks to global economic growth. Although employment saw signs of improvement, private consumption growth remained moderate. This was 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 but 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 edged up at a gradual pace as previously expected on the back of the expansion of domestic demand and the increase in oil prices. However, headline inflation was projected to rise gradually as fresh food prices remained low due to high agricultural output thanks to favorable weather conditions. Core inflation was projected to rise slowly as demand-pull

inflationary pressures remained low, while structural changes, such as an expansion of e-commerce and rising price competition, contributed to more persistent inflation than in the past. Meanwhile, the public's inflation expectations broadly increased.

Overall financial conditions remained accommodative and conducive to economic growth with ample liquidity in the financial system. Overall government bond yields increased somewhat while real interest rates remained low. Such conditions allowed financing by the private sector to continue expanding with gradual improvements seen in the amount of credit extended to SMEs and consumer loans. On exchange rates, the baht depreciated against the US dollar due to the latter's recent strength against most currencies. However, the baht's movements relative to those of trading partner currencies were largely unchanged. In the period ahead, the baht 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.

Financial stability remained sound but there continued to be a need 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, the Thai economy as a whole was projected to continue to gain further traction particularly on the back of external demand. However, the strength of the domestic demand and inflation developments in the period ahead 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.

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