BANK OF THAILAND

BOT Press Release

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Monetary Policy Committee's Decision 4/2019

Mr. Titanun Mallikamas, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 26 June 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 mainly due to merchandise and services exports. Inflation was projected to be in line with the previous forecast. Overall financial conditions remained accommodative and conducive to economic growth. However, there were pockets of risks to financial stability in the future that warranted continued monitoring. The Committee viewed that the current accommodative monetary policy stance contributed to the continuation of economic growth and was appropriate given the inflation target. The Committee thus voted to keep the policy rate unchanged at this meeting.

The Thai economy was expected to expand at a slower pace than previously assessed. Merchandise exports would grow at a significantly slower pace than the previous assessment due to the slowdown of trading partner economies and global trade, which were affected by intensifying trade tensions, particularly between the US and China. Tourism would grow at a lower rate relative to the previous assessment due mainly to Chinese tourist figures. Regarding domestic demand, private consumption was expected to continue expanding. Nevertheless, private consumption would be restrained by elevated household debt, with signs of moderation in earnings and employment in the export-related manufacturing sectors. Private investment was projected to slow down. 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 estimated due to the expected delay in the enactment of the Annual Budget Expenditure Act, B.E. 2563 (A.D. 2020) as well as postponement of some state-owned enterprise investment. The Committee would monitor external risks from trade tensions, the economic outlook of China and advanced economies that could affect domestic demand, as well as geopolitical risks. Furthermore, the Committee would monitor 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 the momentum of economic growth in the period ahead.

The annual average of headline inflation would be largely unchanged from the previous projection, although fresh food prices were expected to increase from the previous meeting. Meanwhile, core inflation would be mostly in line with 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 baht appreciated at a somewhat fast pace and outperformed regional currencies, which was a result of the weakening US dollar, short-term capital inflows, and domestic factors. The Committee expressed concerns over the baht appreciation which might not be consistent with economic fundamentals and would continue to closely monitor developments of exchange rates and capital inflows.

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 had to some extent curbed 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 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 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 would expand at a slower pace due mainly to the softening momentum of external demand. The Committee would continue to monitor developments of economic growth, inflation, and financial stability, together with associated risks, especially impacts of trade tensions, in deliberating appropriate monetary policy in the period ahead.

Bank of Thailand
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Forecast Summary as of June 2019

	2018*	2019	2020
GDP Growth	4.1	3.3	3.7
		(3.8)	(3.9)
Headline Inflation	1.1	1.0	1.0
		(1.0)	(1.1)
Core Inflation	0.7	0.7	0.9
		(0.8)	(0.9)

* Outturn, ( ) *Monetary Policy Report*, March 2019

- The Thai economy was expected to expand at a slower pace than the previous assessment mainly due to merchandise and services exports.
- The annual average of headline inflation would be in line with the previous projection, although fresh food prices would increase from the previous meeting. Meanwhile, core inflation would be mostly in line with the previous projection.
- The Committee would monitor external risks from trade tensions, the economic outlook of China and advanced economies, as well as geopolitical risks. Furthermore, the Committee would also monitor 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

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

(% YoY)	2018*	2019^E		2020^E	
		Mar 19	Jun 19	Mar 19	Jun 19
GDP Growth	4.1	3.8	3.3	3.9	3.7
- Private Consumption	4.6	3.9	3.8	3.7	3.4
- Private Investment	3.9	4.4	3.8	5.0	5.5
- Government Consumption	1.8	2.3	2.2	2.6	2.6
- Public Investment	3.3	6.1	3.8	6.6	7.2
- Exports of Goods and Services	4.2	3.1	0.3	3.7	3.9
- Imports of Goods and Services	8.6	2.7	0.7	4.2	4.5
Current Account (Billion USD)**	32.4	34.5	29.1	31.5	26.3
- Value of Merchandise Exports	7.5	3.0	0.0	4.1	4.3
- Value of Merchandise Imports	13.7	3.1	-0.3	4.8	4.8
Headline Inflation	1.1	1.0	1.0	1.1	1.0
Core Inflation	0.7	0.8	0.7	0.9	0.9
Assumptions					
- Number of Tourists (Million)	38.3	40.4	39.9	42.0	41.3
- Dubai Oil Price (USD/Barrel)	69.6	66.0	65.9	66.0	65.0

- Merchandise exports would grow at a significantly slower pace than the previous assessment due to the slowdown of the trading partner economies and global trade, which were affected by intensifying trade tensions, particularly between the US and China.
- Private consumption was expected to continue expanding, but would be restrained by elevated household debt, with signs of moderation in earnings and employment in the export-related manufacturing sectors.
- Private investment was projected to slow down. However, the relocation of production base to Thailand and infrastructure investment would support investment in the period ahead.
- Public expenditure would grow at a slower pace than previously assessed due to the expected delay in the enactment of the 2020 budget and postponement of some state-owned enterprise investment.

Note: *Outturn, E = Estimation

** Outturn data in 2018 and June 2019 forecast have already incorporated the revision to travel receipts in accordance with the Balance of Payments standard.