



BANK OF THAILAND

BOT Press Release

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Monetary Policy Committee's Decision 3/2019

Mr. Titanun Mallikamas, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 8 May 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 at a slower pace than the previous assessment. Inflation was projected to be around the lower bound of the inflation target. 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, global economic and domestic uncertainties would remain high in the period ahead. The Committee thus voted to keep the policy rate unchanged at this meeting to assess the clarity of impacts from such uncertainties.

The Thai economy was expected to expand at a slower pace than previously assessed owing to merchandise exports and investment. Merchandise exports would grow 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 protectionist measures between the US and China. Tourism would continue to gain traction. Regarding domestic demand, private consumption was expected to continue expanding. Nevertheless, private consumption was restrained by elevated household debt and the overall employment that started to flatten out, with signs of moderation in employment in the construction and export-related manufacturing sectors. Private investment was expected to expand at a slower pace. However, the relocation of production base to Thailand and public-private partnership projects for infrastructure investment would support investment in the period ahead. Meanwhile, public expenditure would grow at a slower pace than previously assessed, which was partly due to delays in some public investment projects. The Committee would monitor external risks from both trade protectionist measures between the US and China, as well as the economic outlook of China and advanced economies, which could affect domestic demand. Furthermore, the Committee would monitor domestic uncertainties, including policy implementation of the new government and public expenditure, 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.

The annual average of headline inflation would be largely unchanged from the previous projection. The increase in energy prices since the previous meeting offsetted lower-than-expected increase in fresh food prices. Nevertheless, there remained risks to inflation due to the impact of drought. Meanwhile, core inflation would remain broadly unchanged from the previous projection. 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, the Committee would monitor rising household debt accumulation driven particularly by auto-related loans, growth in assets held by saving cooperatives and the interconnectedness among saving cooperatives, adjustments in the real estate sector after the implementation of the revised loan-to-value ratio (LTV) measure, and leverage by large corporates that could underprice risks. 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 which would need to place greater emphasis on debt serviceability of borrowers.

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
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