

**No. 31/2017****Monetary Policy Committee's Decision 4/2017**

Mr. Jaturong Jantarangs, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 5 July 2017 as follows.

The Committee voted unanimously to maintain the policy rate at 1.50 percent.

In deliberating their policy decision, the Committee assessed that Thailand's growth outlook improved further due to a better export outlook while domestic demand continued to expand at a gradual pace and not yet sufficiently broad-based. Headline inflation softened and might fall below the lower bound of the target in some periods mainly due to supply-side factors. Nevertheless, headline inflation was projected to rise in the latter half of this year. Meanwhile, overall financial conditions remained accommodative and conducive to economic growth. Hence, the Committee decided to keep the policy rate unchanged at this meeting.

Further improvements in the growth outlook were attributed to a more broad-based expansion in merchandise exports across various product categories and export destinations, and also driven by the swift recovery in tourism. Private consumption continued to expand on the back of improvements in farm income. Nevertheless, non-farm income did not gain much from the export recovery, and thus overall purchasing power had yet to fully recover. Public expenditure remained an important growth driver. Meanwhile, private investment was projected to slowly pick up. However, the improved growth outlook was still subject to external risks. These included sustainability of trading partners' growth, uncertainties pertaining to US economic and foreign trade policies, monetary policy directions of major advanced economies, China's economic structural reforms, and geopolitical risks. Furthermore, the Committee would also closely monitor the impacts of tighter regulations on immigrant labor that were recently announced.

Headline inflation softened mainly due to supply-side factors especially lower fresh food prices that resulted from this year's higher agricultural output and last year's base effects following the drought, as well as the decline in global oil prices. Meanwhile, demand-pull inflationary pressures remained low. Nevertheless, headline inflation was projected to slowly rise in the latter half of the year, supported by supply-side factors and recovery of domestic demand. The public's medium-term inflation expectations remained close to the midpoint of the target.

Overall financial conditions remained accommodative and conducive to economic growth with ample liquidity in the financial system. Government bond yields and real interest rates remained low. Meanwhile, business financing through both credit and capital markets continued to expand. With regard to exchange rates, movements in the baht over the recent period were in line with regional currencies, and the Committee would continue to monitor short-term capital flows going forward.

The Committee viewed that financial stability remained sound with sufficient cushion against economic and financial volatilities on both domestic and external fronts. However, there remained pockets of risks that warranted close monitoring such as the deterioration in debt serviceability of small-and-medium sized enterprises (SMEs) which in part reflected competitiveness issues. Moreover, the search-for-yield behavior in the prolonged low interest rate environment continued to warrant monitoring as it could lead to underpricing of risks.

Looking ahead, Thailand's growth outlook improved further on the back of external demand, while domestic demand expansion was not yet sufficiently broad-based. 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

5 July 2017

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Forecast Summary as of June 2017

	2016*	2017	2018
GDP Growth	3.2	3.5	3.7
		(3.4)	(3.6)
Headline Inflation	0.2	0.8	1.6
		(1.2)	(1.9)
Core Inflation	0.7	0.6	0.9
		(0.7)	(1.0)

* Outturn, () *Monetary Policy Report*, March 2017

- Thailand's growth outlook improves further due to a better exports outlook while domestic demand continues to expand at a gradual pace and not yet sufficiently broad-based.
- Headline inflation softens and might fall below the lower bound of the target in some periods mainly due to supply-side factors. Going forward, inflation is expected to gradually increase in the latter half of this year.
- Risks to growth forecast skew downward from uncertainty in US economic and foreign trade policies, China's economic structural reforms, as well as geopolitical risks that could affect trading partners' economies.

Forecasts in the *Monetary Policy Report* as of June 2017

(% YoY)	2016*	2017		2018	
		Mar 17	Jun 17	Mar 17	Jun 17
GDP Growth	3.2	3.4	3.5	3.6	3.7
- Private Consumption	3.1	2.7	3.1	3.1	3.1
- Private Investment	0.4	2.4	1.7	3.7	3.6
- Government Consumption	1.7	2.2	2.2	1.9	1.9
- Public Investment	9.9	11.8	7.7	7.5	9.2
- Exports of Goods and Services	2.1	2.1	4.6	2.8	2.7
- Imports of Goods and Services	-1.4	2.6	4.8	2.9	2.6
Current Account (Billion USD)	47.7	36.9	39.7	33.1	32.7
- Value of Merchandise Exports	0.1	2.2	5.0	2.0	1.7
- Value of Merchandise Imports	-5.1	7.2	10.9	5.3	5.4
Headline Inflation	0.2	1.2	0.8	1.9	1.6
Core Inflation	0.7	0.7	0.6	1.0	0.9
Assumptions					
- Number of Tourists (Million)	32.6	34.5	34.9	37.1	37.3
- Dubai Oil Price (USD/Barrel)	41.4	52.3	50.9	54.8	52.8

* Outturn

- Exports of goods expand in various product categories and export destinations, in line with the global economic recovery.
- Exports of services continue to grow along with the number of Chinese tourists. In addition, the improving global economy helps increase tourist spending.
- Private consumption continues to expand on the back of improvement in farm income. However, non-farm income does not gain much from the export recovery.
- Private investment recovers slowly, largely through investments in the export-oriented manufacturing sector.
- Government spending remains an important driving force of the economy, albeit delays in some projects.
- Oil price is revised down due to supply-side factors, including increased productions in the US, Libya, and Nigeria. Going forward, oil price is projected to gradually recover.