



BANK OF THAILAND

BOT Press Release

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Monetary Policy Committee's Decision 4/2018

Mr. Jaturong Jantarangs, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 20 June 2018 as follows.

The Committee voted 5 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. 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 and would achieve higher growth than previously assessed, driven by stronger momentum from both domestic and external demand. Headline inflation was projected to rise slightly more than the previous assessment, while core inflation was expected 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. Thus, most members decided to keep the policy rate unchanged at this meeting. Nevertheless, one member viewed that the economic expansion was sufficiently robust and that prolonged monetary accommodation might induce households and businesses to underestimate potential changes in financial conditions, and thus voted to raise the policy rate at this meeting in order to start building policy space.

The Thai economy as a whole continued to gain further traction, driven by merchandise exports and tourism which continued to improve in tandem with global economic growth, and by stronger momentum from domestic demand. In particular, private consumption continued to expand, although elevated household debt and the economic expansion had yet to benefit household income and employment in a broad-based manner, resulting in a gradual improvement in purchasing power. In the Committee's view, these issues must be addressed through structural policies. Private investment was projected to continue expanding with additional support from public investment projects whose prospects became more certain, although their progress in the period ahead must be monitored. 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, especially US foreign trade policies and retaliatory measures from trading partners of the US, and geopolitical risks.

Headline inflation was projected to rise at a slightly faster pace than previously assessed toward target on the back of increases in oil prices. Core inflation was projected to edge up given gradual build-up in demand-pull inflationary pressures. Moreover, structural changes, such as an expansion of e-commerce and rising price competition, still warranted monitoring as they might contribute to more persistent inflation than in the past. Meanwhile, the public's inflation expectations were largely unchanged.

Overall financial conditions remained accommodative and conducive to economic growth with ample liquidity in the financial system. Overall government bond yields increased somewhat compared with the previous meeting, while real interest rates remained low. Such conditions allowed financing by the private sector to continue expanding with improvements seen in the amount of credit extended to SMEs and consumer loans. On exchange rates, the baht depreciated against the US dollar and experienced volatile movements due to the monetary policy outlook of advanced economies and increased concerns about trade protectionism measures as well as risks related to emerging market economies. Looking ahead, the baht would likely remain volatile. 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 driven by both external and domestic factors. However, there remained the need to monitor the strength of the domestic demand and inflation developments in the period ahead, as well as impacts of trade protectionism measures which remained highly uncertain. Hence, the Committee viewed that monetary policy should remain accommodative.

Bank of Thailand
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Forecast Summary as of June 2018

	2017*	2018	2019
GDP Growth	3.9	4.4	4.2
		(4.1)	(4.1)
Headline Inflation	0.7	1.1	1.2
		(1.0)	(1.2)
Core Inflation	0.6	0.7	0.9
		(0.7)	(0.8)

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

- Thailand's growth outlook gained further traction driven by merchandise exports and tourism which continued to improve in tandem with global economic growth, and by stronger momentum from domestic demand.
- Headline inflation increased at a slightly faster pace than the previous assessment, on the back of the increase in oil prices.
- Risks to growth forecast skewed downward overall due to US foreign trade policies and the retaliatory measures of US trading partners which could negatively affect global trade, trading partners' growth, and Thai exports.
- Risks to inflation forecast skewed downward in line with risks to growth.

Forecasts in the *Monetary Policy Report* as of June 2018

(% YoY)	2017*	2018 ^E		2019 ^E	
		Mar 18	Jun 18	Mar 18	Jun 18
GDP Growth	3.9	4.1	4.4	4.1	4.2
- Private Consumption	3.2	3.3	3.7	3.3	3.6
- Private Investment	1.7	3.0	3.7	3.6	4.4
- Government Consumption	0.5	2.9	2.7	3.3	2.9
- Public Investment	-1.2	9.5	8.9	3.4	6.5
- Exports of Goods and Services	5.5	5.2	5.5	3.6	3.8
- Imports of Goods and Services	6.8	5.5	6.3	3.7	3.8
Current Account (Billion USD)	48.1	42.2	40.0	39.5	36.0
- Value of Merchandise Exports	9.7	7.0	9.0	3.6	5.0
- Value of Merchandise Imports	14.4	11.5	14.7	5.4	6.9
Headline Inflation	0.7	1.0	1.1	1.2	1.2
Core Inflation	0.6	0.7	0.7	0.8	0.9
Assumptions					
- Number of Tourists (Million)	35.4	37.6	38.3	39.0	40.0
- Dubai Oil Price (USD/Barrel)	53.1	62.4	69.2	63.0	68.3

- Exports of goods and services continued to improve in tandem with global economic growth.
- Private consumption continued to expand, although household debt remained elevated and economic recovery had yet to benefit household income and employment in a broad-based manner.
- Private investment picked up in light of public investment projects whose prospects became more certain, although their progress must be monitored.
- Government spending remained a driver of growth but there remained risks of delays in budget disbursement.

* Outturn